An Introduction to Newly Industrialized Countries

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DEVELOPMENT THROUGH TRADE

- Up till the 1970s, it was thought that LICs needed to develop their import competing industries (import-substituting industrialization), reduce their dependence on consumer goods imports by switching to domestically produced goods, and hence gradually attain self-sufficiency and foreign exchange adequacy.
- Inspired by dynamic comparative advantage theories and the massive Soviet industrialization drive launched under Stalin, this model was passionately followed by many South Asian, African and Latin American countries. The results were not very positive, unfortunately. For one, the nationalization policies that often accompanied the pursuit of the ISI model led to a crowding out of private entrepreneurship (and with it, the spirit of competition), and the birth of highly inefficient public enterprises, which later became a breeding ground for corruption, nepotism and labour dumping (excess hiring). This needed Privatization of the State Owned Enterprises.
- Second, the huge savings expected on imports never quite materialized. Given the large current account deficits delivered by weak exports and stubbornly high imports, therefore, many of these countries went into BOPs crises after the 1970s.
- Realizing these difficulties an Export Promotion Model for industrialization was found an alternative for development.

The East Asian Model:

- This trade model proved very successful was an East Asian one. These countries (Korea, Indonesia, Taiwan, Hong Kong, Singapore, Malaysia, and to a lesser extent Thailand, Indonesia and The Philippines) industrialized not to produce for the local markets (i.e. to substitute their imports) but to produce for the international market (competing with foreign producers).
- As a result they had a focus, from the very start, on productive efficiency and did not rely on high tariff protection for very long and therefore attained a sustainable ascent on the comparative advantage ladder (from primary products to high tech goods). These are the countries which have been the fastest growing (or miracle) economies of the last quarter of the 20th century.

THE SUCCESS

- **The success of the East Asian model,** notwithstanding, there is major criticisms that are leveled against richer countries with respect to their double standards on trade. The criticism is that, while supporting free trade internationally and whenever it suits their interests, many of these countries impose quotas, tariffs, subsidies and indirect restrictions environmental and labour standards etc.) to prevent poor countries from selling their primary products and light manufactures to the rich country markets.
- One example is the agricultural sector, where the wealthy west gives lavish subsidies to its farmers, enabling the latter to out-compete LIC farmers who are not receiving any subsidies form their governments. One argument, therefore, is to require rich countries to open their markets to exports from poor countries.

The Pacific Rim Newly Industrializing Countries (Asian Tigers)

1. South Korea
2. Taiwan
3. Singapore
4. Hong Kong

The above countries, known collectively by such names as the "four tigers" the "four dragons" and the "gang of four", they have experienced remarkable economic growth rates in comparison with advance countries.

Several are especially noteworthy:

- Export-oriented growth strategy
- Utilization of modern technology through licensing and joint venture with foreign firms.
- Cooperation between labour and management
- Unbounded commitment to produce excellence
- Utilization of large numbers of low paid but often well-educated workers.

South Korean Economy- Overview

- Since the 1960s, South Korea has achieved an incredible record of growth and global integration to become a high-tech industrialized economy. Four decades ago, GDP per capita was comparable with levels in the poorer countries of Africa and Asia. In 2004, South Korea joined the trillion dollar club of world economies, and currently is among the world's twenty largest economies. Initially, a system of close government and business ties, including directed credit and import restrictions, made this success possible. The government promoted the import of raw materials and technology at the expense of consumer goods, and encouraged savings and investment over consumption. The Asian financial crisis of 1997-98 exposed longstanding weaknesses in South Korea's development model including high debt/equity ratios and massive short-term foreign borrowing. GDP plunged by 6.9% in 1998, and then recovered by 9% in 1999-2000. Korea adopted numerous economic reforms following the crisis, including greater openness to foreign investment and imports. Growth moderated to about 4-5% annually between 2003 and 2007. With the global economic downturn in late 2008, South Korean GDP growth slowed to 2.2% in 2008 and declined 0.8% in 2009. In the third quarter of 2009, the economy began to recover, in large part due to export growth, low interest rates, and an expansionary fiscal policy. The South Korean economy's long term challenges include a rapidly aging population, inflexible labor market, and overdependence on manufacturing exports to drive economic growth.

South Korea: Conglomerate Model

- Beginning in the 1960s, the Korean government adopted the Japanese model of growth by encouraging large conglomerates to spearhead the drive for development. (a "conglomerate" is an amalgamation under one ownership of unlike plants producing unrelated products.)
- By "targeting" certain production for their high employment-multiplier potential, and providing leading entrepreneurs with education and financial assistance.
- South Korea produces products of international standards with its companies like
  - Samsung: electronic products, textiles, food processing, insurance
  - Hyundai: automobile, industrial machinery
  - Daewoo: Computer products, automobiles, financial services
  - Lucky-Gold star: electronic products, chemicals
- One of the most important is their ability to export at competitive prices in world markets. This becomes increasingly difficult as government subsidies and tax breaks are withdrawn and transferred to other sectors and industries in order to encourage balanced growth.

Overview of Taiwan Economy

- Taiwan has a dynamic capitalist economy with gradually decreasing government guidance of investment and foreign trade. In keeping with this trend, some large, state-owned banks and industrial firms have been privatized. Exports, led by electronics and machinery, generate about 70% of Taiwan's GDP growth, and have provided the primary impetus for economic development. This heavy dependence on exports makes the economy vulnerable to downturns in world demand. In 2009, Taiwan's GDP fell by 2.5%, due primarily to a 20% year-on-year decline in exports. Taiwan's diplomatic isolation, low birth rate, and rapidly aging population are major long-term challenges. Free trade agreements have proliferated in East Asia over the past several years, but so far Taiwan has been excluded from this greater economic integration, largely for reasons of diplomacy. Taiwan's birth rate of only 1.0 child per woman is among the lowest in the world, raising the prospect of future labor shortages, falling domestic demand, and declining tax revenues. Taiwan's population is aging quickly, with the number of people over 65 accounting for 10.6% of the island's total population as of the end of 2009. The island runs a large trade surplus, and its foreign reserves are the world's fourth largest, behind China, Japan, and Russia.

Taiwan: Competitive Model

- Approximately 40,000 firms account for three-fourths of the nation's exports. These enterprises churn out products as diverse as calculators, computers, pharmaceutical, shoes and textiles.
- South Korea's economy is dominated by huge organizations engaged in shipbuilding, steel production, machinery manufacturing and the like. Therefore, it can complete more effectively in world markets and is less vulnerable to fluctuations in demand for a specific product than is Taiwan's economy.
- Many of its numerous small firms have demonstrated a remarkable ability to shift resource into and out of diverse product lines quickly in response to changing market overseas.
- Many of nation's banks are government controlled and extremely conservative – unwilling to take risks.
- Financial markets are also relatively undeveloped. As a result, in order to finance business investment, Taiwan's entrepreneurs must often borrow from family, friends and private lenders at home and abroad.

Overview of Singapore's Economy

- Singapore has a highly developed and successful free-market economy. It enjoys a remarkably open and corruption-free environment, stable prices, and a per capita GDP higher than that of most developed countries. The economy depends heavily on exports, particularly in consumer electronics, information technology products, pharmaceuticals, and on a growing financial services sector. Real GDP growth averaged 6.8% between 2004 and 2008, but contracted 2.1% in 2009 as a result of the global financial crisis. The economy has begun to rebound in 2010 and the government predicts growth of 3-5% for the year. Over the longer term, the government hopes to establish a new growth path that focuses on raising productivity growth, which has sunk to 1% per year in the last decade. Singapore has attracted major investments in pharmaceuticals and medical technology production and will continue efforts to establish Singapore as Southeast Asia's financial and high-tech hub.

Singapore- Indicative- Planning Model

- Formerly a British colony, Singapore is a small but potent economy specializing in oil refining, drilling equipment manufacturing and financial services. After becoming an independent nation in 1965, Singapore entered a clear and well-defined “new-growth era”.
- The nation’s political leaders played an interesting role in guiding Singapore’s development. To encourage exports as means toward rapid growth, government department published lists and specifications of “pioneer industries” deemed compatible with Singapore’s resources##. These lists were revised and extended from time to time and became a general set of guidelines for planned development.

Singapore- Indicative- Planning Model

- In the late 1960s, the highest priority was to reduce the nation's unemployment. Therefore, the industries that were encouraged were those that produce labour intensive products such as clothing, rubber goods and toys. During 1970s, attention turned to capital intensive goods-petroleum products, drilling equipment, electronics components and construction materials. Since the early 1980s, the greatest emphasis has been placed on the “brain” industries- electronics, biotechnology, banking, insurance and other financial services. Throughout its new-growth era that began in the late 1960s, Singapore’s overriding goal, as with South Korea and Taiwan, has been the production of products for export.

Singapore- Indicative- Planning Model

- The method of industrial "rationalization" used by Singapore's leaders is know as *indicative planning.* It consists of the government establishing economic priorities and then providing incentives for firms to meet these priorities. Through tax exemption, accelerated depreciation of capital expenditures, and financial assistance, entrepreneurs have been encouraged to allocate resources in ways that would achieve the government's stated objectives.
- In many cases the government has participated in joint ventures with private firms, but its has done so only to provide assistance. It has almost always left the managerial powers to the private owners. Perhaps what government has done best is to provide the infrastructure. Today Singapore is known throughout the world for its exceptional cleanliness, modern transportation and communication networks, excellent educational system and very strict standards of public safety and health.

Overview of Hong Kong’s Economy

- Hong Kong has a free market economy highly dependent on international trade and finance - the value of goods and services trade, including the sizable share of re-exports, is more than four times GDP. Hong Kong's open economy left it exposed to the global economic slowdown, but its increasing integration with China helped it recover from the downturn more quickly than many observers anticipated. Hong Kong over the past few years has become increasingly integrated with China through trade, tourism, and financial links. The Hong Kong government is promoting the Special Administrative Region (SAR) as the site for Chinese Rimini (RMB) internationalization. Hong Kong residents are allowed to establish RMB-denominated savings accounts; RMB-denominated corporate and Chinese government bonds have been issued in Hong Kong; and RMB trade settlement is allowed. The government is pursuing efforts to introduce additional use of RMB in Hong Kong financial markets. The mainland has long been Hong Kong's largest trading partner, accounting for nearly half of Hong Kong's exports by value. As a result of China's easing of travel restrictions, the number of mainland tourists to the territory has surged from 4.5 million in 2001 to 17.7 million in 2009, outnumbering visitors from all other countries combined. Hong Kong has also established itself as the premier stock market for Chinese firms seeking to list abroad. About 40% of the firms listed on the Hong Kong Stock Exchange are now mainland Chinese companies. These firms account for 60% of the Exchange's market capitalization and over 70% of turnover. During the past decade, as Hong Kong's manufacturing industry moved to the mainland, its service industry has grown rapidly and in 2009 accounted for more than 90% of the territory's GDP. Hong Kong's natural resources are limited, and food and raw materials must be imported. GDP growth averaged a strong 4% from 1989 to 2008. Hong Kong's GDP fell in 2009 as a result of the global financial crisis, but a recovery began in third quarter 2009. Hong Kong continues to link its currency closely to the US dollar, maintaining an arrangement established in 1983.

Hong Kong: Laissez-Faire Model

- When Adam Smith first spoke of the virtues of laissez-faire, Hong Kong was not much more than a barren island. Today, in contrast with South Korea, Taiwan and Singapore- or virtually any other capitalistic country- Hong Kong is the world's quintessential model of free enterprise.
- A British colony since the nineteenth century, Hong Kong is a tiny but vibrant economy. It contains well over 100,000 registered corporations, more than one-quarter million proprietorships and partnerships, some other lowest individual and corporate income tax rates in the world and almost no legal restraints on business. No wonder that Hong Kong's economy, with its six million people sharing 391 square of land, is one in which "enterpreneuring" is a way of life.
- Let Singapore, Hong Kong achieved the status of NIC during the 1970s. Like Singapore, it was a poor colony that received no help from Britain other than a basic infrastructure. And, like Singapore, its an eastern gateway to Asia. Therefore, it serves as a major enter pot – a p lace where goods are deposited and from which they are distributed.

Hong Kong: Laissez-Faire Model

- Because the colony is a huge "warehouse" and trading centre with low taxes and few restrictions on commerce, it has become a capitalist safe heaven. Hong Kong's network of banks and finance companies handle large amounts of money, much of it unreported. And its cramped factories, many of them in lofts, churn out clothing, plastic goods, textiles, electrical products and footwear. As with the other NICs. Hong Kong's main business is exporting. The colony is one of the world's largest providers of shipping and financial services and its total exports per person average more than three times those of Japan.
- Despite its glowing success, Hong Kong's political and economic future remains uncertain. Under a 99 year lease signed in 1898, British rule of the colony has ceased in 1997. Hong Kong now has become part of the people's Republic of China but continues on market based system of capitalism.

Overview of Thailand's Economy

- With a well-developed infrastructure, a free-enterprise economy, generally pro-investment policies, and strong export industries, Thailand enjoyed solid growth from 2000 to 2008 - averaging more than 4% per year - as it recovered from the Asian financial crisis of 1997-98. Thai exports - mostly machinery and electronic components, agricultural commodities, and jewelry - continue to drive the economy, accounting for as much as three-quarters of GDP. The global financial crisis of 2008-09 severely cut Thailand's exports, with most sectors experiencing double-digit drops. In 2009, the economy contracted about 2.8%. The Thai government is focusing on financing domestic infrastructure projects and stimulus programs to revive the economy, as external trade is still recovering and persistent internal political tension and investment disputes threaten to damage the investment climate.

Thailand – Asia's New Fifth "Tiger"

- To many middle-aged and older Americans and Europeans, Thailand evokes a distant image of the late Hollywood actor Yul Brynner playing his famous role as the King of Siam. But for hundreds of Western and Asian corporate executives. Thailand is the new "in" place to set up shop. Thai workers, many of whom are skilled and industrious, have a literacy rate of about 90 percent and earn a fraction of what their counterparts in South Korea, Taiwan, Singapore and Hong Kong make. Today more than 1,000 American and Japanese firms have plants in Thailand.
- The transformation of Thai economy began in the early 1980s. Nurtured by political stability and economic conservatism, the country has become the world's leading exporter of canned pineapple and canned tuna and is moving rapidly into the production of automobiles, electronic components and various high-tech products. By the year 2000, Thailand's economy may be more diversified – and more resistant to recession – than of the other "four tigers".

Thailand – Asia's New Fifth "Tiger"

Competition Mounts

Meanwhile, several other low-wage Asian Countries are vying for fifth-tiger status. Indonesia is a significant producer of oil, the revenues from which are helping to finance new industries, Malaysia and the Philippines are major exporters of textiles , wood products and electronic components- products that compete with some of the Thailand's important industries. And China, an awakening giant with diverse resources, has shown signs of making a determined effort to become East Asia's largest NIC. All in all, the decade of the 1990s is shaping up as a dynamic one for the nations of the Pacific Rim

Conclusion: Lesson for LDCs

- From their development experience since the late 1960s, it's easy to understand why South Korea, Thailand, Singapore and Hong Kong have earned the name "miracle economies". Many efforts have been made to explain why they have often had significantly higher economic growth rates, lower inflation rates and lower unemployment rages than the advanced countries. Although there are no magic reasons, the more important general ones were listed at the beginning of this section. Summarizing them briefly, they include encouragement of exports, utilization of modern technology, cooperation between labor and management, commitment to product quality and an effective utilization of capable workers.
- These policies can serve as guidelines for growth by les developed countries. What other lessons can the LDCs learn from the experiences of NICs? Perhaps the most important is the *provision of incentives:*

Conclusion: Lesson for LDCs

- In almost all of the LDCs, extensive government regulations and controls exist that limit people's economic freedom and stifle incentives. This results in relatively slow or no economic growth. In the NICs of the Pacific Rim, however, government policies have sought to encourage innovation and enterprise by allowing individuals to respond to incentives. Although government (with the exception of Hong Kong) has often directed development in varying degrees, it has relied on market signals to determine not only *how,* but for *whom,* resources are allocated.