Asian Tigers

Testing Theories of Development
Some Problems with Dependency Theory

- Sometimes the surplus is invested in the host country---location of plants, services
- This can stimulate domestic industry and business
- The result: “Dependent Development”
- So maybe stagnation is not inevitable
- Singapore is a good example...
Why institutions are needed to spur development

• Poor countries can’t afford to wait while natural market forces work their beneficial effects.
  – Market forces take too long
  – Produce unbalanced economies
  – Vulnerable to price shocks
  – Vulnerable to manipulation by strong trading partners
Requirement for development: A developmental State

- Example of Soviet Union
- Compatible with Keynes
- Compatible with embedded liberalism
- Historical experience
- Gerschenkron’s contribution
If You’re Early, use the market! (?)
If You’re Late, Use the State!

• Development Banks
• The STATE
  – Czarist Russia and Soviet Union
The advantages of backwardness

- Need for rapid development: state-managed liberalism
- British example
- British investment in a “developing” country: the U.S.
- Technology diffusion
- Late developers got the newest technology
It pays to be late: four reasons

• Access to state-of-the-art technology
• Latecomers grow faster
• Quick move to heavy industry
• Development is possible through contact with the International Economy
Leapfrogging: Access to the Latest Technology
Latecomers grow faster...

- **Graph 1:** Annual GDP Growth Rate (%)
  - Y-axis: Annual GDP Growth Rate (%)
  - X-axis: Years 1995 to 2007
  - Comparison between Developed and Emerging economies

- **Graph 2:** Emerging Economies Share of Global GDP (%)
  - Y-axis: Emerging Economies Share of Global GDP (%)
  - X-axis: Years 1995 to 2007
They move quickly to competitive industries
Development is possible through contact with the international economy.

Globalization increases developing countries share in world trade.

Exports from developing and developed countries, 2005-2030

The more integration, the more growth
What is common to all theories of development: Accumulation of Capital is the Key

• Theories differ on the BEST way
• Trade?
• Aid?
• Technology transfer?
• State mobilization of capital?
• ISI?
• Growth of a middle class?
• Dependent Development?
Review of Dominant explanations for Development

- Liberal claim
- Marxists and dependency theorists maintain
- Economic Nationalists demand
- And Theories of state-led development claim
Who is right?

• Maybe it depends on the conditions under which a country tries to develop
• And countries have to learn to play their cards right
What did Asia do right?
Growing share of World GDP
Asia-US GDP Growth

Asian and US GDP growth
Two quarter moving averages (YoY, %)

Asia 10*

Asia 8
(excluding China & India)

US
Decline in poverty rate

Asia leads the decline in global poverty

<table>
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<th>Region</th>
<th>1990</th>
<th>2002</th>
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Attracting foreign investment, accumulating capital
The Product cycle?
Taiwan: A case study
Single-payer health care
Taiwan has ridden the crest of the product cycle.....
How did Taiwan do it?

- Colonial legacy
- Japan was a different colonial power than Britain, France, and Belgium
- Japan contributed to Taiwan’s economic development
Role of the State

• KMT confiscated Japanese assets after WW II
• No middle class—the state did not emerge from within Taiwanese society
• An authoritarian, non-democratic state....
• ....That guided the growth of the economy
  – To attract foreign investment
  – Only resource was disciplined labor force
  – Investment in R&D
U.S. Aid and Hegemony

- US need to build up strong capitalist countries to counter communism
- USAID allied with the small business elite
- US forced switch from ISI to Export orientation

We should never underestimate the role of U.S. aid in the development of the Asian Tigers
Land Reform
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<th>Services</th>
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Investment in High Technology
Labor Repression
Results: Weathering the Asian Financial Crisis

Figure 2: Real Effective Exchange Rates of the US and East Asian Economies

- U.S.
- Taiwan

Graph showing trends in real effective exchange rates with labels for different periods like Peak, Trough, Growth, Recession, and Recovery.
The other “Tigers” have gone through a similar process
Singapore

Singapore Real GDP
Year-over-Year Percent Change

Year-over-Year Percent Change: Q2 @ -3.7%
Late Developers as a test of theory

• Development in these countries challenge most of our existing theories about development, and they demonstrate the power of some "parts" of the theories, and diminish the power of other "parts" of the theories
.....as a test of dependency theory

• Troublesome because
  – Dependent on the world economy (terms of trade worked in their favor)
  – Developed with massive amounts of Cold War aid
    • Aid was used wisely
    • Military burden carried by American taxpayers
Why Wallerstein would not like the “tigers”

• Their theories are static and the “Tigers” developed dynamically
• They developed with very little income inequality
• Their colonial legacies helped development
But why Gerschenkron would like them....... 

• They conform most to his theory of state-led development and managed markets
• (They also conform to Keynes’ embedded liberalism—Gerschenkron didn’t really care about income inequality)
• They show that timing and technology are everything
These countries developed in a “dependent” relationship

• They showed that foreign investment can contribute to development
What will all of this economic development do to repressive governments?

• Can new information technologies lead to more freedom?
But what about liberal theory?

- Undermines generalizations of liberal theory
- These countries had strong, repressive, developmental states
What about the role of culture? “Asian values?”

• Did Asian “culture” make a difference?
• Does Asian culture undermine the Western laissez-faire approach to economic policy
• Willingness to sacrifice?
• Commitment to community instead of the individual
• Authoritarian culture?
What is true is.......