

# The Miracle, a Crisis, and the Future

Review >  
General

This clearly is the book of an economist. It is chock-full of quantitative data, but it disappoints somewhat with regard to the social and political interpretation of these data. The book and data not only cover the four so-called 'tigers' (Taiwan, South Korea, Hong Kong, and Singapore) but also Thailand, Malaysia, and Indonesia. *East Asian Economics: The Miracle, a Crisis and the Future* is divided into three parts: 'The Miracle' (covering economic growth and the distribution of income from about 1950 to the late 1990s), 'The Crisis' (1997–1998), and 'The Future'.

By Benno Galjart

As to economic growth, the author distinguishes between a short spurt, which can occur in every economy, and growth over a long span of time. The figures presented show that the four tigers (and Thailand) were high performers with an average annual growth of over 4.5 per cent for three continuous decades. The chapter continues with an enumeration of the causes of growth in the seven countries covered. The first cause is gross capital formation – high everywhere, but only in Singapore for almost a third part due to foreign direct investment (FDI). In South Korea and Taiwan the contribution of FDI ranged from 2 to 4 per cent. The seven countries are compared with each other and thus not with, for instance, developing countries elsewhere. The explanations for the high domestic savings rates are sometimes given in a single sentence, for instance: fertility limitation, low inflation due to a relatively high level of public sector saving, in other words an absence of deficits, and, in Singapore, interest payments on mortgages provided by the government.

A second explanatory factor is human capital formation. Although the four tigers score relatively high, some of the indicators used may be consequences rather than causes of growth, or may be due to political decisions and thus unrelated to growth. The World Bank has also stated, however, that East Asian governments' investment in education fostered growth. A third, and probably more important, explanatory factor is the export orientation of the economies. In 1980, the region exported USD 245 billion worth; in 1991, almost three times that amount. This orientation helped to provide the scale at which production could take place efficiently.

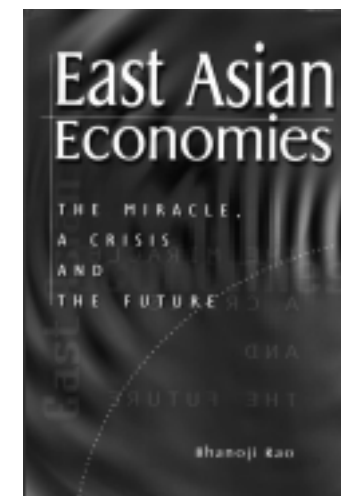
Among economists there is still a debate going on about the relative contribution to growth by the (authoritarian) state versus that by the market. Rao concludes that especially in Korea, Taiwan, and Singapore the state intervened in the economy to a high degree. To be successful economically, however, the interventions had to be combined with the efficiency of market outcomes. One could also say that the export orientation of a large part of the industrial sector made it imperative to keep production costs, and thus labour costs, competitive. As to poverty, the author rightly distinguishes between absolute poverty (income below a certain level) and relative poverty (also: income inequality). Whereas absolute poverty has become insignificant in the four tiger countries and was greatly reduced in the other countries, the figures for income inequality are less conclusive. The author is of the opinion that except in Taiwan the 'Miracle' did not significantly reduce income inequality. Yet it was smaller than in comparable developing countries.

The second part of the book, on the 'Crisis', distinguishes between consequences that did occur in some countries but were averted in others. The 'Asian crisis' began with a crisis of confidence in the real value of the (pegged) national cur-

rency and in the capability of the country – or of some banks or enterprises that had borrowed dollars – to repay short-term debts. If the government allows such banks or enterprises to fail nothing much may happen, as in Hong Kong. A decline in stock market prices, however, may easily lead to the withdrawal of foreign or domestic portfolio investment, which would then lead to a currency crisis and devaluation in most countries. This, in turn, could lead to a financial crisis, as banks with overextended loans either fail or withhold further credit. The latter reaction could then lead to an economic crisis: bankruptcies, rising unemployment, and rising prices. Rao speaks of a social and political crisis if neither the incumbent nor a new government is able to restore confidence in the economy. In South Korea and Taiwan new governments were able to do that; only Indonesia could not avert a social and political crisis. What the description suggests is that the political answers to the crisis of confidence and its possible sequiturs were of great importance, but also that these answers were constrained by political circumstances. The political question is 'who is going to lose money?' Necessary reforms are likely to hurt interests close to an incumbent government, and are therefore unlikely to occur. Whereas most of the affected countries sought assistance from the International Monetary Fund (IMF) (whose policy prescriptions, by the way, come in for some criticism), Malaysia alone set up a capital control system. The author states that it is too early to say whether this has been a better way to recovery than going to the IMF, but in a later chapter, when discussing the debt trap, triggered by the propensity to borrow more than is strictly needed and by the well-nigh inevitable outflow of foreign portfolio investment, he does recommend capital controls.

## Future prospects

After showing that acceptable figures of economic growth were again achieved in 1999/2000, the author asks what has to be done to extend this growth. Here, Japan, the languishing leader, and China, the emerging leader, are brought in. Japan, of course, has been a major investor in some Asian countries, but its economy is likely to remain in the doldrums. China, on the contrary, continues to grow strongly. The difficulty for most of the seven studied countries is that China can produce practically anything the others are making, only cheaper. The countries are advised to establish stronger export relations with China, each at its 'own' appropriate level of technology, but at a somewhat higher level than China. Excepting Hong Kong and Taiwan – over 10 per cent of their exports going to China – all countries export to Japan rather than China. The final, sociological chapter is an attempt to incorporate two core values, truth and non-violence, into the (economic) development discourse. Development, the author states, comprises freedom, human capability (that is, a long and healthy life), the highest possible education, and enough income to lead a comfortable life; but



development also implies a movement towards human perfection. The discussion refers first to bribery and then to democracy, an institution that promotes accountability. Rao remarks that a democratic system is more concerned about distribution than an authoritarian one, and in careful wording states that in a first phase of development an authoritarian regime may be functional for building up national wealth. In a later phase democracy becomes more or less inevitable. Because Rao believes that 'there is nothing intrinsic in the democratic system to prevent people from being corrupt or violent' (p.130), human beings should perfect themselves. He then lists some principles of Confucianism to see whether they could contribute, or have contributed, to the three aspects of development he had mentioned earlier. Yes, it probably did contribute to material growth or human capability. No, there is hardly anything in Confucianism with regard to democracy or freedom. As to human perfection, the principles are there but the practice is missing. The book ends with a plea for a fundamental change of values, and holds that East Asia should strive for this.

There is, indeed, a sort of contradiction between the effort to be as productive and efficient as possible and the Confucian 'Way', which Rao defines as the detached witnessing of all that happens without the intervention of thought. But to suggest that these different values can be realized at one and the same time is, to my mind, an error. Growth depends on consumption and, therefore, on the desire to consume and earn money. Monks may brew a quality beer and still live a life of contemplation, however, such niches are exceptional, and accessible only to a small group. Mankind has not improved ethically (something the author considers an example of evolutionary failure). Only institutions that have made lies and violence more visible and also more costly, not only for ordinary people but also for holders of power, have brought about a decline of lies and violence. Some institutions do better in this respect than others, and once this is widely known and accepted, democratic systems may set them up. ◀

– Rao, Bhanoji, *East Asian Economies. The Miracle, A Crisis and The Future* Singapore: Mc Graw-Hill (2001), pp. xv + 175, ISBN 007116779X.

**Prof. Benno Galjart** is emeritus professor of development sociology at Leiden University. He obtained his PhD in rural sociology at Wageningen University. Most of his early (field) research has focused on Latin American rural development. His most recent book is *Dreams and the Downtrodden. Essays in Development Sociology*, Leiden: CNWS (2002). [b.f.galjart@planet.nl](mailto:b.f.galjart@planet.nl)