

# [Macroeconomic stability of hpae countries reports example](https://assignbuster.com/macroeconomic-stability-of-hpae-countries-reports-example/)

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In the past forty years, specific countries in East Asia have presented a sustained economic growth in comparison to others globally. These eight countries are Japan , Singapore, Hongkong, South Korea, Taiwan, Indonesia, Malaysia, and Thailand. They are referred to as the high performing Asian economies (HPAEs) because of their miraculous growth in the past several decades (World Bank, 1993). Macroeconomic stability is one of the factors that contribute to their success. According to the World Bank (1993), macroeconomic stability was defined as keeping inflation under control, managing external debt well, and resolving macroeconomic crises quickly. How such stability is manifested in these countries is discussed in this paper. Their focus on education was the driving force of the HPAEs’ success.

## Reasons for growth

The fast growth of the above-mentioned countries have been attributed to implemented policies and specific conditions in Asia. According to (Radelet, Sachs and Lee, 1997), there are four main reasons that these countries experienced fast growth compared to other nations in the world. The first is that each of the HPAEs had “ substantial potential for catching up.” In the 1960s, they were still having low incomes. However, there was already an emphasis on education, thus they were already producing highly-educated workers. The second is that their “ geographical and structural characteristics” were very much favourable to their development. All these countries have also been affected by the Second World War and the changes that followed in terms of demography also favoured faster growth. The third reason is their strategies and policies being conducive to economic growth. The final reason is that these countries’ recognize the role that “ labor-intensive” manufactured exports” has in the world economy. The leaders were aware that to be able to participate in the global economy there was a need to implement policies that supports “ relatively free trade and convertible currencies.” Thus, these countries established “ export processing zones, duty exemption schemes, and incentive packages for foreign direct investment”. These efforts resulted in the growth in these high-performing East Asian countries which has been referred to as “ miraculous” by economic experts.

## Allocation to education

Common among all the HPAEs is their focus on education. During the period of 1950-1992, the HPAEs countries “ consistently allocated high levels of funds to education” as shown by their data on public spending in GDP (Rahman, 2002, p. 33). The emphasis of Korea and Thailand are in primary education while Hongkong and Singapore were giving more allocations in secondary education. For Malaysia, both primary and secondary education gets equal shares. The higher education is likewise given more funding by Japan and the rest of the HPAEs. The countries of Japan, Korea, Singapore and Taiwan all gave their teachers a substantially higher salary compared with the other Asian countries (Mingat, 1995, cited in Rahman, 2002). According to Page (1994, p. 8), the HPAEs are successful because “ their investment levels in physical and human capital substantially exceed those for other countries at similar levels of development, resulting in more rapid growth of per capita income.” These countries investment in education, for example, has translated into a better human resources that transformed economies from levels of struggling to highly developed.   
Korea is an example of such growth resulting from investments in human capital. In Korea, producing highly trained and educated workers was a key ingredient in its capacity to rise from extreme poverty to becoming one of the most developed economies at present. The country was in ruins after the war and had to confront lack of physical and financial resources. However, it was able to achieve its current economic stability through policies that defied its limitations. At the start of its recovery period, Korea enhanced the capabilities of its workforce. According to the video presented by the Korea Foundation (2013), the country developed industries despite their financial and resource limitations. They developed and established a highly successful steel industry which helped their economy flourish.

## Applying best practices

The HPAEs all present remarkable capacities to keep pace with international best practices . Page (1994) estimated the total factor productivity growth (TFP) of the HPAEs using data from 1960-1989. These countries were aware of what worked in other countries. However, they did not just copy the technologies and management frameworks in other developed markets. The Asian countries, such as Japan, made use to effective strategies and technology from other developed economies and applied it to their setting by modifying these to become appropriate locally. The leaders of HPAEs made use of what worked outside without compromising the local situations, in order for these to become beneficial to both the country and its human resources. They enhanced both the financial economy and their human capital. Thus, it can be noted that in these countries, there was a high economic growth but low income inequality.

## Implementing appropriate trade polices

In the World Bank paper, the authors explained that these economies in Asia were highly successful because they applied market-friendly economic policies. Thus, they gained more resources and such resources were effectively allocated. For example in the aspect of credit, the HPAEs influenced how such resource was allocated by “ enforcing regulations, creating financial institutions, and directing credit to specific sectors and firms” (The World Bank, 1993, p. 34). This means there was substantial influence of government even in private banks. However, this does not mean government has control over the banking system. The extent of influence definitely varies among the different countries. One common characteristic was the support given to credit for exporters with all countries, except Hong Kong, give automatic access to such credit type. The ease of access does not mean being lenient in performance. There are strict performance criteria being imposed and this is especially true in Japan and Korea. Japan utilizes rigorous credit evaluation procedures while in Korea, the government conducts individual monitoring of large firms. They evaluate such companies according to criteria in exports and profitability, and not meeting such tests may mean becoming discredited leading to bankruptcy.   
The HPAEs are also technologically efficient and have made use of the advancements in this aspect to improve the way they conduct their business. Opening their markets to direct foreign investments has also been beneficial. The countries of Singapore, Malaysia, Hongkong, Japan, and Thailand opened their doors to direct foreign investments particularly in the area of technology acquisition.

## Market stability and human capital

All the HPAEs implemented policies that improved their economies without compromising their human resources. It is notable in their available data that as their incomes increases, their allocation to improving their human capital, such as education, likewise increased. This goes to show that it is indeed necessary to improve the people aspect in order to attain financial and economic growth for a country. All these countries were at various stages of development after the war, but, through emphasis in people and resources, they were able to attain high performing economy.

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