

# The four asian tigers essay



The four Asian Tigers—Hong Kong, South Korea, Singapore, and Taiwan—are known for their remarkable growth over the latter half of the 20th century, which propelled them into some of the world leaders in finance and high value added manufacturing. The causes, or roots, of such a phenomenal success have been at the center of a vast literature written on these economies during the past decades, a debate still raging up to this day. The overwhelming tone of academic work on the subject, however, seems to attribute the success of these economies to their respective policies and institutions, which enabled each country to utilize their comparative advantage for advancing economic growth. Literature on the development of the Asian Tigers points to specific endogenous factors that are deemed crucial to their success.

For example, the views put forth by Paul Krugman in his influential article “The Myth of Asia’s Miracle” (1994) emphasize that although the development of the Asian Tigers were noteworthy, they were predictably so—that is, not so “miraculous”—based on their growth in inputs. Literature fails to acknowledge the presence of time and geographic sensitive, exogenous factors as influential in the outcome of these economies. This paper intends to analyze the extent of the actual influence exogenous factors had on the Tigers’ growth, and argues that the Tigers’ success was a phenomenon partly dependent of the idiosyncrasies of that time in history.

We will first highlight the internal factors contemporary scholars ascribe to the success of the Tiger’s economies. We will follow by examining favourable external factors that were present during the initial takeoff of the Tiger economies during the early 1960s onward, and we will draw the conclusion

that the success of the Asian Tigers was a result of both internal and external factors.

**Internal Factors of the Asian Tigers' Economic Success** The majority of today's economists have come to a common consensus that government interventions were vital to the success of the Asian Tigers. In Taiwan, the government's strong control over fiscal spending was evident as two-thirds of the US\$100 million in the annual non-military aid (1951-1965) were channelled for the development of infrastructure projects and human resources. Also, drastic efforts to improve human capital led to 13% allocation of the budget toward education (1954-1968) .

Around the same time, heavy government interventions were also being documented in Singapore with the establishment of “ Government Linked Companies” to ensure the government's involvement in business negotiations with foreign investors; a method known as “ State Capitalism” by some economists . In Korea, five year plans were implemented from 1962-1992, indicating the government's strong influence in import protection, tax benefits, credit allocation, industrial targets, and export promotion . Compared to the other Asian Tigers, although the government did not directly intervene in the economy, Hong Kong's decision to highly subsidize housing and education to accommodate refugees and entrepreneurs highlighted the government's aggressive socioeconomic approach to spur investments, thus, implying the government's positive non-intervention policy aimed at secure regulation, efficient administration, stable economic policy and low taxation .

Other internal factors must also be taken into consideration; most importantly, the level of education amongst the population . Another variable that affects the greater savings rate of the Asian Tigers was the relatively smaller dependency ratio compared to South Asia. Moreover, the Confucian culture of savings is also reflected in the structure of the financial system. The best example of this is demonstrated by Singapore’s mandatory Central Provident Fund Scheme where a certain percentage of employees’ monthly salaries is deducted for pension funds . As a result, the government was able to allocate resources for other investments without jeopardizing its own fiscal spending power from increasing expenses on social welfare and services. These unique internal factors are considered as the fundamental foundation the Asian Tigers use to build their economies.

External Factors of the Asian Tigers’ Economic Success With the rise of globalization, it has become quite unrealistic to discuss the problems or successes of a single country without considering their international, or external, dimensions. Nevertheless, the majority of the extensive literature that focuses on the success of the Tigers seldom mentions how external factors—such as a favourable world economic environment or regulations—might have played a significant role in the success of these high performing economies. Indeed, both the political and economic world environments were significantly different in the 1960s and 1970s when the Tigers started their spectacular economic growth, primarily from their export of light manufactures.

Haque et al. mention that the successful newly industrialized economies of Asia made their biggest export drives in the 1960s and early 1970s, a period

of rapidly expanding world trade. But in the face of sluggish world economic growth, fiscal imbalances, and currency instability, protectionist pressures in industrial countries have increased, making today's world trading environment much less hospitable. They add that until the 1980s, suppliers of technology were more willing than they are now to transfer technology at relatively low prices.

Because markets were less international, they contend, the sale of foreign technology tended to be seen more as an additional source of income than as a contribution to a potential competitor. Additionally, an enormous influence has been exerted on world trading relations with the rise of the multinational corporation (MNC) and increasing capital mobility, both of which have affected international competitiveness. And nowadays, with the rise of China, many developing countries find it simply too hard to compete in the export of manufactures.

Other authors, such as Briscoe, mention the World Trade Organization's strictures on investment, services and intellectual property rights which have " tipped the playing field decisively in favour of the developed countries and against the catch-up efforts of middle-income countries". Quibria, in a similar branch, notes that the new WTO regime has " significantly tightened multilateral rules on subsidies and related industrial policies for the developing countries. Export subsidies are largely prohibited, and trade-related investment measures that discriminate against imports have been outlawed." Another factor, as underlined by Quibria, is the advent of democracy and political pluralism which constricts many programs and policies that were feasible under authoritarian regimes. For example,

compared with most developing countries under democratic regimes today, the miracle economies had fewer labor market regulations and more flexibility.

The Cold War also played a significant role in prompting the Western Powers to help substantially—in the form of aid, technology and defense—several Asian countries of which the tigers were part. Both South Korea and Taiwan received substantial amounts of aid from the U. S. during the 1950s and 1960s, amounting, for example, to about 40% of capital formation in Taiwan in the 1950s. Finally, wars, such as in Vietnam, also significantly benefited the rapidly industrializing Asian economies, boosting their exports.

Internal and External Factors Krugman asserts that “[o]nce one accounts for the role of rapidly growing inputs in these countries’ [Asian Tiger’s] growth, one finds little to explain.” The entire bent of his views state that internal factors—specifically the expansion of employment, increase in education levels, and investment in physical capital—were the only true players in the Tiger’s success, a view that the majority of the economic community supports. However, if the recipe was so simple, other developing countries would have surely followed in the footsteps of the four miracle economies with equal success.

By addressing specific exogenous factors at that time in history that enabled a growth as phenomenal as that of the Asian Tigers, however, we are able to partly explain why this phenomenal growth cannot be—and has not been—so easily reproduced. The political and economic climate caused by the Cold War, coupled with increasing opportunities in global trade in the 1960s and

1970s and favourable regulations seems to have encouraged and facilitated the specific internal economic strategies that lead to the Tigers' phenomenal growth. This view can be supported by looking into the attempts taken by developing countries in Asia, Africa and Latin America in recent decades, in replicating the growth of the Tigers. Following similar patterns of strong governmental intervention in the economy, the more recent attempts by various economies using this strategy have been met with overwhelming failure.

These outcomes demonstrate that endogenous factors are not the sole determinants in development. In fact, what some literature proposes is that when studying the effects of state-led development in a broader sense, the results become so varied that they reveal other factors to be more salient. Briscoe (2008), for example, points to the importance of land reform in Taiwan and South Korea for their development, and the opposing effect a similar strategy had on Mexico. In short, the vast body of work on the Asian Tigers gives a disproportionate weighting on the internal factors as contributing solely to their development, failing to take into consideration the complex interweaving of both internal and external determinants. Krugman and his colleagues' claim that the endogenous factors can by themselves explain the staggering success of the miracle economies seems to be insufficient in light of the policy outcomes in other developing countries. For these particular reasons, we believe that reproducing the success of the Asian Tigers in the current global economic environment is highly unlikely.

Conclusion The rapid economic growth the Tigers experienced shows that economic development is a complex phenomenon, not solely encompassing a few endogenous factors. We make no doubt that the high education level and rapid capital accumulation played major roles in the development of these economies. Concurrently, however, the reason why their policies and institutions that resulted in high education and growing capital stock worked so well is certainly partly attributable to the global setting in which the Tigers' approach became effective. The existence of a favourable international economic environment, such as the presence of strong demand for commodities or manufactures, is also one of the critical success factors. For example, in South Korea, according to its five year plans, the government promoted heavy chemical and construction industries in the 1970s, but those businesses suffered from chronic deficits during their first decade.

The pivotal moment for these industries was the construction boom in the Middle East in the 1980s. The rapid increases in global demand for construction machinery and chemical goods helped the Korean companies significantly boost their earnings, thereby becoming major players in the world markets. In this context, a simple “ clone” approach of the Tigers' policies is unlikely to work in the current global environment for developing countries. It is clear, however, that more specific research comparing the international economic environment at the time the Tigers were growing, to those that developing countries are going through right now, coupled with a comparative analysis of the Tiger's and developing countries' policies, are needed to further complement our conclusion. Nevertheless, it is evident



that there are more than internal factors at play in affecting economic growth of a nation, and policy makers of middle-income countries trying to develop their economy should certainly keep that in mind when looking back at the staggering success of the Tigers.