

# East Asian Economic Performance: Miracle or Just a Pleasant Surprise?

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## 1. INTRODUCTION

**P**UBLICATION of the *East Asian Miracle* (EAM, World Bank, 1993) appears, to borrow a phrase, to have generated more heat than light. The EAM analysed reasons for the economic success of the eight high performing Asian economies (HPAEs) — Hong Kong, Indonesia, Japan, Malaysia, Republic of Korea, Singapore, Taiwan and Thailand. The hope, at least of ‘neutral’ observers, was that we would be able to derive lessons regarding effective economic policies from a study of the experiences of the successful East Asian economies. The general criticism of the Report is that it tried to mould the HPAEs’ experiences so that the lessons were consistent with Bank policy, in the process losing many distinguishing features of the EAM; more serious criticisms are that the report obfuscated and distorted the truth. It is not our intention to reopen debate about the Report (fully aired in a special issue of *World Development*, April 1994; and Rodrik, 1994). We do wish to address three questions. What were the distinguishing features of the East Asian economic success that led some observers to claim a miracle? What elements of economic policy contributed to their success, and are such elements present in the economic policies proposed by the Bank (in, for example, adjustment programmes)? Are there features of the HPAEs that can be adapted to help design successful policies for other countries? Put succinctly: what did they do that appears so good, how did they do it and can others do it?

Writing in 1998, it may appear irrelevant to talk of an East Asian miracle as so many of the economies we consider have recently endured currency crises of varying degrees of severity. Current problems should not detract from the sustained and generally impressive growth achieved by these economies over the

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past thirty years (although policies behind such growth may have contributed to the present crisis). The nature of the current crisis is quite different in each country, and there is no evidence yet that it is anything more than a temporary adjustment. Given the increasing mobility of international capital, such currency crises are not unusual. Our focus is only on the period of success, and in particular on features common to the economic successes of these economies, with the intention of distilling any lessons for appropriate economic policies for other developing countries hoping to emulate periods of sustained growth. Unlike other studies whose primary aim has been to analyse the factors in East Asian economic performance, our aim is more generally to review the East Asian experience.

The title of World Bank (1993) implies that perhaps there was something 'miraculous' about the East Asian achievement. We consider that a miracle is something that cannot be explained; a surprise can be explained (in that one can identify the contributing factors), but was not anticipated. In this respect, discussion of the East Asian economies has tended to conflate (at least) two distinct issues. First, a conventional economic argument is that accumulation (savings) and Total Factor Productivity (TFP) are sufficient to explain economic growth. World Bank (1993) suggests that these are not sufficient to fully explain East Asian performance, there a positive (growth) residual, hence a claim of miracle. Rodrik (1995) and Young (1993), amongst others, counter that empirically accumulation is about all you need to explain the growth performance (TFP may fail as an explanation largely because of the deficiencies of TFP measures). Second, the actualities and effects of government policy are intensely disputed. That macroeconomic policy, control and stability, was conducive to growth is agreed. The nature and effects of microeconomic policies are debated: was trade policy really export-oriented and was there an effective industrial policy? We merely note here a point to be considered later: even if microeconomic distortions were present, they may have had no significant effect on overall growth performance (they may, of course, have influenced distribution). The two issues are related. For example, to observe high rates of accumulation (and growth) begs the question: why did these countries manage to sustain such high savings rates? It seems plausible to argue that government policy and intervention was important in encouraging saving and supporting investment (Stiglitz, 1996).

The essence of the EAM was rapid economic growth, relative to all other countries. Over 1965–89, real GDP per capita annual growth averaged just over five per cent for East Asia, compared to less than two per cent for most other developing regions, and less than 0.5 per cent for sub-Saharan Africa (*World Development Report 1991*, p. 30). A number of features common to the HPAEs were associated with this performance: high savings and investment rates; relatively high degree of equality; high growth rates of human and physical

capital; high productivity growth; high growth in manufactured exports; high growth in agricultural productivity; and a decline in fertility (World Bank, 1993). The question is to what extent these features contributed to the success and to what extent they were policy-induced. The recognition that at least some of the HPAEs exhibited active government intervention 'raised complex, and controversial, questions concerning the relationship between government, the private sector and the market' (Page, 1994, p. 615). While the EAM offered an answer to these complex questions, it was not one that satisfied critics (Amsden, 1994; and Perkins, 1994).

Section 2 reviews some of the EAM literature and identifies what have been cited as the principal factors contributing to HPAEs' economic success. The final part of that section compares the resulting 'list' to a list of elements of structural adjustment programmes. Section 3 is a more in-depth examination of six East Asian economies, to evaluate the elements of their economic performance. Section 4 turns to the question of the extent to which the success was policy-induced, and examines the political and policy dimensions of the economies. Section 5 presents our conclusions.

## 2. ELEMENTS OF ECONOMIC SUCCESS

Over the period 1965–90 the eight HPAEs achieved rapid growth while maintaining relative equality of income distribution, grew faster than any reference groups and appeared to be able to sustain rapid growth. Measuring income equality as the ratio of the income shares of the richest 20 per cent of the population to the poorest 20 per cent, in only Malaysia, from the eight HPAEs, did the ratio exceed 10; in addition to the HPAEs, only three other countries (Botswana, Gabon and Mauritius, all of which had an inequality ratio exceeding 10) achieved average annual GDP growth exceeding four per cent over 1965–89 (Page, 1994, p. 616). These were the distinguishing achievements. A number of 'elements' of successful economic development (high growth) have been proposed; a particular HPAE may not exhibit all of these, but should exhibit most:

- High savings and investment, low capital flight; physical capital accumulation;
- Investment in education; human capital accumulation;
- Total factor productivity (TFP) growth; adoption of technology;
- Macroeconomic management and stability;
- High growth rate of exports; openness;
- Dynamic agricultural sector with increasing productivity; relatively low urban-rural income differentials;

- Relatively equitable income distribution;
- Relatively low tax disincentives and/or relatively low-cost corruption; extracted rents without imposing high distortionary costs on the economy;
- Political stability and credibility; 'principle of shared growth'.

The essential EAM argument is that the HPAEs achieved sustained rapid growth through 'the combination of unusual success at allocating capital to high-yielding investments and at catching up technologically to the advanced economies' (Page, 1994, p. 617). Informed by background, the EAM acknowledged the importance of institutions, notably regarding financial market interventions (directed credit at low interest rates), non-market allocation mechanisms (such as for investment or export credits), and government-private sector consultation councils (Stiglitz, 1996). We treat these as outcomes of the elements listed above: the government was stable and credible but extracted rents without imposing high costs and taxes on the economy, hence institutions were supportive of enterprise, and consultation and interventions had beneficial impacts. Governments proposed the principle of shared growth whereby enterprise was encouraged and public assistance was available, but benefits should be shared amongst all (productive) sectors of the economy; this itself supported the degree of equality and relatively low rural-urban wage differentials.

The basis of the World Bank (1993) view is that the foundation of high performance is macroeconomic discipline, which encourages high savings and investment, and that combining this with rapid factor accumulation and TFP growth will fuel and sustain economic growth; to this extent, there is no miracle. Perhaps begrudgingly, the fact of direct government intervention is acknowledged, but then downplayed:

The efficacy of more institutionally demanding strategies has not been established in other settings ... promotion of specific industries was generally not successful ... Mild financial repression combined with directed credits has worked in some circumstances but carries high risks ... [Therefore] ... The fact that interventions were an element of some East Asian economies' success does not mean that they should be attempted everywhere, nor should they be used as an excuse to resist needed market-oriented reforms (Page, 1994, p. 624).

It is not clear whether this conclusion is a case of 'don't try this at home kids' or cognitive dissonance, but it is this interpretative presentation of the EAM that has elicited the greatest critical response. To the Bank, it would appear, the miracle is that in economies with high degrees of intervention, government failure was not a block on high economic growth, with equity.

Critics challenge the EAM on two general grounds. First, that accumulation and productivity growth are not so great in the HPAEs relative to other developing countries to explain the better growth performance of the HPAEs. For example, Kwon (1994) demonstrates how the EAM tends to overestimate TFP growth in Korea. Amsden (1994) notes that the EAM is based on background papers: the analysis of country experience is presented in distilled form and only

partial data are reported, rendering it difficult to assess the empirical validity of claims made in the report. Interpreting this general criticism of EAM differently, the economic factors that would be identified by endogenous growth theory do not explain the differential performance of the HPAEs; there is a residual, biased towards growth, so there may yet be a miraculous element. Rodrick (1995) argues strongly that although TFP measures are deficient, savings rates (accumulation) are almost sufficient to explain growth rates.

The second level of criticism, which applies even in the absence of the first but is of greater import if there is a residual to explain, is that the nature and importance of public intervention is ignored, or at least under-appreciated, in the EAM. This undermines the conclusions of the EAM, and implies that an opportunity to learn the real lessons from the intervention successes have been missed; foremost among these critics are Amsden (1994) and Wade (1990). Both Perkins (1994) and Lall (1994) question the EAM story on industrial policy in the HPAEs, that the intervention was mild in the sense of causing mild price distortions. They note that, especially at the early stages of import substitution, interventionist industrial policy generated significant price distortions.

Furthermore, the 'openness' of Japan, Taiwan and Korea was limited: they wanted to develop local capacity to adapt technology, but were often hostile to foreign direct investment and simply adopting foreign technology. For example, Rodrik (1994) argues that the EAM claims for the virtues of export-led are not supported by the evidence presented. Kwon (1994) criticises the implicit EAM claim that HPAE governments do not deserve credit for the successes. World Bank (1993) implies that the reason government policies were successful was because the myriad of diverse interventions combined to replicate a neoclassical policy; underlying this claim is the argument that getting rid of import protection may be politically impossible, but the combination of protection with relatively general export promotion could result in more-or-less undistorted relative prices. In simple terms, the combination of import protection and export subsidies can result in a neutral trade stance. Again, this relates to an over-arching theme of EAM: if macroeconomic policies are in order, then microeconomic policy distortions are unlikely to reduce growth (unless they are severe); a generous interpretation of EAM is that microeconomic policy interventions may have been present, but they were not highly distortionary.

#### *a. The World Bank's Development Strategy*

An implicit criticism of the EAM is that it (re)interprets or even distorts the evidence to conform with a prior (neoclassical) view of the appropriate development strategy. A reasonable question to ask is what the Bank's apparent development strategy is. We can do this by highlighting the types of policies proposed or imposed by the Bank in structural adjustment programmes (SAPs).

We should note, however, that there can be a distinction between the policies proposed to reform an economy that, clearly and on the evidence, has gone astray in an unsustainable manner and those policies implemented by an economy that is performing relatively well. On the other hand, we can note that Indonesia, Thailand and Korea all agreed SAPs with the Bank.

Table 1 details, in order of frequency, the principal policy areas where conditionality has been applied in SAPs. The single most common policy area is trade liberalisation (removal of quantitative restrictions, reduction of tariffs and, less frequently, export promotion); the other most important areas are tax reform; reducing public expenditure and the budget deficit; reform of parastatals (generally moves towards privatisation); agricultural price and marketing liberalisation (especially dismantling state marketing boards); financial sector liberalisation and industrial deregulation (removing price controls is prominent here). Last on the list is exchange rate policy (devaluation and easing access to foreign exchange), not because it is unimportant but because it is traditionally part of an IMF stabilisation loan which precedes the SAP.

The fact that a policy area is included in a SAP does not imply that it is actually implemented; compliance with conditionality is mixed, although obviously the effectiveness of a SAP does depend on whether policies are implemented. There is a large literature evaluating SAPs, and it is not relevant to address that here (see McGillivray and Morrissey, 1998). The presence of a policy in Table 1 indicates that it is seen as an important aspect of an economic growth strategy. On this basis, the emphasis of SAPs can be said to have been on, in order: macroeconomic stability (in particular devaluation and reducing the

TABLE 1  
Policy Areas in SAPs and HPAEs

	<i>Incidence</i>	<i>HPAEs</i>
1. Trade liberalisation	78.4	partial
2. Tax reform (rationalisation)	64.7	partial
3. Privatisation/Public enterprise reform	52.9	partial
4. Reduce budget deficit/Public spending	51.0	yes
5. Agricultural liberalisation	49.0	yes
6. Financial sector liberalisation	39.2	partial
7. Industrial deregulation	25.5	partial
8. Exchange rate liberalisation/Devaluation	15.7	yes

Notes and Sources:

Incidence: the percentage of total SAP loans over 1980–87 with conditions in the stated policy areas, adapted from Greenaway and Morrissey (1993), Table 1.

HPAEs: reports authors' view on whether the type of SAP policies proposed in this area were present in HPAEs: yes: similar policy present in HPAEs and SAPs;

partial: differences, between HPAE and SAP policies; often, this is because HPAEs had made early reforms and thus did not need to address these problems later. For example, Hayami (1997) identifies the importance of early agricultural liberalisation and reform in Japan, Taiwan and Korea; public ownership of industries was relatively low so privatisation not an issue.

budget deficit, usually through public expenditure restraint); trade liberalisation (to reduce the bias against exports rather than specifically support exports); agricultural price and marketing liberalisation; and various sectoral reforms usually emphasising removal of price controls and deregulation. We also indicate whether HPAEs exhibited similar policies in Table 1.

There is definite but not uniform congruence between HPAE policies and SAPs. Both emphasise macroeconomic stability, which appears to be fundamental for sustained growth. To a lesser extent, both support incentives for agricultural production, SAPs emphasising liberalisation but HPAEs having relied more on land reform, technology transfer and input subsidies (although the agricultural sectors in most HPAEs were relatively liberalised initially; see Hayami, 1997). The focus on trade policy is divergent but not incompatible: both approaches recognise the importance of exports; HPAEs have 'allowed' import substitution and have not eschewed high levels of protection for specific sectors.

The largest difference is regarding industrial policy: SAPs do not advocate one, whereas HPAEs have in cases been significantly interventionist. On the EAM side, the argument is that industrial policies may have existed, but in general they were either minor (to the economy if not the sector) and were often implemented in a manner that did not heavily distort prices (e.g. directed credit and financial policies were frequent means to favour a particular industry). On the other hand, Amsden (1994), Stiglitz (1996) and Wade (1990) argue that industrial policies have been of significant influence. We do not address this debate as the evidence is mixed, often lacking, and frequently open to interpretation; the jury is still out on the issue of the efficacy of industrial policy (Lall, 1994). There is a role for industrial policy, and all governments are going to intervene; one should not deny it, but also one should not over-emphasise its importance.

The evidence on SAPs shows that not only are the policy areas, and implementation, significant but so too are credibility and sequencing. Credibility requires the commitment of the government to sustaining the reform, but includes the political stability and strength of the regime, the design of the reform programme and, hence, the responsiveness of agents. Most commentators would agree that HPAE governments had credibility (see Section 4). There is also fairly general agreement on the appropriate sequence of reforms (Greenaway and Morrissey, 1993): establish basic macroeconomic stability then begin removing trade restrictions (devaluation itself will tend to benefit exporters); liberalisation of domestic financial markets can commence once trade liberalisation is underway, but most experience suggests that liberalisation of the capital account and the relaxation of capital controls should only be attempted once substantial progress has been made on other reforms. There are advantages in promoting exports before removing protection, notably that export growth is beneficial to the economy and that political support from exporters is generated before the opposition of those gaining rents from protection is aroused during import liberalisation.

## 3. THE PERFORMANCE OF SOME ASIAN ECONOMIES

In the previous section a number of elements contributing to a successful economic performance were proposed and discussed. We noted areas of agreement and disagreement, on the evidence and on the interpretation. Here we consider some evidence on six East Asian economies, to see if we can shed additional light on the debate. Five of our sample are also among the HPAEs: Indonesia, Korea, Malaysia, Taiwan and Thailand. We also include the Philippines, a large geographically proximate country that did not exhibit such

TABLE 2A  
Indicators of Performance: Indonesia

<i>Period</i>	<i>RGDP</i>	<i>I/RGDP</i>	<i>G/RGDP</i>	<i>Agriculture</i>	<i>Industry</i>	<i>Inflation</i>
1960	\$798	6.2	15.2	51.5	15.1	
1960–69	8.4	7.1	11.5	51.5	14.5	
1970	\$907	11.1	10.7	44.9	18.7	14.6
1970–79	65.5	16.1	12.4	34.0	30.1	20.0
1980	\$1612	18.0	16.2	24.0	41.7	30.8
1980–89	38.5	25.2	15.1	23.5	37.9	11.2
1992	\$2404*	25.3	14.9	19.5	40.0	5.4

## Notes:

Year values are starting values (\* indicates 1990); period values are simple period means. Notation is evident: RGDP, real GDP per active member of population (year value as given, period value is average increase); I/RGDP, ratio of public sector investment to GDP; G/RGDP, ratio of government spending to GDP; figures for Agriculture and Industry are sector shares of GDP, and Inflation is measured as annual change in the Consumer Price Index.

Source: RGDPEA, I/RGDP and G/RGDP from Summers and Heston (1991, updated); other data from *World Development Indicators 1997*, World Bank, CD-ROM.

TABLE 2B  
Indicators of Performance: Indonesia

<i>Period</i>	<i>I/GDP</i>	<i>S/GDP</i>	<i>T/GDP</i>	<i>G/GDP</i>	<i>B/GDP</i>	<i>X/GDP</i>	<i>M/GDP</i>	<i>BoP</i>
1960	9.2	10.9				13.6	11.9	1.7
1960–69	9.7	7.3				9.7	12.2	-2.5
1970	15.8	13.9	11.8*	14.9*	-3.1*	13.0	15.0	-2.0
1970–79	21.8	24.4	15.7	18.4	-2.7	21.6	19.0	2.6
1980	24.3	37.2	20.2	22.1	-1.8	33.0	20.2	12.8
1980–89	27.7	30.5	17.2	21.2	-4.0	25.1	22.2	2.8
1993	27.8	29.9	14.3	16.7	-2.3	25.9	23.8	2.1

## Notes:

Year values are starting values (\* indicates 1972); period values are simple period means. Notation is evident: I/GDP, ratio of public sector investment to GDP; S/GDP, ratio of gross savings to investment; T/GDP, ratio of tax revenue to GDP; G/GDP, ratio of government spending to GDP; B/GDP ratio of public sector deficit to GDP (where deficit is total revenue less G); X and M are exports and imports respectively; and BoP is (X-M) as a share of GDP.

Source: *World Development Indicators 1997*, World Bank, CD-ROM.

economic success. The data are presented in Tables 2A to 7B. Our approach is to look at trends in selected indicators in each of the three decades since 1960 (where possible we include the 1950s), considering start of decade values and average decade values. The tables are largely self-explanatory, and we only provide 'pen sketches' of the cases here.

*a. Indonesia*

Significant and rapid GDP growth did not occur until the 1970s. In the 1960s agriculture accounted for about half of the economy, and industry's share grew slowly from 15 to almost 20 per cent. Real income rose steadily but increased by less than 10 per cent over the decade, while the size of government (G/RGDP) actually fell from 15 to 10 per cent. Savings and investment rates tended to be below 10 per cent; exports and imports were just above 10 per cent of GDP, but imports grew faster generating a payments deficit. A fairly 'normal' LDC pattern in the 1960s.

GDP growth was an impressive 66 per cent in the 1970s; agriculture's share of the economy had fallen to about a quarter by 1980 (halving in twenty years), and industry's grew rapidly to 42 per cent. Investment growth, as I/GDP averaged over 20 per cent in the 1970s, having more than doubled since the 1960s, could have contributed to the rapid industrialisation; savings grew even faster, reaching 37 per cent of income in 1980. The public sector (T/GDP and G/GDP) almost doubled to over 20 per cent, and there was a persistent budget deficit of a few percentage points; inflation was high, averaging 20 per cent in the decade. Exports grew rapidly to a third of GDP, supported by oil exports, whereas import growth lagged and there was a payments surplus of some 12 per cent of GDP in 1980.

Steady growth was maintained in the 1980s, and there was evidence of more careful macroeconomic management by the 1990s: the budget deficit began to increase in the 1980s but spending (and tax revenue) were curtailed so the deficit was about two per cent in 1993, with tax accounting for only 14 per cent of GDP, and inflation appeared to be brought under control, having been reduced to about five per cent in 1993. Savings rates remained high, although falling to about 30 per cent of GDP, with investment only slightly lower by the end of the 1980s. Imports grew while exports contracted, reflecting lower oil prices, but payments remained in surplus. Indonesia benefited from oil, which allowed export growth and a payments surplus. Savings and investment rates were high, industrialisation occurred quite rapidly, but the budget deficit was kept under control; inflationary pressures loomed large throughout the 1970s and early 1980s but was controlled. Significant real growth was sustained. It has become evident in 1998 that much of this growth was based on unsustainable levels of debt accumulation, a salutary lesson to other countries.

*b. Korea (Republic of)*

While the 1950s saw steady real growth, significant and rapid growth began in the 1960s but was maintained, even increased, in subsequent decades. In the 1960s agriculture accounted for about a third of the economy, and industry's share grew steadily from 20 to almost 29 per cent. Real income increased by more than 60 per cent over the decade, even though the investment rate averaged 14 per cent and the size of government fell (on the Heston-Summers data, quite steadily from almost 20 per cent at the start of the 1950s to less than 10 per cent

TABLE 3A  
Indicators of Performance: South Korea

<i>Period</i>	<i>RGDP</i>	<i>I/RGDP</i>	<i>G/RGDP</i>	<i>Agriculture</i>	<i>Industry</i>	<i>Inflation</i>
1953	\$1007	10.6	18.6			
1953–59	15.5	8.8	17.1			
1960	\$1143	7.0	16.1	35.8	19.8	
1960–69	61.3	14.1	13.9	35.5	23.0	
1970	\$2127	21.9	12.5	25.4	28.7	19.2
1970–79	88.9	24.9	11.5	23.3	33.3	18.4
1980	\$3727	28.0	11.3	14.5	40.4	27.0
1980–89	92.7	29.3	9.7	8.7	43.5	9.8
1993	\$7851*	36.9*	8.5*	7.1	43.4	5.0

Notes:

Year values are starting values (\* refers to 1990); period values are simple period means. Notation is evident: RGDP, real GDP per active member of population (year value as given, period value is average increase); I/RGDP, ratio of public sector investment to GDP; G/RGDP, ratio of government spending to GDP; figures for Agriculture and Industry are sector shares of GDP, and Inflation is measured as annual change in the Consumer Price Index.

Source: RGDPEA, I/RGDP and G/RGDP from Summers and Heston (1991, updated); other data from *World Development Indicators 1997*, World Bank, CD-ROM.

TABLE 3B  
Indicators of Performance: South Korea

<i>Period</i>	<i>I/GDP</i>	<i>S/GDP</i>	<i>T/GDP</i>	<i>G/GDP</i>	<i>B/GDP</i>	<i>X/GDP</i>	<i>M/GDP</i>	<i>BoP</i>
1960	11.3	2.0				3.3	12.6	-9.3
1960–69	18.7	8.6				8.1	18.1	-10.1
1970	24.4	14.8	13.1	15.8	-2.7	13.9	23.5	-9.6
1970–79	27.2	21.4	13.5	15.6	-2.1	25.6	31.4	-5.8
1980	32.0	24.8	15.3	17.0	-1.7	33.5	40.8	-7.3
1980–89	30.2	31.3	15.2	16.2	-1.1	35.8	34.8	1.0
1993	34.4	34.8	16.3	16.9	-0.6	29.4	29.0	0.4

Notes:

Year values are starting values; period values are simple period means. Notation is evident: I/GDP, ratio of public sector investment to GDP; S/GDP, ratio of gross savings to investment; T/GDP, ratio of tax revenue to GDP; G/GDP, ratio of government spending to GDP; B/GDP ratio of public sector deficit to GDP (where deficit is total revenue less G); X and M are exports and imports respectively; and BoP is (X–M) as a share of GDP.

Source: *World Development Indicators 1997*, World Bank, CD-ROM.

in the 1990s; the World Bank data in Table 3B suggest an opposite trend over 1970–93). Savings rates were quite low in the 1960s, but grew rapidly to 15 per cent in 1970. Exports were negligible in the 1960s, greatly exceeded by imports and the payments deficit was a fairly substantial 10 per cent of GDP in the 1980s.

GDP grew by almost 90 per cent in the 1970s, and by more than 90 per cent in the 1980s; agriculture's share fell rapidly from about a quarter in 1970 to less than 10 per cent in 1993; industry's grew rapidly from less than 30 to over 40 per cent by the end of the decade. The investment rate climbed steadily to almost a third of GDP in 1980; savings grew but did not keep pace and the rate was only 25 per cent of income in 1980. Public expenditure remained stable at around 15 per cent, and there was a persistent but small budget deficit of less than two percentage points. Exports grew rapidly to a third of GDP, but were still less than imports and the payments deficit persisted. Inflation was very high, averaging 18 per cent in the 1970s and reaching 27 per cent in 1980.

Rapid growth was sustained in the 1980s, the budget deficit was gradually reduced (virtually eliminated by 1993), and inflation was dramatically reduced to five per cent in 1993. The positive signs were that savings rates rose significantly to 35 per cent of GDP in 1993, with investment rates increasing less slowly but to about the same level. Exports grew while imports as a share of GDP contracted, and the country finally achieved a payments surplus. One obvious motive for the explicit promotion of exports was the need to finance imports: export growth was essential to reduce the payments deficit, and it was some thirty years before they achieved a trade surplus. The impressively high levels of savings attained in the 1980s and into the 1990s were necessary to maintain the high investment rates. Although the budget deficit was kept under control, the very high rates of real growth could not have been sustained unless the savings-investment and payments gaps of the 1960s and 1970s were eliminated; in this sense Korea is almost a classic example of the two-gap model of Chenery and Strout (1966), and foreign capital inflows played an important part.

### *c. Malaysia*

Malaysia began as a relatively rich country, having the highest real income per capita of the case study countries in 1955, exhibited steady growth in the 1950s and real income rose almost 30 per cent over the 1960s. In 1960 agriculture accounted for a third of the economy, falling to 28 per cent in 1970; industry's share grew slowly from 18 to 25 per cent over the decade. The size of government remained stable around 14–15 per cent until the 1980s. Savings and investment rates were quite high even in the 1960s, over the decade averaging 24 and 19 per cent respectively. Exports and imports were also very high by any standards in the 1960s: on the back of major primary commodities, exports accounted for 50 per cent of GDP in 1960, falling to 42 per cent in 1970; imports

TABLE 4A  
Indicators of Performance: Malaysia

<i>Period</i>	<i>RGDP</i>	<i>I/RGDP</i>	<i>G/RGDP</i>	<i>Agriculture</i>	<i>Industry</i>	<i>Inflation</i>
1955	\$1626	10.1	13.9			
1955–59	5.1	11.3	14.3			
1960	\$1831	15.0	13.6	33.3	17.9	
1960–69	27.8	16.6	14.9	30.2	23.1	
1970	\$2782	21.5	14.7	28.5	25.3	–0.4
1970–79	55.8	23.4	15.9	26.5	30.5	6.3
1980	\$4729	27.4	17.1	21.9	37.8	6.9
1980–89	20.6	28.0	17.1	20.6	36.4	2.5
1992	\$6235*	32.6	14.1			5.2

Notes:

Year values are starting values (\* refers to 1990); period values are simple period means. Notation is evident: RGDP, real GDP per active member of population (year value as given, period value is average increase); I/RGDP, ratio of public sector investment to GDP; G/RGDP, ratio of government spending to GDP; figures for Agriculture and Industry are sector shares of GDP, and Inflation is measured as annual change in the Consumer Price Index.

Source: RGDPEA, I/RGDP and G/RGDP from Summers and Heston (1991, updated); other data from *World Development Indicators 1997*, World Bank, CD-ROM.

TABLE 4B  
Indicators of Performance: Malaysia

<i>Period</i>	<i>I/GDP</i>	<i>S/GDP</i>	<i>T/GDP</i>	<i>G/GDP</i>	<i>B/GDP</i>	<i>X/GDP</i>	<i>M/GDP</i>	<i>BoP</i>
1960	15.3	27.7				51.4	39.0	12.4
1960–69	19.2	23.9				43.2	38.5	4.7
1970	22.4	26.6	15.6*	25.9*	–10.2*	42.0	37.8	4.2
1970–79	25.5	29.7	18.6	24.1	–5.5	44.8	40.5	4.3
1980	30.4	32.9	23.5	28.5	–5.1	57.5	55.0	2.5
1980–89	30.5	33.1	20.9	31.0	–10.1	58.2	55.6	2.6
1993	35.0	35.9	21.0	26.4	–5.4	81.5	80.5	0.9

Notes:

Year values are starting values (\* refers to 1972); period values are simple period means. Notation is evident: I/GDP, ratio of public sector investment to GDP; S/GDP, ratio of gross savings to investment; T/GDP, ratio of tax revenue to GDP; G/GDP, ratio of government spending to GDP; B/GDP ratio of public sector deficit to GDP (where deficit is total revenue less G); X and M are exports and imports respectively; and BoP is (X–M) as a share of GDP.

Source: *World Development Indicators 1997*, World Bank, CD-ROM.

fell less dramatically from 39 to 38 per cent; even at the end of the decade there was a healthy four per cent payments surplus.

GDP growth was an impressive 56 per cent over the 1970s; agriculture's share of the economy remained significant at about 20 per cent even by 1990 and industry's grew rapidly from 25 per cent in 1970 to 38 per cent in 1980. The savings rate continued to grow, reaching 33 per cent of income in 1980, and to exceed investment, which also grew to 30 per cent in 1980. The public sector was relatively large and growing: T/GDP reached 24 per cent and G/GDP reached 29

per cent in 1980; there was a persistent budget deficit averaging five per cent of GDP in the 1970s, although inflation was quite low. Exports grew to almost 58 per cent of GDP, although imports grew even faster to 55 per cent; there was a payments surplus averaging four per cent of GDP in the 1970s.

The rate of economic growth tailed off somewhat in the 1980s, although real income still increased 20 per cent over the decade and inflation remained quite low. The savings rate continued to rise, to 36 per cent of GDP in 1993, supporting the increase in investment rates to a similar level. Government spending had fallen to a relatively high 26 per cent of GDP in 1993, but had exceeded 30 per cent during the 1980s when the budget deficit averaged 10 per cent of GDP. Exports continued to grow rapidly to over 80 per cent of GDP, and imports rose as rapidly so that trade was almost exactly in balance by 1993. Malaysia looks like a classic case of export-led growth: valuable natural resources fuelled high and growing exports permitting high levels of imports, with an almost continuous albeit diminishing trade surplus. Arguably, export revenues supported the high savings rates that in turn supported high investment rates. Although the public sector and budget deficit were relatively large, inflation was generally under control and macroeconomic management could not be considered profligate, although it was less constrained than other HPAEs.

#### *d. Philippines*

In terms of the level of income, investment and size of government in the 1950s, the Philippines is comparable to the other cases, although with Taiwan is distinguished by recording a 45 per cent increase in real income over the 1950s. In the 1960s agriculture accounted for a relatively low 26 per cent of the economy, and industry a relatively high 28 per cent; by 1970 both shares were around 30 per cent. Real income rose steadily by 23 per cent over the decade; the size of government hovered between 11 and 13 per cent during 1950–70. Savings and investment rates gradually rose together to over 20 per cent; exports and imports doubled together from 10 to just over 20 per cent of GDP, and payments remained pretty much in balance throughout the 1960s.

GDP growth was a moderate 23 per cent in the 1970s; agriculture's share of the economy actually increased to 30 per cent in 1970, but fell back to 25 per cent in 1980; industry's share grew to 39 per cent in 1980. The investment rate averaged 27 per cent in the 1970s, and rose to 29 per cent in 1980; savings lagged and stayed around 25 per cent of income. The public sector was kept under control and the budget deficit reduced from six per cent in 1970 to one per cent of GDP in 1980; tax revenue was a small share of income, but so was expenditure. Exports grew slowly to 24 per cent of GDP; imports grew more quickly leading to a payments deficit of some five per cent of GDP in 1980. The Philippines experienced almost a 10 per cent decline in real income over the 1980s,

TABLE 5A  
Indicators of Performance: Philippines

<i>Period</i>	<i>RGDP</i>	<i>I/RGDP</i>	<i>G/RGDP</i>	<i>Agriculture</i>	<i>Industry</i>	<i>Inflation</i>
1950	\$991	12.0	14.2			
1950–59	45.4	11.0	13.9			
1960	\$1481	10.9	14.5	25.7	27.6	
1960–69	22.6	12.8	13.9	26.2	27.6	
1970	\$1816	13.3	14.8	29.5	31.7	8.0
1970–79	29.6	16.7	17.2	29.5	34.5	12.9
1980	\$2379	19.3	16.8	25.1	38.8	14.3
1980–89	-9.4	16.2	15.7	23.9	36.8	14.9
1992	\$2186*	16.0	15.4	21.8	32.8	7.9

Notes:

Year values are starting values (\* refers to 1990); period values are simple period means. Notation is evident: RGDP, real GDP per active member of population (year value as given, period value is average increase); I/RGDP, ratio of public sector investment to GDP; G/RGDP, ratio of government spending to GDP; figures for Agriculture and Industry are sector shares of GDP, and Inflation is measured as annual change in the Consumer Price Index.

Source: RGDPEA, I/RGDP and G/RGDP from Summers and Heston (1991, updated); other data from *World Development Indicators 1997*, World Bank, CD-ROM.

TABLE 5B  
Indicators of Performance: Philippines

<i>Period</i>	<i>I/GDP</i>	<i>S/GDP</i>	<i>T/GDP</i>	<i>G/GDP</i>	<i>B/GDP</i>	<i>X/GDP</i>	<i>M/GDP</i>	<i>BoP</i>
1960	16.0	16.2				10.6	10.4	0.2
1960–69	19.5	18.5				15.0	16.0	-1.0
1970	21.3	21.9	8.1*	14.0*	-5.9*	21.6	21.1	0.5
1970–79	27.0	24.9	11.2	13.9	-2.6	21.5	23.6	-2.1
1980	29.1	24.2	12.5	13.4	-0.9	23.6	28.5	-4.9
1980–89	22.5	21.0	11.3	13.7	-2.4	24.7	26.3	-1.5
1993	24.5	15.7	15.6	18.5	-2.9	31.4	40.2	-8.8

Notes:

Year values are starting values (\* refers to 1972); period values are simple period means. Notation is evident: I/GDP, ratio of public sector investment to GDP; S/GDP, ratio of gross savings to investment; T/GDP, ratio of tax revenue to GDP; G/GDP, ratio of government spending to GDP; B/GDP ratio of public sector deficit to GDP (where deficit is total revenue less G); X and M are exports and imports respectively; and BoP is (X-M) as a share of GDP.

Source: *World Development Indicators 1997*, World Bank, CD-ROM.

accompanied by a declining investment rate to 25 per cent and a collapse of the savings rate to 16 per cent in 1993. The budget deficit rose slightly but did not go out of control and inflation was almost halved to eight per cent in 1992. Imports grew increasingly faster than exports generating a significant payments deficit of nine per cent of GDP in 1993.

It is not obviously apparent why the Philippines performed less well than its neighbours. Three features suggest themselves: no sustained savings growth to

support investment; no sustained export growth; and a degree of stagnation in industry (by 1993 industry's share of the economy had fallen to a third, while agriculture still accounted for over a fifth of activity). However, not evident in the data we review are the facts that inequality was relatively high in the Philippines (the ratio of the income share of the richest 20 per cent to the poorest 20 per cent was about 13 in the 1960s falling towards 10 by the late 1980s), land ownership was very unequal and key parts of agriculture were monopolised and highly inefficient, while labour and peasant groups had a very weak voice (Dohner and Haggard, 1994).

*e. Taiwan*

Like the Philippines, Taiwan had fairly high real growth of more than 40 per cent over the 1950s; unlike its neighbour, it increased these growth rates in subsequent decades. Industrialisation moved apace in the 1960s: agriculture accounted for about a third of the economy in 1960 but 18 per cent in 1970; industry's share grew from 25 per cent in 1960 to 35 per cent in 1970. The size of government was relatively high throughout 1950–70: public spending accounted for over 20 per cent of income; although tax accounted for only 14 per cent of GDP, non-tax revenues were considerable and the budget was virtually in balance. Savings and investment rates began relatively high, averaging about 14 per cent in the 1950s and exceeding 20 per cent by 1970, and savings rates generally exceeded investment rates. Exports were initially quite low, at eight per cent of GDP, and much less than imports, generating a payments deficit exceeding five per cent of GDP until the 1960s; exports grew quite rapidly to 26 per cent of GDP in 1970 when the deficit was eliminated. Inflation rates had been brought under control by the 1960s.

GDP growth was an impressive 86 per cent in the 1970s; agriculture's share of the economy had fallen to less than 10 per cent by 1980 while industry's grew rapidly to 45 per cent. Investment rates rose steadily to 31 per cent in 1980; savings rates remained slightly higher. Public spending increased to almost 30 per cent of GDP, but the budget deficit remained negligible; inflation increased in the 1970s but the annual average rate was held below 10 per cent. Exports grew rapidly from 26 to 38 per cent of GDP; imports kept pace and trade was generally in balance for the 1970s.

Rapid growth was sustained with real income rising by 68 per cent over the 1980s; the budget deficit did increase slightly to three per cent of GDP in 1987 (despite a reduction in government spending it appears that non-tax revenue fell by even more), but inflation was under control. The positive signs were that savings rates continued to rise, reaching 36 per cent of GDP in 1988, although less encouraging was the decline of investment rates to almost 20 per cent. Exports grew faster than imports to generate a significant payments

TABLE 6A  
Indicators of Performance: Taiwan

<i>Period</i>	<i>RGDP</i>	<i>I/RGDP</i>	<i>G/RGDP</i>	<i>Agriculture</i>	<i>Industry</i>	<i>Inflation</i>
1952*	\$1118	9.8	21.6	36.0	18.0	18.8
1952*-59	41.6	10.5	22.3	33.0	21.9	8.6
1960	\$1626	14.0	23.0	32.9	24.9	18.5
1960-69	55.3	16.3	21.0	26.8	28.8	4.9
1970	\$2729	21.9	19.6	18.0	34.5	3.6
1970-79	86.2	25.7	16.2	13.8	41.2	9.5
1980	\$5311	29.1	14.9	9.2	44.7	19.0
1980-89	68.3	23.8	14.4	7.7	45.1	4.6
1990	\$9303	23.1	14.8	6.1 <sup>#</sup>	46.2 <sup>#</sup>	1.3 <sup>#</sup>

Notes:

Year values are starting values (\* refers to 1951 for first three columns; # refers to 1988); period values are simple period means. Notation is evident: RGDPEA, real GDP per active member of population (year value as given, period value is average increase); I/RGDP, ratio of public sector investment to GDP; G/RGDP, ratio of government spending to GDP; figures for Agriculture and Industry are sector shares of GDP, and Inflation is measured as annual change in the CPI.

Source: RGDPEA, I/RGDP and G/RGDP from Summers and Heston (1991, updated); other data from *Taiwan Statistical Data Book 1989*, Taipei: Council for Economic Planning and Development, ROC.

TABLE 6B  
Indicators of Performance: Taiwan

<i>Period</i>	<i>I/GDP</i>	<i>S/GDP</i>	<i>T/GDP</i>	<i>G/GDP</i>	<i>B/GDP</i>	<i>X/GDP</i>	<i>M/GDP</i>	<i>BoP</i>
1952	11.3	15.3	13.7*	21.3*	-0.2*	8.5	14.7	-6.2
1950-59	13.2	14.4	13.5	22.4	0.1	8.3	13.3	-4.9
1960	16.6	17.8	11.6	22.5	-0.1	9.5	17.3	-7.7
1960-69	17.0	19.3	12.0	21.8	0.6	14.8	18.4	-3.6
1970	21.6	25.5	15.1	24.2	1.1	26.1	26.9	-0.8
1970-79	26.0	31.1	18.8	25.3	2.2	39.2	37.5	1.8
1980	30.6	32.2	18.9	29.1	0.3	47.8	47.7	0.1
1980-89	22.8	33.9	16.3	26.0	0.8	50.5	39.3	11.2
1988	20.8	35.8	16.5 <sup>#</sup>	24.3 <sup>#</sup>	3.3 <sup>#</sup>	51.9	42.7	9.2

Notes:

Year values are starting values; period values are simple period means (\* refers to 1954 and # refers to 1987). Notation is evident: I/GDP, ratio of public sector investment to GDP; S/GDP, ratio of gross savings to investment; T/GDP, ratio of tax revenue to GDP; G/GDP, ratio of government spending to GDP; B/GDP ratio of public sector deficit to GDP (where deficit is total revenue less G); X and M are exports and imports respectively; and BoP is (X-M)/GDP.

Source: *Taiwan Statistical Data Book 1989*, Taipei: Council for Economic Planning and Development, ROC.

surplus. Taiwan suggests evidence for savings-led investment, and industrialisation leading to export-led growth; as investment expanded production, exports were necessary to provide a market for the output. Although the budget deficit was kept under control, the level of government spending was relatively high.

*f. Thailand*

Of the countries under consideration, Thailand had the slowest growth in the 1950s (almost stagnant), but performed well in subsequent decades with almost 50 per cent growth over the 1960s. During the 1960s agriculture's share of the economy fell from 36 to 26 per cent, and industry's share grew slowly from 19 to 25 per cent. The size of government remained remarkably stable around 13 per cent. Savings rates averaged 19 per cent in the decade and had reached 21 per cent by 1970; investment rates were consistently a bit higher and reached 26 per cent

TABLE 7A  
Indicators of Performance: Thailand

<i>Period</i>	<i>RGDP</i>	<i>I/RGDP</i>	<i>G/RGDP</i>	<i>Agriculture</i>	<i>Industry</i>	<i>Inflation</i>
1950	\$1089	7.1	12.3			
1950–59	1.7	9.1	12.9			
1960	\$1221	11.3	12.3	36.4	18.5	
1960–69	48.1	15.8	12.5	32.2	22.2	
1970	\$1967	18.3	13.1	25.9	25.3	–5.0
1970–79	37.1	17.8	14.2	25.7	27.6	7.2
1980	\$2719	17.2	16.5	23.2	28.7	12.9
1980–89	43.3	17.6	17.4	17.9	32.0	5.2
1992	\$4277*	29.8	14.0	12.0	38.5	4.3

## Notes:

Year values are starting values (\* refers to 1990); period values are simple period means. Notation is evident: RGDP, real GDP per active member of population (year value as given, period value is average increase); I/RGDP, ratio of public sector investment to GDP; G/RGDP, ratio of government spending to GDP; figures for Agriculture and Industry are sector shares of GDP, and Inflation is measured as annual change in the Consumer Price Index.

Source: RGDP, I/RGDP and G/RGDP from Summers and Heston (1991, updated); other data from *World Development Indicators 1997*, World Bank, CD-ROM.

TABLE 7B  
Indicators of Performance: Thailand

<i>Period</i>	<i>I/GDP</i>	<i>S/GDP</i>	<i>T/GDP</i>	<i>G/GDP</i>	<i>B/GDP</i>	<i>X/GDP</i>	<i>M/GDP</i>	<i>BoP</i>
1960	15.4	14.1				15.7	17.0	–1.3
1960–69	20.5	18.7				16.3	18.2	–1.9
1970	25.6	21.2	11.1*	16.6*	–5.6*	15.0	19.4	–4.4
1970–79	25.8	22.3	11.4	15.5	–4.0	19.0	22.6	–3.6
1980	29.1	22.9	13.2	18.9	–5.7	24.1	30.4	–6.3
1980–89	29.4	26.5	13.9	18.4	–4.5	25.9	28.8	–3.0
1993	39.9	35.7	16.2	16.0	0.2	34.0	41.5	–7.5

## Notes:

Year values are starting values (\* refers to 1972); period values are simple period means. Notation is evident: I/GDP, ratio of public sector investment to GDP; S/GDP, ratio of gross savings to investment; T/GDP, ratio of tax revenue to GDP; G/GDP, ratio of government spending to GDP; B/GDP ratio of public sector deficit to GDP (where deficit is total revenue less G); X and M are exports and imports respectively; and BoP is (X–M) as a share of GDP.

Source: *World Development Indicators 1997*, World Bank, CD-ROM.

cent. Exports failed to grow and stay beyond 16 per cent of GDP while imports rose slowly to 19 per cent; the payments deficit trebled to four per cent of GDP in 1970.

Real GDP growth slipped to 37 per cent over the 1970s; agriculture's share of the economy fell gradually to 23 per cent by 1980 and industry's grew to 29 per cent. The savings rate grew slightly to 23 per cent of income in 1980, while the investment rate also edged up to 29 per cent, maintaining the savings-investment gap. The size of the public sector increased to almost 20 per cent, but the tax/GDP ratio remained below 13 per cent so there was a persistent budget deficit of around five per cent of GDP. Exports grew to a quarter of GDP but import growth was faster and the payments deficit increased to six per cent of GDP in 1980. Inflation also rose rapidly and reached 13 per cent per annum by the end of the decade.

Performance improved somewhat in the 1980s, with real income growth of 43 per cent over the decade. The budget deficit persisted throughout the decade but increased tax revenue and reduced spending had eliminated the deficit by 1993, whence inflation appeared to have stabilised around 4–5 per cent. The positive signs were that savings rates continued to rise, reaching 36 per cent of GDP in 1993, while investment rates rose to 40 per cent. Exports grew quickly to 34 per cent of GDP in 1993 but by then imports had reached 42 per cent and the payments deficit increased to almost eight per cent of GDP in 1993. Thailand's performance looked rather fragile: steady savings growth but faster investment growth implying a persistent investment-savings gap; import growth exceeding export growth, increasing the payments gap; a persistent budget deficit and inflation threats, only controlled by the 1990s (following adoption of a SAP). No suggestion of a miracle here.

#### *g. Comparisons and Lessons*

Burgess and Stern (1993) show that the average Tax/GDP ratio in the late 1980s for developing countries with per capita incomes comparable to the Asian economies under review was 18 per cent. Of our cases, only Malaysia exceeded this and Indonesia was near to it; Korea and Taiwan, the best performers, were slightly below the average; Thailand and the Philippines, the worst performers, were furthest below this figure. An implication is that the 'tax extraction' from the economy in these countries is relatively low: governments may intervene by dictat and regulation, but they do not cause high distortions through the tax system. On the other hand, a level of revenue is needed to finance public spending, especially investment. Furthermore, the tax base is relevant: the Philippines would have had the least diversified economy of the cases, hence the tax incidence on specific sectors could be high; the faster growing and more diversified economies can spread the tax burden more evenly.

Korea and Taiwan were the strongest performers of the six we considered. Both suggest fairly consistent fiscal and monetary control, and rapid industrialisation; we know that agricultural productivity was also high in both (Hayami, 1997). In Taiwan, growth started quickly and it appears that high savings financed investment which led to increased output; continued high savings implies relatively low consumption so exports must rise, which then supports increased imports. Taiwan has the features of an economic dynamo. Korea is slightly different and growth took more time to establish: a desire for (policy of) high investment required increasing savings rates, which was achieved; import needs, of raw materials and initially of capital goods, required foreign exchange so export growth was promoted. Korea does resemble a case of planned growth, savings and exports followed investment and imports.

Indonesia and Malaysia performed well, but less consistently, in terms of growth. They started from very different positions. Malaysia looks like a classic case of export-led growth: well endowed with natural resources, Malaysia began relatively rich with high levels of exports; export revenues increased, permitting capital imports and increasing incomes; high savings then supported high investment. The principal government intervention was to use the investments to diversify the economic, and export, base, and fiscal restraint was not always in evidence. Indonesia was less well endowed, with the exception of oil: export growth was moderate, but import growth was restrained; savings were increased and used to fund investment (but so too was excessive borrowing), while fiscal restraint was evident. Again, this is a case where government seems to have guided growth, by putting in place policies conducive to growth (and by underwriting debt).

Thailand and the Philippines had the weakest overall performance, but again were quite different. Thailand shows many of the symptoms of unstable or unsustainable growth: investment rates consistently higher than savings rates; imports growing faster than exports so the deficit increases; weak budgetary management and inflationary dangers. Arguably, it was only after adopting IMF and Bank conditionality in the 1980s that Thailand established the basis, notably macroeconomic stability for sustainable growth. The Philippines began relatively industrialised with relatively high growth and then lost it: savings rates were not increased to meet investment needs, and collapsed; export growth was slow and the payments deficit tended to increase; fiscal policy was not careless but inflationary pressures loomed. The problem here seems to have been a clear failure of government policy, or implementation of unfavourable policies: underlying the Philippines' economic failure is the stagnation of agriculture and industry.

Our comparison of six countries reveals the difficulties and dangers of generalisation. The clearest failure, the Philippines, had neither the SAP nor HPAE policies identified in Section 2; the weakest success, Thailand, appeared to

need SAP policies. Indonesia and Malaysia did not squander, and actually managed effectively, the benefits of their natural resources; there was clearly intervention, but there were also elements of SAPs. The root of Taiwan's success seems to be a high savings rate; the role of policy was to sustain savings and ensure an outlet, via investment for export. Korea's case was rather different, and there is a strong suggestion that despite initial low levels of saving and resource endowments, policy helped engineer growth. The only truly common feature of the successful economies is that their governments implemented effective, if different (or perhaps tailored), policies which usually supported, and rarely discouraged, enterprise and growth. For this reason, one should consider politics and the formulation of policies.

#### 4. POLITICS AND POLICY

How did political and institutional factors contribute to the efficacy of the economic strategy? There are winners and losers from any economic strategy; the ability of these groups to convey their preferences (for or against a policy) to the government will have an impact on political commitment to (sustaining) the policy. Commitment will be related to political capacity, the ability of the government to translate preferences into policy proposals, facilitated by its ability to mobilise support for policy (a coalition of winners) and to withstand, circumvent or compensate the opposition (Frey and Eichenberger, 1994; Haggard et al., 1995; and Morrissey, 1998). Commitment, and the capacity to create it, is not enough: the policies must be implemented, which will depend on institutional, especially administrative, capacity (Morrissey, 1998). The general 'elements' of success outlined in Section 2 included that of political stability and credibility.

One could argue that East Asian regimes have tended to be authoritarian rather than democratic, but this is subjective and not generally enlightening. It is less contentious to argue that East Asian regimes are less authoritarian and more democratic now than they were in earlier decades; while the degree of authoritarianism varies from country to country, this general trend is held in common (Indonesia is perhaps the exception). For economic success, the issue is what encourages authoritarian regimes to choose those policies which are conducive to growth; it helps if specific self-interested groups do not dominate policy (Olson, 1990), but the important feature seems to be that the government associates State success with performance of the economy. A striking feature is that as a result of success in the growth process (and fairly wide sharing of the benefits), East Asian governments have been increasingly able to substitute legitimacy for authority in implementing their economic (and other) policies. In Taiwan at least, this was the result of conscious intent.

Vartiainen (1996) argues that the external military threat faced by Korea and Taiwan was an important factor motivating the government to achieve economic success, which contributed to the efficiency of State-led economic policy. This is not to suggest that the presence of an external threat encourages growth-oriented policies; North Korea and Cuba are cases in point. Rather, a proclivity for growth combined with the external threat may encourage a more open, outward-oriented economic policy. One should not completely discount the influences associated with the role of the US as an ally of these regimes. The regimes in Indonesia and Malaysia were different in this respect: a strong sense of nationalism seems to have motivated the attainment of growth, and both countries have adopted a more overtly independent political (if not economic) stance. The Philippines and Thailand may have lacked similar motivation.

These observations can be related to the application of the principle of shared growth. Governments benefit from growth and staying in power; enterprise benefits from government support, such as directed credit, and 'pays' by focusing on specific markets (often export) and awarding favourable employment contracts; labour benefits from secure employment but offers wage restraint and productivity growth. This is an Asian version of the European social contract. All countries that have attempted such social co-operation have found that while growth is sustained the sharing can be maintained. However, once growth slows the incentive to 'cheat' on the deal is heightened and it is more difficult to maintain the contact; this is evident in Germany and Sweden, proponents of the European model, and in Korea, at least, of the HPAEs.

The manner in which the principle of shared growth was adopted varied in the HPAEs. In Hong Kong and Singapore the foundation was high levels of public goods provision, in Japan it was worker security, in Malaysia it was positive discrimination in favour of ethnic Malays, and public investment. Korea and Taiwan used land reform, and Indonesia used subsidies, to improve rural welfare, but all three showed various degrees of repression rather than sharing in dealing with labour. To differing degrees, the regimes in the HPAEs restricted the groups with which growth was shared; our point is that all emphasised growth and chose low tax interventions in 'extracting' rents (we saw in Section 3 that all had quite low tax/GDP ratios even when incomes had risen considerably). At one extreme, perhaps, was Hong Kong with very low taxes and benefits shared quite widely; at the other, Indonesia where rent seeking may have been relatively high but the benefits were only shared with a relatively small group, which would be on the verge of a case where government rent-seeking and distortions actually reduce growth. The Philippines was also a case of sharing with a small group, as Marcos exhibited strong favouritism which gave rise to a greedy elite (Dohner and Haggard, 1994), but here there was little equity, probably a short time horizon (as the regime may have lacked confidence in its ability to hold power as the 1980s progressed) and slow, or negative, growth.

A number of political considerations will influence governments in determining which policies to adopt (Morrissey, 1998). Foremost of these, a government has to want to implement the policies in question. It may reach this decision because it believes that it is the best thing for the economy and for the regime. Some governments tend to represent particular interests, be they political (such as particular tribes or classes) or economic (such as landowners); Marcos' Philippines may be an example. Such regimes are unlikely to embrace policies that weaken their vested interests or lose them rents. Other regimes are technocratic in nature; while vested interests exist they are at least balanced by a desire to maximise the performance of the economy, and the latter is guided by technical arguments (emphasising management and economic efficiency); economies such as South Korea and Thailand seem to fit into this group. Indonesia and Taiwan are difficult to classify as they exhibit features of both types: governments serving their own interests and with significant corruption, yet policies conducive to growth and relatively low inequality.

A special feature of the Southeast Asian economies is that they maintained strict and stable macroeconomic policies but with widespread government intervention in the operation of markets, including protection and regulation (these regimes did not fully adopt the liberalisation element of SAPs). Rodrik (1996) suggests a number of reasons why South Korea and Taiwan were able to maintain microeconomic distortions without allowing rent-seeking to emerge and constrain economic performance. The regimes had strong and technocratic governments and, perhaps more importantly, initially had relatively high levels of human capital and a relatively equitable distribution of income. Taken together, this permitted them to design, adopt and implement policies that focused on improving economic performance, and there was less pressure on governments to serve vested interests. Similar reasoning helps explain why other HPAEs adopted beneficial policies.

All commentators are agreed that politics is important. At one extreme, even if economic factors are sufficient to explain performance (so that there is no miracle), there remains the question of why a particular regime chose and was able to get those factors in place. For example, as argued in Rodrik (1995) and suggested in Section 3 above, savings rates may be sufficient to explain performance in the East Asian economies; we still cannot explain how and why the regimes, in their different ways, attained those savings rates and the other policies to translate them into growth. In this section we have highlighted some of the relevant factors. On a more general level, decisions made by governments regarding policies to support growth (savings and macroeconomic management), policies to extract rents (taxes and regulations) and policies to distribute the gains from growth (which may be sharing, and may involve sectoral policies and microeconomic distortions) clearly affect long-run economic performance. There remains much to be discovered about the nature of this relationship between politics and growth.

## 5. CONCLUSIONS

We have suggested that the economic factors that would be identified by endogenous growth theory (physical and human capital accumulation; technology-led productivity growth) are probably sufficient to explain the high-growth economic performance of the HPAEs. Nevertheless, there has been significant public intervention, both in choosing and implementing appropriate policies but also through sectoral interventions and microeconomic distortions. If one believes government success is impossible, then there has indeed been a miracle. If, however, one believes that the combination of strong institutions, political will and a concept of a social contract can provide a basis for growth with equity, then the performance of the HPAEs is no more than a pleasant surprise, the surprise being not that the combination of factors lead to growth with equity but that a number of governments were able to combine these factors and maintain it for a few decades. There is a tendency for relative equity to precede growth with equity. The message here may be that a relatively low degree of income inequality reveals a regime committed to sharing the benefits of growth; the regime then, of course, has to select growth-promoting policies (in this respect, it will be interesting to follow developments in China over the next decade).

Our comparison of six countries reveals the difficulties and dangers of generalisation. Indonesia and Malaysia were both cases of export-led growth, especially the latter, which utilised the benefits of their natural resources; both exhibited sharing, but of different forms — Malaysia shared through positive discrimination to favour Malays, while Indonesia maintained a degree of income equality, but could not be considered labour-friendly. The root of Taiwan's success seems to have been a high savings rate; the role of policy was to sustain savings and ensure an outlet, via investment for export. Korea's case was rather different, and there is a strong suggestion that despite initial low levels of saving and resource endowments, policy helped engineer growth. The only truly common feature of the successful economies is that their governments implemented policies which usually supported growth and sharing, and that tax extraction from the economy was relatively low (consistent with sharing and with a pro-growth outlook).

The experiences with economic policy of the major East Asian economies over the last decade or so yield much that can be of benefit to other economies attempting reforms in the future. Macroeconomic stability is a prerequisite; Thailand and the Philippines were the weakest performers of those we examined, and both experienced macro instability. In fact, the Philippines deteriorated during the 1980s as macroeconomic imbalances went out of control, whereas Thailand was more effective in following IMF/Bank advice to stabilise the economy. The crisis in many HPAE economies since the mid-1990s can be

largely attributed to macroeconomic instability, induced by overvalued exchange rates and unsustainable corporate debt.

There remains considerable debate regarding the appropriate role of government, but no reasonable person could argue against the evidence that government policies were used and contributed to growth (we can note also that government policy is essential to support a fair distribution of income, and relative equity seems to contribute to growth). The point about these economies is not whether there were microeconomic distortions, as obviously there were. The issue is whether we know enough about how these distortions interacted with everything else to affect overall growth performance, and the answer would have to be no. It does, however, seem clear that macroeconomic stability, political factors (such as credibility and legitimacy), and possibly financial policies have had demonstrable growth-inducing (and sustaining) effects. Regarding microeconomic interventions, there is no convincing evidence that they have had significant positive or negative effects on performance. One plausible interpretation, given the prerequisite for political will and ability to achieve the macroeconomic stability to support growth-oriented policies, is that microeconomic interventions can be used effectively to support sharing of the gains from growth.

Our consideration of political aspects of policy formulation offers the superficially trite conclusion that governments which perceive sustained growth as beneficial to them will be the most likely to attempt policies supportive of growth. The more fundamental point is that governments have to derive a benefit from growth, notably remaining in power to enjoy political rents for longer, have to see a trade-off between extracting rents and growth, and should have the political confidence or security to exhibit a long time horizon. The HPAEs appeared to share these political features, in addition to a policy-making capacity, so that they could determine how to intervene in the economy to support enterprise and growth (they would not always succeed, but often the costs of failure were not high).

If they can, governments will implement the policies they want. If they want economic growth, and have policy-making capacity, they can select beneficial policies (at least on average). If savings rates are high, they can choose how to invest and find foreign markets for surplus production (Taiwan, Malaysia, Indonesia); alternatively, governments can invest and try to increase savings rates over time (Korea, to a lesser extent Thailand and, less successfully, the Philippines). If a country has natural resources, a pro-growth government will use them sensibly (Malaysia and Indonesia); if the country is natural resource-deficient, more active development intervention and planning is required (Korea and Taiwan). The basics of appropriate economic strategies are known; it takes a willing government to adopt them. Most important, perhaps, a government requires policy-making capacity to decide and implement its own policies.

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