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The Results and Problems with Historical Development in East Asia

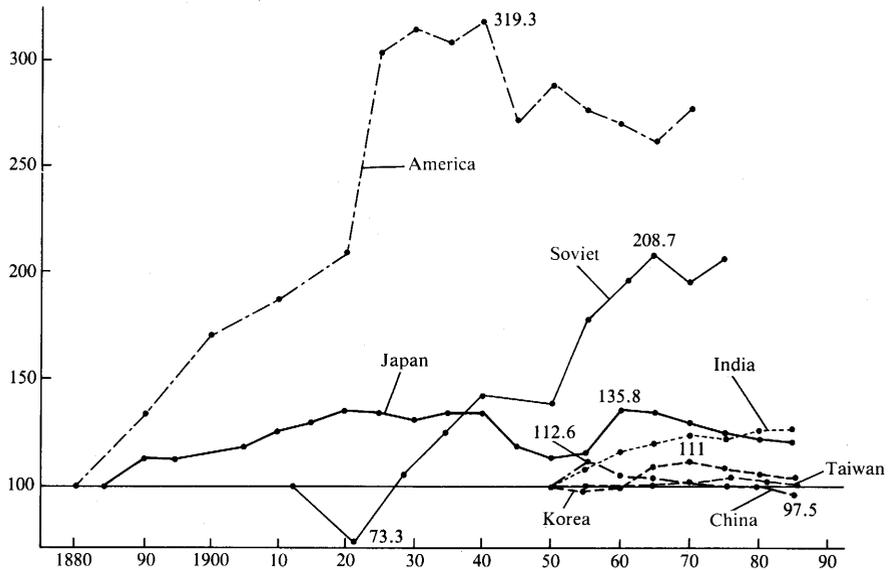
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The industrialization of mankind began at the end of the 18th century in England. In the early 19th century, the tide spread to continental Europe, and it also took off in America during the mid-century. Later in the century, Czarist Russia and Japan entered stages of industrial revolution. This means that four industrializing surges occurred by the end of the 19th century. In the time after this revolutionary period, some movements toward modernization happened in some countries. The magnitude of those movements, however, had a much smaller impact than the big wave that rushed in new independent Asian countries after the Second World War. The existing conditions that governed those Asian countries in the face of this move were utterly different from those of the countries that managed to accomplish the main four industrialization movements.

In the first place, colonies contributed much economically to the capital accumulation of the countries that underwent the first four industrializing waves. On the other hand, the modernization of those Asian countries had to go on without any colonies.

Second, the speed of the population increase was quite different. The population of those countries that accomplished economic growth by the end of the 19th century increased by about 1.5% per annum. For the Asian countries, however, it was 2.5%. With a 1.5% increase rate, the population of a country having 100 million people becomes 156.3 million in thirty years. In the same 30-year span, a 2.5% increase more than doubles the original population, to 210 million. This fact suggests that they had to clear the additional hurdle of a stable food supply, and its sufficient storage, in order to feed their people.

Figure 1. Changes of Cultivated Acreage in East Asia



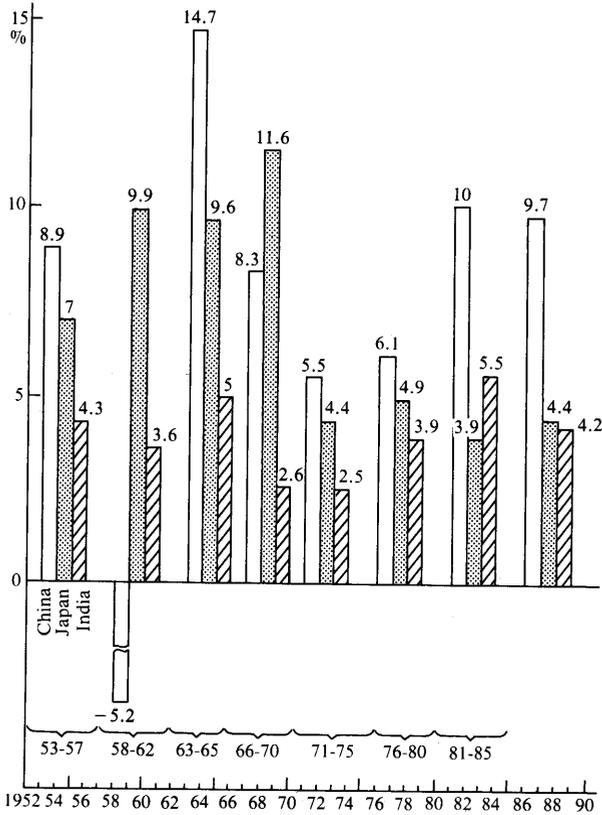
Source: The author's article in *Guidance to Modern Chinese Study*, by Iwanami Publishing Co. 1990, p. 376.

Third, since the level of Asian ancient civilization was high and their inlands had already been exploited, there was little frontier land left for cultivation. Figure 1 shows the changing cultivated acreage after those countries set off on economic growth. With America, the acreage increased 3.5 times by 1940. With Russia, it was 2.1 times more. On the contrary, China already hit a peak in 1957, and lost as much as 8% by 1978.

Fourth, along with the anti-colonialism movements of those Asian countries, such struggle toward independence naturally contributed to expediting the speed of democratization in those countries. While building their economy, they had to introduce social welfare systems into their societies from the very early stage of economic taking-off. When you think of the fact that there was no country except England that introduced social welfare before 1950, it is clear that the earlier introduction of a welfare system was not an advantage in view of capital accumulation.

The fifth global industrialization surge occurred in Asian countries, which accounted for 60% of the world population. Especially in the area of East Asia, remarkable results have been accomplished over the past 30 years. Looking into the developments closely will reveal the different developmental strategies of those countries.

Figure 2. Real GNP Growth Rate of China, Japan, and India



Source: Same as Fig. 1, p. 373.

I. Two Different Developmental Strategies

Please refer to Figure 2 and check the speed of economic growth that those East Asian countries have achieved. China, which belongs to the same East Asia but with a rather slow growth speed, India, which represents the whole third world, and Japan, which has achieved the highest growth among advanced nations, are selected for a comparative study of the economic growth of East Asia.

The economic growth rates of developing countries are roughly classified as follows:

- economy of low growth..... 0-4%
- economy of normal growth..... 4-7%

economy of high growth..... 7–9%
 economy of super-high growth..... more than 10%

For your information, Japan achieved an annual GNP growth rate of 10.6% during the 15 years in the period of 1957 through 1973, when the first oil crisis occurred.

The annual average rate for Korea was 8.6% during the 19 years from 1970 through 1989. It was 9.1% during the 30 years from 1960 through 1989 for Taiwan. It was 7.2% during the 19 years from 1969 through 1987 for Hong Kong. China had 6.9% in the 36 years from 1953 through 1988. India had 2.5–4.5% growth. The speed of Russia and East Europe slowed down in the latter half of 1960, and the rate was moving between 2–4%. As compared with the rather lower growth rates of Russia and East Europe, China achieved an annual 5.8% with respect to genuine domestic production, even in the period of political strife of 1966–76 (Cultural Revolution), when their economic growth slowed down.

Those countries in East Asia that achieved high economic growth adopted developmental strategies that we might call unique from the standpoint of the experience we had with our past history. We shall call mainland China and North Korea the first group countries. In both countries, they closed the market economy and adopted a method of distributing resources through their centralized administration. The second group includes Hong Kong, Korea, and Taiwan. In this group, Hong Kong ranks at the top as far as a complete market economy is concerned. Then come Taiwan and Korea. Both followed part of Hong Kong's strategy and based their economy on the market economy principle, while a strong intervention into the market was still being maintained by the governments.

1. Features of the Developmental Strategies of Group One

(1) The Policy of Economic Independence

The concept underlying this developmental strategy was rooted in their fears of being ruled economically again by capitalist countries, including America, as a central force. In fact, it reflected their determination of building up a solid national economy that would eventually keep their countries free of such rule. "Formation of an independent national economy" was used to express this concept. Practical measures were taken to acquire capital, technology, markets, and staff personnel, all inside their own countries. The policy stipulated that besides basic food and main end consumer products, such capital goods as basic raw materials, fuel, intermediate goods, and manufacturing equipment should all be produced inside their countries as soon as possible. A policy giving priority to the development of intermediate goods and manufacturing equipment was adopted.

In the background of all this, we can point out three reasons. One reason stemmed from their experiences of having been ruled by Japanese imperialism. In their minds, there existed a strong wish not to let their countries be ruled again.

The second reason is the fact that their geographical positions happened to be in the forefront when America and Russia confronted each other at the time of

the Yalta agreement and in the period after that. At that time America and Russia were fighting a war by proxy, and the battlefield — the Korean peninsula — was divided. Mainland China had been contained by America until 1972. Taiwan was raised as an anti-communism defense front line for America. All such circumstances were there in the face of these countries looking to construct their economies while maintaining their independence.

The third reason is related to the policy introduced by Stalin in 1928 that gave the highest priority to promoting heavy industries. The historical outcomes of this policy had a tremendous impact on both countries. What added to this impact was Russia's success in its resistance against German fascism and also the remarkable economic accomplishments that were materializing by 1940. In other words, the fruits that the policy brought about made both countries keenly aware of the necessity to replace fuel, intermediate goods, and manufacturing equipment that were imported with the same products made at home.

(2) Self-Sufficiency Policy for Food

It was hardly possible for North Korea to support its people with the food it could produce domestically as a colony of Japan. Though the agricultural regions in the south were indispensable sources of food supply, the county was divided and they were deprived of these regions. This caused a shift in their policy, and the emphasis was now placed on nurturing regions that had not been used to supply any food in the past and on turning them into a food supply depot.

Mainland China used to be an agricultural country. However, it could not produce enough provisions to feed its people living in cities along the sea, and it remained a country that was solely dependent on food imports during the period prior to liberation. It was estimated that about 60% of the population in farming villages was on the verge of starvation. It was of utmost importance to free the poor as well as the increasing population from starving.

(3) Protection Policy for the People Living in Urban Areas

Both countries introduced Stalin's heavy industry preference policy, and at the same time, Russia's considerate welfare policy for people living in urban areas. What impressed both countries about Russia's welfare included their education, medicine, pension, cheap food, public services, and housing services, with incredibly low house rents (a monthly rent was cheaper than the price of a package of China's luxury cigarettes). Though only limited to the residents in urban areas, the protection was far more expansive and considerate than that of current advanced capitalist countries.

(4) Foreign Economic Policies

Loans from foreign countries were actively introduced within the scope that such would not hurt their national independence and dignity in the judgement of leaders. China was given a loan that comprised about 3% of its total revenue for its

first five-year project planned for 1953 – 57. North Korea received loans from both China and Russia until the 1970s. China was not able to receive loans from Russia in 1960 and thereafter.

Furthermore, they could not receive any financial support from any governments or civil circles of advanced nations because of America's policies toward Asia. The policy taken by America was to contain both China and North Korea. Though some changes in American policies were seen with China, the same policy is still maintained today toward North Korea.

To compensate for the shortage of funds, China strove for a goal of self-sufficiency and North Korea emphasized an individual philosophy. Both called upon their people and mobilized their forces to achieve their goals.

2. The Developmental Strategies of Group Two

The developmental strategies of the second group were uniquely different from the first group with the points (1), (3), and (4) explained previously. Korea and Taiwan already had strong agricultural backgrounds. Therefore the self-sufficiency policy for food was not so strongly promoted, though that was not the case with Hong Kong. Even with Korea, which had a rather smaller agricultural production than Taiwan, they could supply themselves basic food without taking pains to arrange for funds or working forces.

(1) Thoroughgoing Policy for Raising Export Industries

In the study of their light industries, which expected to have strong overseas demands, they adopted a policy to raise a number of them to be export-oriented industries. Products selected were mainly end-consumer goods.

In Taiwan the Investment Promotional Pact was decreed in August 1960. It opened a way for introducing funds from overseas sources. They established a bonded processing system in 1962 and export processing zones in 1965. Korea enacted an act for promoting foreign fund introduction in 1960, regulations on a setup for Masan export processing zones in 1963, and other various promotional laws to encourage the growth of key industries, especially those producing export items. In both countries, institutional frameworks were almost completed for the promotion of export industries by the middle of 1960.

The establishment of export processing zones in Taiwan was much influenced by the Hong Kong system, and also by a rapid export increase of Japanese light-industry products in the first half of 1960. Under the Hong Kong system, intermediate goods, machines, equipment, and others were imported free of duties, which strengthened the competitiveness of Hong Kong's light-industry products. Taiwan noticed an advantage of this system, and it sharply increased exports of electronic products, with which Japan was so successful. They especially noted electronic products, which had strong as well as elastic overseas demands, and they decided to encourage the growth of such industries in export processing zones.

With the establishment of the free processing zones, they tried to get the industries in the zones shut off from the domestic economy to some extent. This way, in conjunction with the inexpensive labor costs, they aimed to enhance the competitiveness of those export industries.

This system was also introduced in Korea. As both Taiwan and Korea had achieved considerable success and accumulated capital and technology by exporting end-consumer products, they started shifting the direction toward replacing the imports of intermediate goods, machinery, and equipment with products they would make internally.

This developmental process was quite contrary to the routes China and North Korea had taken. It was unique in that the developments proceeded by starting with end-consumer products (downstream) and then gradually moved upstream through the industrial stratum.

(2) Dependency on Advanced Nations

As described in the foregoing section, both Korea and Taiwan were placed at the forefront under the Yalta system and became targets that America wished to raise as its defense zones against China and North Korea. Both countries took full advantage of this international situation and succeeded in drawing enormous financial support from America. Take Taiwan for example. Its population in 1950 was 8 million. To a country with such a small population, support of about a hundred million dollars every year (equivalent to 12.5 dollars per head) was given for 15 years, until 1964. The population of China was 6 hundred million in 1953. They would have received 7.5 billion dollars every year if given the same support. Foreign fund savings occupied a considerably larger part of the total saving rates of the Korean national economy. In their first five-year project covering the period of 1962 through 1966, 8.8% out of the total saving rate of 15.1% was the saving by foreign sources. In 1967 through 1971, it was 12.9% of a total of 26.4%.

This fact presents a clear contrast to the situation of China and North Korea. Both had to increase savings mainly by using internal funds.

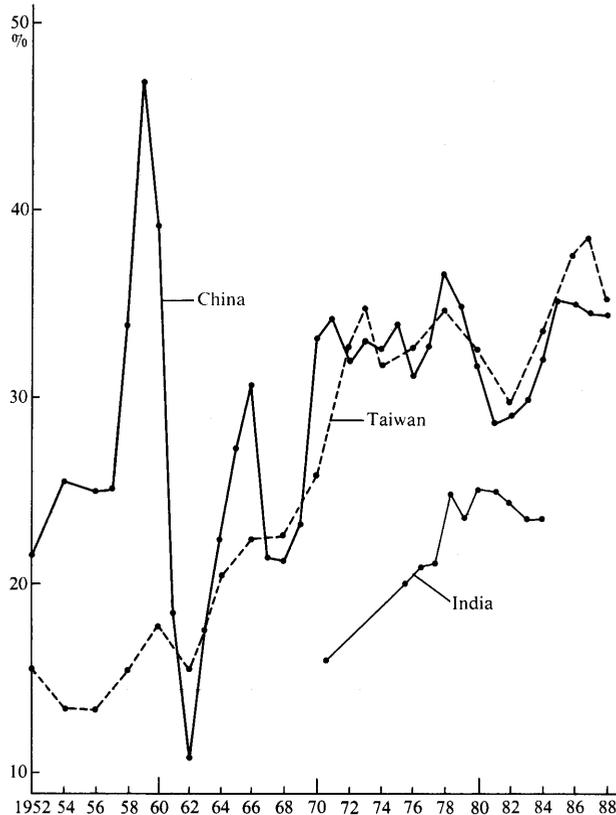
(3) Delay in Introducing Social Welfare

There were hardly any social welfare policies until the 1970s in Hong Kong. For both Taiwan and Korea, it was in the 1970s that they started working on social welfare policies. This fact also made a clear contrast against the first group countries.

II. The Accomplishments of East Asian Countries Over the Past 30 – 40 Years

Though different developmental strategies were employed by the countries of these two groups, their accomplishments had some similarities to the results of the third world countries, Russia, or East Europe countries. One important thing

Figure 3. Realization of High Savings Rates



Source: Same as Fig. 1, p. 373.

in common was that they were able to achieve continuous high growth. Now let us view these accomplishments in different perspectives:

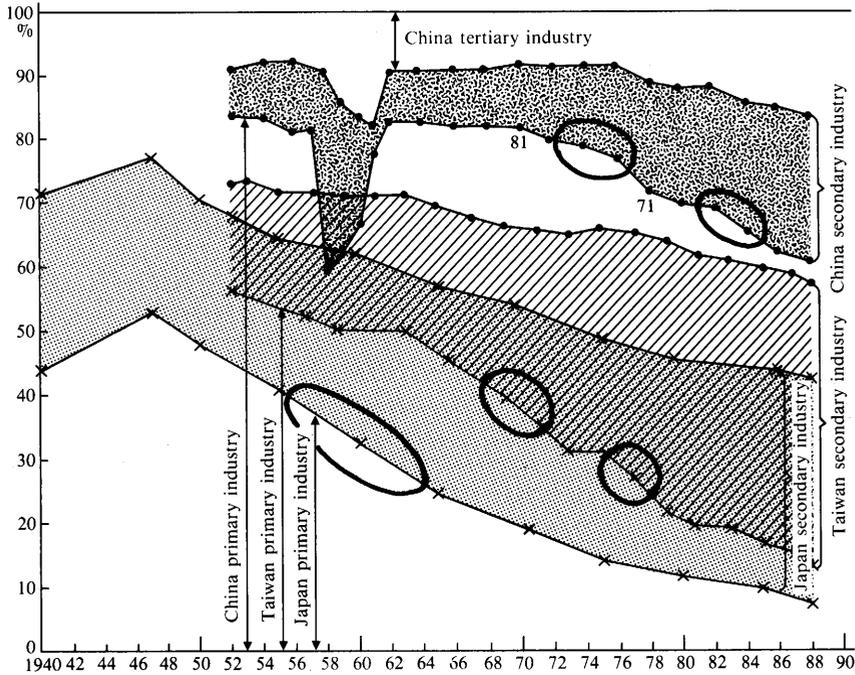
(1) Realization of High Savings Rates

When any country starts its economic growth, desirable saving rates are 25–30% to GNP. More than 30% were realized in East Asian countries, as shown in Figure 3. The first-group already achieved 30% in 1950 and the second-group reached 20% in early 1960, and soon later it went as high as 30%. India, on the other hand, finally got to 20% in late 1970.

(2) The Industrial Structure that Developed to an Advanced Stage

Figure 4 shows a highly advanced stage of the industrial structure. Drastic

Figure 4-1. Changes of the Industrial Structure of Japan, China and Taiwan



Source: Same as Fig. 1, p. 370.

Note: ○ indicates a traditional point when a sudden structural change occurred.

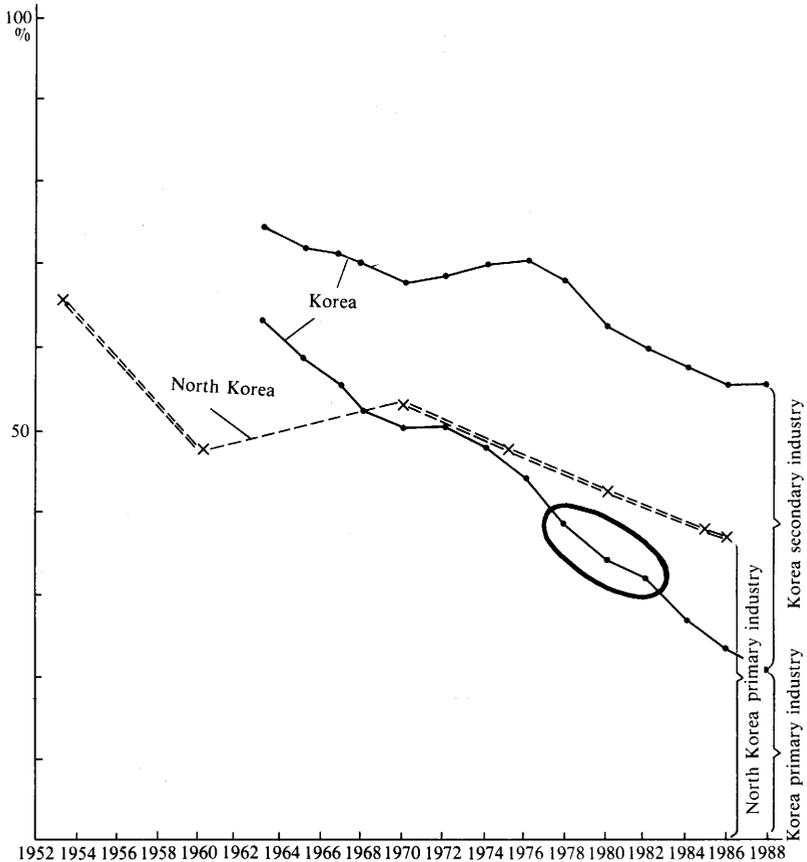
changes in the industrial structure occurred in Japan in early 1950, in Taiwan, Korea, and North Korea in 1960, and in China in early 1970. It is clear that the secondary industry became a driving force to bring about this change.

(3) Better Living Standards

We will look into details by using three different indexes.

(i) Longer life span: As shown in Figure 5, the average life span is about 70 years in Korea, 74 in Taiwan, 76.5 in Hong Kong, and 70 in China. For North Korea it is not known, but it is expected to be well above 70. In the worst situation in China, right after the end of the World War II, the estimated life span was only 30 years. In the same period the figures for other countries would be around 40 years. It is estimated that since the Second World War, the average life span became longer by one year yearly for China, and by 0.8 years for other countries. This rapid extension of life span has never been experienced in the past in the world economic history.

Figure 4-2. Changes in the Industrial Structure of Korea and North Korea

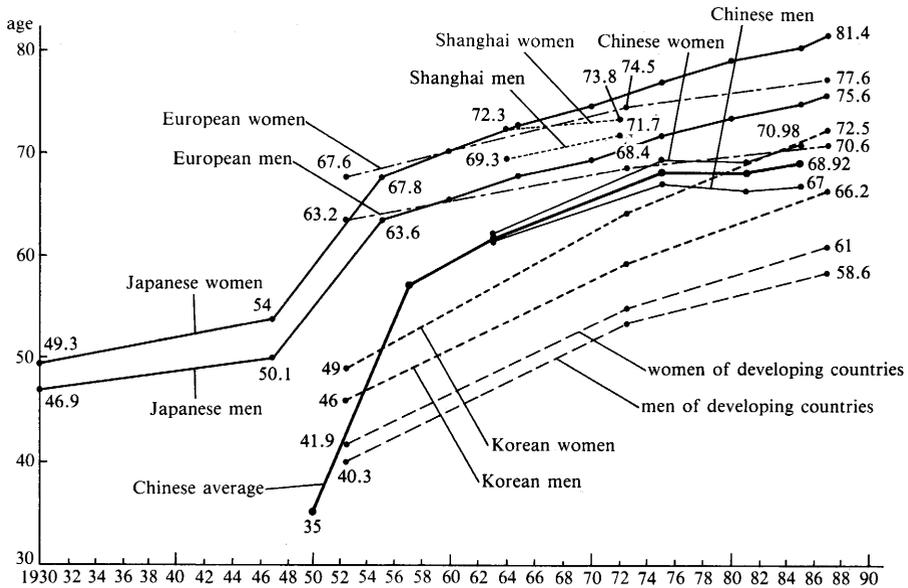


Source: Korea — *Main Economic Indexes* by the Statistical Research Bureau of the Economic Planning Agency, 1980 edition, pp. 18–19; 1990 edition pp. 20–23. North Korea — *Guidance to Modern Korean Economy*, by Koh Syokho, 1953, 60, 1989 edition, p. 102. *Asian Trend* by Komaki thesis, 1970, 86, 1989 edition, p. 104.

Note: ○ indicates a traditional point when a sudden structural change occurred.

(ii) Widespread education: As shown in Figure 6, the spread of education was remarkable with the exception of China. Though the information on North Korea is not available, their level would have reached that of Korea. Though the illiteracy rate in China was around 90% as of 1950, the spread of education was achieved with a surprising speed to the level of secondary education. Their higher education, however, still remains at the lowest level in the third world. This situation

Figure 5. Average Life Span in China and Korea



Source: Same as Fig. 1, p. 367.

might be attributable to the economy, which still cannot afford enough support for education.

(iii) Popularization of durable consumer goods: TV is an item that represents this category. Take a look at the change of the way of living by referring to Figure 7. In Korea, Taiwan, and Hong Kong, it was in early 1970 that such commodities started spreading. Ten years later, in early 1980, China entered a phase of mass consumption. It is estimated that in North Korea the same move will start in 1990. The decade after 1990 and thereafter will see the whole of East Asia grow into mass-consumption societies like Japan.

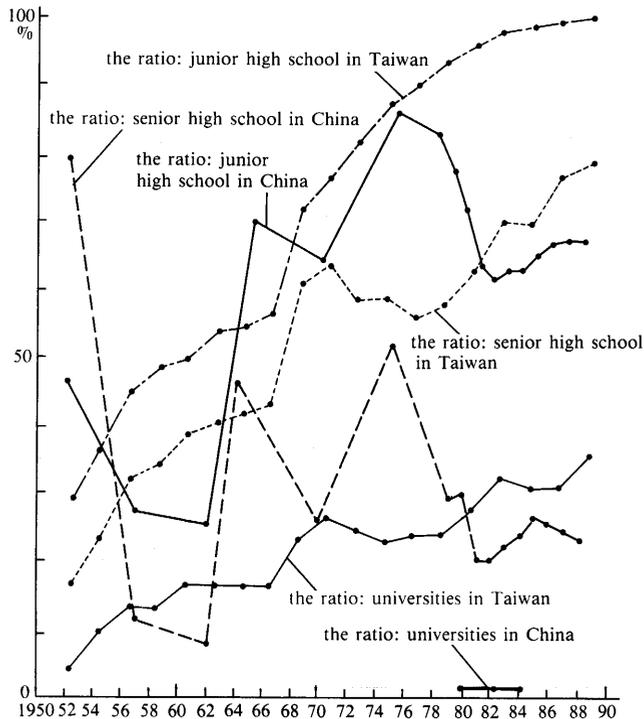
III. The Problems that Remain Unsolved with Those Two Developmental Strategies

1. Unsolved Problems for Group One

(1) Lower Incomes in Comparison with Group Two

Figure 8 shows the GNP per head of East Asia. The GNP of China is extremely low. Next comes North Korea. It is about 330 dollars for China (1988) and 1000–1200 dollars for North Korea. A standard exchange rate is used for con-

Figure 6-1. The Ratio of Students Going to School in China and Taiwan



Source: Same as Fig. 1, p. 380.

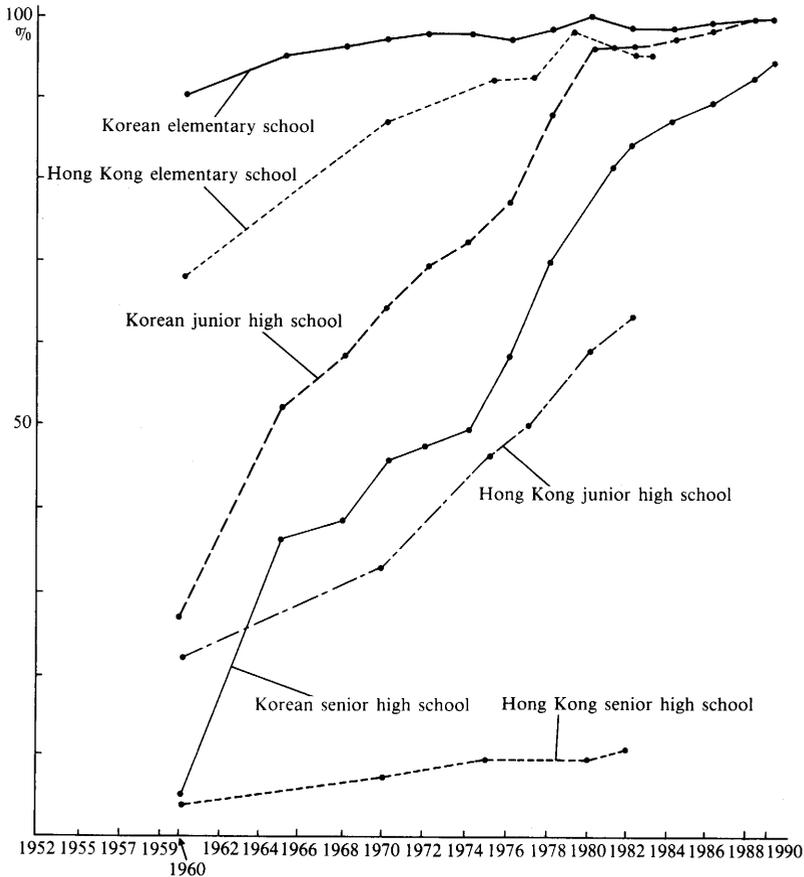
version. If we use purchasing power parity, those figures will become more than double. It seems that purchasing power parity standards will yield figures much closer to the reality.

The growth rate of North Korea, however, started slowing down from early 1980. This might be something to take note of.

(2) Deficits in Trade Balance

Whatever developmental strategies they take at the initial stage of economic growth, the imports of manufacturing equipment and intermediate goods would inevitably increase and the trade balance would turn to the red. This problem did not seriously affect Taiwan, since it had a strong agricultural background. Nevertheless, it had to face deficits by the end of 1960, and it was in 1971 that Taiwan's trade balance turned to the black. Though the same problem annoyed Korea for years, they started yielding profits in 1985 and have remained in the black since then. In a word, the countries of the second group succeeded in solving the problem of trade balance deficits.

Figure 6-2. The Ratio of Students Going to Schools in Korea and Hong Kong

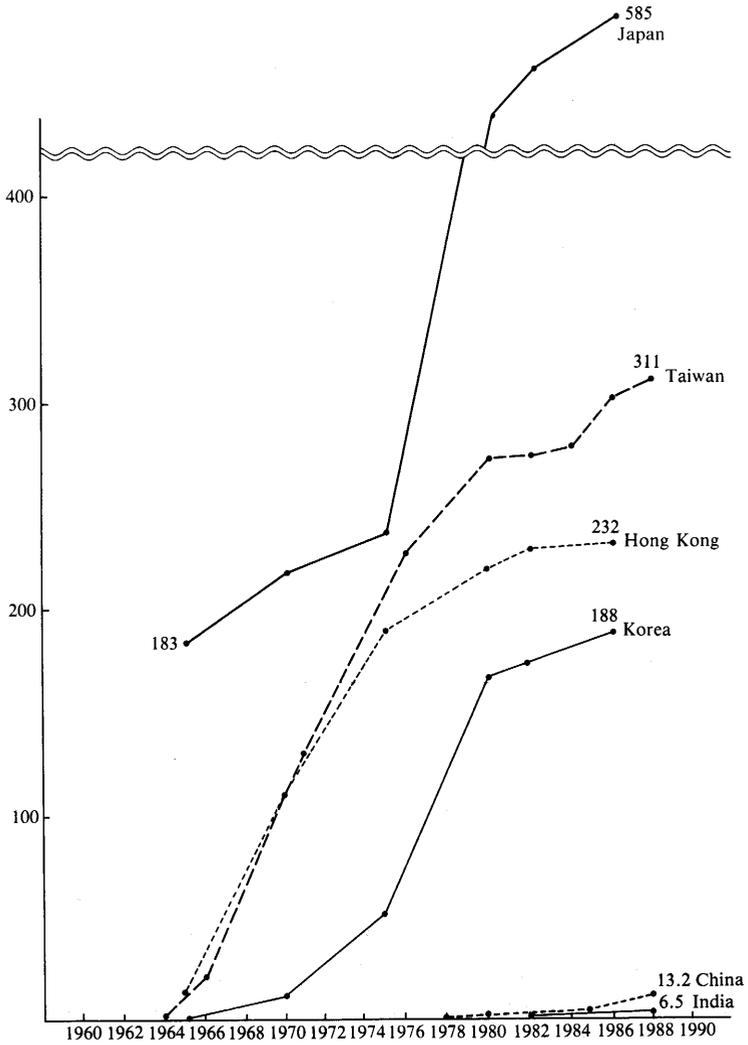


Source: Korea — *Main Economic Indexes* by The Economy Planning Agency, 1980 edition, p. 217; 1990 edition, p. 242. Hong Kong — *Statistical Year Book*, 1972 edition, p. 105; 1982 edition, PIII-59; 1984 edition, PIII-51.

Note: The ratio of students going to senior high schools in Hong Kong shows a very low figure. This is because considerable numbers of the students there go abroad and take schooling overseas.

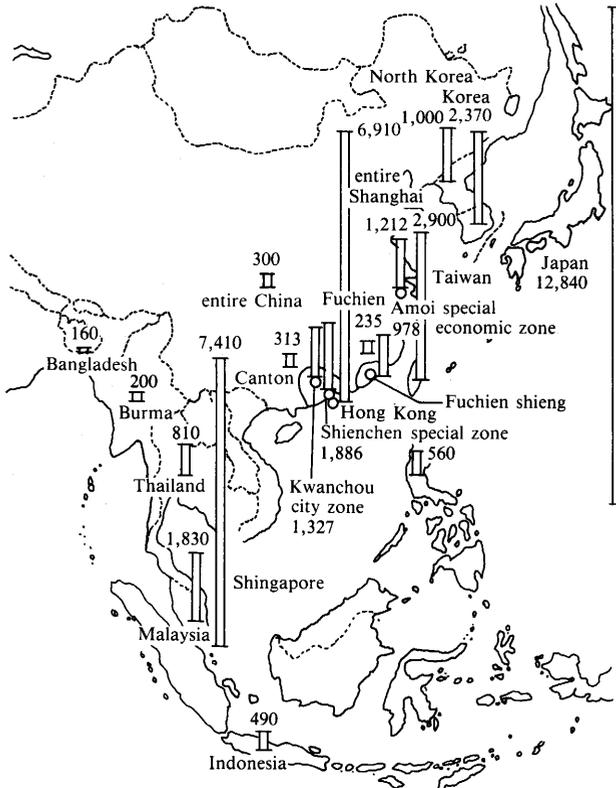
With the first group, the same will still remain as one of the biggest problems. In the period when they strove hard to achieve economic independence, strong controls were exercised over imports. In such a situation, the economic problem was only imminent and did not fully reveal itself. However, the instant they loosened the controls and started importing industrial manufacturing facilities, their balance turned to the red, as shown in Figure 9. In other words, building of competitive industries through the developmental strategies collapsed for the first group.

Figure 7. The Diffusion of TV Set (the Number of TV Sets per 1000 People)



Source: China — *Chinese Statistical Year Book*, 1989 edition, p. 719. Taiwan — *Republic of China, 1977 Taiwan-sheng Annual Statistical Report*, vol. 48, p. 490. Others — *Statistical Year Book* by UNESCO, 1984 edition, pp. 9–26, 1988 edition, pp. 10–28.

Figure 8. GNP per Head in East Asia (1986)

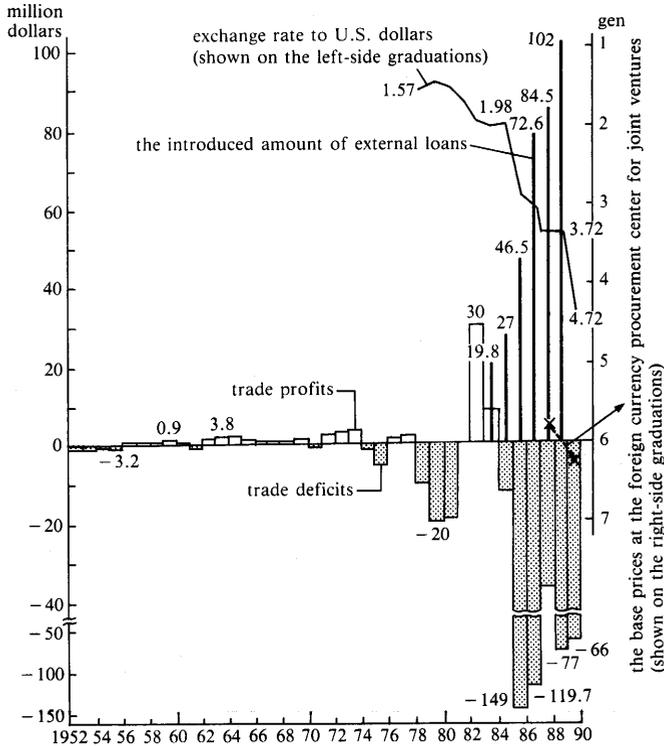


Source: *The Industrialization of Hong Kong — A Joint in Asia*, by myself, Asia Institute of Developing Economies, 1989 edition, p. 23. *The Korean Peninsula*, by Mr. Teruo Komaki, The estimates on North Korea, 1986 edition, p. 86.

(3) Constant Shortage of Basic Materials

As they pushed forward a preference policy for heavy industry development (or since they employed the policy), a shortage of intermediate goods was becoming more serious year by year and constituted one of the main causes that brought about trade deficits. As it was said that “iron calls iron” (iron demands will increase with the development of the steel industry), it seems that such a cycle was being built into the economic system, thus losing a healthy well-balanced economic structure.

Figure 9-1. The Trade Balance of China



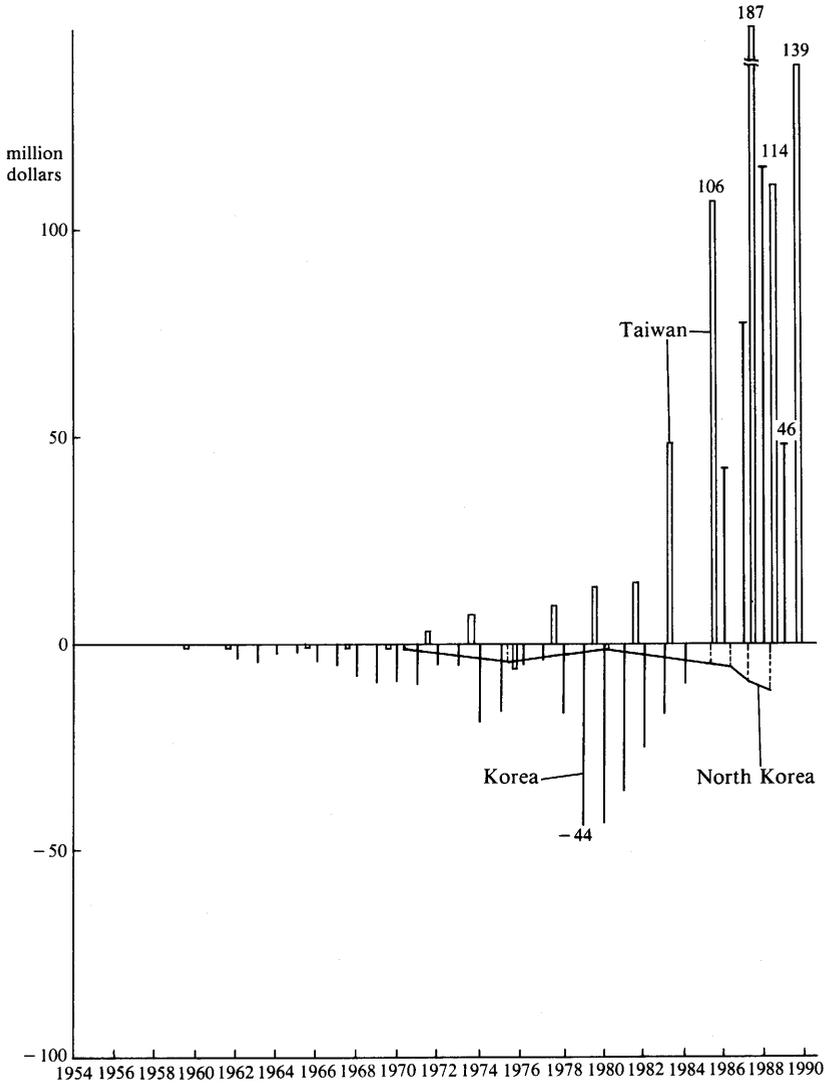
Source: Same as Fig. 1, p. 379.

(4) Financial Deficits

It was explained in the foregoing section that excessive welfare measures were being taken for the people in rural areas and that the extent was not proportional to their real production capability. They could manage all right when the rural population was rather small. As their urbanization proceeded, welfare expenses were becoming a burden on their government finances. Once any certain scale of interests was given to the people, those interests should be maintained and could hardly be compressed down to any smaller scale. This way, the deficits would accumulate and tend to induce inflation.

Problems indicated by (2) and (4) were becoming increasingly serious in China and North Korea in the latter half of 1980. It is necessary to allow for any chance that these problems might eventually offset the success they achieved for the construction of their countries.

Figure 9-2. The Trade Balance of Korea, North Korea, and Taiwan



Source: Korea — *Main Economical Indexes*, by The Economic Planning Agency, 1980 edition, p. 177; 1990 edition, p. 201. North Korea — “Chinese Summary,” a thesis by Mr. Teruo Komaki, 1990 edition, p. 565. Taiwan — *Taiwan Statistical Data 1990*, by Council for Economic Planning and Development, Republic of China, p. 208.

2. Unsolved Problems with Group Two

(1) Agricultural and Farming Problems

There would be no way that could restore the primary industry that had lost its ground. Though both Korea and Taiwan employ small-farming systems, they are unable to find any measures that would raise the primary industry to the level of international competitiveness, and Korea and Taiwan remain in the same difficult situation as that facing Japanese agriculture. The primary industry is on a decline due to the hike of land prices, a shortage of younger labor, and the pressure from America.

In China, the peoples' communes collapsed and small-farming systems were introduced. Though we see some symptoms indicating the decline of its agriculture, the problems that China faces do not seem as serious as those of Korea or Taiwan.

(2) American Markets and Their Limits

The high level of growth has been achieved as both Korea and Taiwan developed their sales into the open markets of America. However, it was in the middle of 1980 that their sales there showed signs of dwindling. To give an outlet to their internal tremendous production capacity, they are now shifting to new markets in Russia, East Europe, and China. We will wait and see if they can well develop those new markets, which they hope will absorb the overflowing capacity of the second group countries.

(3) Soaring Wages

With the second group countries, social welfare has been rather made light of for the past 30 years. It was in the middle of 1980 that voices were raised against their Labor Ministry requesting improvement of the situation. Any improvements made in this direction were the realization of social justice and would bring about an expansion of domestic demand. If we view its negative side, overall social costs cannot help rising and will work detrimentally to maintaining export competitiveness.

3. Relative Evaluation and the Unsolved Problems that Are Common to Both Groups

Though the first group regarded replacing imported heavy-industry goods as of primary importance, it was in 1970 that North Korea faced deficits in both of their finance and trade, and in 1980 China faced the same dual deficits. Under the circumstances, the effects that these deficits are causing on their economies seem serious. They might well be more serious than the problems that the expansion of social welfare or the soaring wages are bringing about in the second group.

High economic growth cannot be realized without destroying ecological systems. Both groups share a task of preventing the destruction of reproducible resources, including forests. They, however, have not yet been successful in finding proper ways.