Economic Rise of East Asia (1950 -1997)

The Economic Revolution in the 1980s and 1990s made the Pacific Rim the fastest growing economic region during that time. The reason for this was due to a complex system of urban centres and extensive communication networks.

This article will further discuss some of the factors responsible for the economic revolution in the Pacific Rim within the context of the Civil Services Exam.

Background of the Economic Revolution

Japan and China have been the two largest players in the transformation of the Asian Pacific Rim from an economic backwater in the 1950s to the hub of the world trading economy in the 1950s to the hub of the world trading economy in the 1990s. The East Asian region quadrupled its per capita income in 25 years, a record that was unparalleled in economic history. In 1997 Hong Kong and Singapore ranked among the ten richest states in the world per capita, ahead of France and Britain.

The economy of the Pacific Rim developed in a number of waves. Japan launched Asian prosperity in the 1950s. Spurred by her example, the so-called “Four Dragons” of the region - South Korea, Hong Kong, Singapore and Taiwan - began the second wave of expression. All four states lacked the advantages necessary for the normal path of industrialization. They were short of capital, they were overpopulated and they possessed little arable land and few raw material reserves.

They opted instead to concentrate on export-led growth, using cheap labour and borrowed capital to undercut established textile and light consumer goods producers. Their success was phenomenal. By 1976 Japan and the Four Dragons produced 60 per cent of the world’s manufacturing exports.

Rise of Japan and the Four Dragons

When the growth of the developed world slowed down in the 1970s, Japan and the Four Dragons began to invest heavily in the developing states of SouthEast Asia - Malaysia, Thailand, Indonesia and the Philippines - which were rich in raw materials and food supplies. These states, organized in the Association of South-East Asian Nations (ASEAN) from 1967, they embarked on their own version of the Asian economic miracle, emulating their richer neighbours to the north by producing low-price exports in high volumes

The region developed an increasingly integrated economy: Japan and the Four Dragons produced high-quality, high-cost manufacturers; ASEAN produced more of the low-price consumer goods aimed at Asian and US markets. The states of the Pacific Rim became each other's' best markets.

When communist China and Vietnam began to expand and modernize their economies in the 1980s, further huge new markets opened up. The rest of the Pacific Rim - Australia, New Zealand, western Canada and the United States - were drawn in as consumers and suppliers for the world's fastest-growing economic areas.

Factors that led to the Economic Revolution

The success of the new industrial giants in Asia owed something to favourable economic circumstances

- The emergence of rich overseas markets in the developed world and the globalization of trade and finance created a healthy framework for rapid export growth.
- Modern electronic technology was easily transferred between states, and products based around the microchip were particularly suitable for economies that lacked a heavy industrial base.
- There were also important advantages enjoyed by many Asian societies such as access to cheap labour, willingness to work for longer hours for low pay and flexibility in the face of new technologies.
- The cultural ethic, with its emphasis on frugality group loyalty, respect for hierarchy and for educational achievement, has been a stimulus for high savings and low labour unrest.
- Governments spent less on welfare and infrastructure and more on education and export subsidy.

One other reason for the rapid growth of the Pacific Rim area has been the very high ratio of savings to Gross Domestic Product. Savings were diverted to investment or private welfare schemes, relieving the government of high spending.

The table given below will help in providing a better idea of the savings ratio in Asia

Savings Ratios During the Economic Revolution in the Pacific Rim			
Country	**1960s**	**1980s**	**1999**
Japan	23.2	30.8	28
South Korea	17.5	27.2	34
Singapore	14.1	42.4	52

Hong Kong	11.3	30.2	31
Malaysia	19.8	26.4	47
Thailand	20.6	16.3	33
Indonesia	2.6	22.1	32

In the 1990s, 80 per cent of 18-year olds in Taiwan and 85 per cent in South Korea were still pursuing full-time education. Literacy rates throughout the Pacific Rim were considerably higher than those in South Asia, Africa or Latin America.

The 1997 Economic Crisis

By the early 1990s, the economic revolution in East Asia had altered the balance of the world economy, which for much of the century was dominated by the United States and Europe.

But for the summer of 1997, most of the East Asian economies succumbed to the contagion of an unprecedented financial crisis. The once-booming economies of Thailand, South Korea, Indonesia and Malaysia saw their currencies collapse in value and their national incomes drop sharply.

Even Singapore and Hong Kong with their robust financial systems did not escape. From the beginning of 1999 three of the four worst affected economies (Thailand, Malaysia and South Korea) began to rebound.

Between 1999 and 2005 average per capita annual growth was 8.2%, investment growth nearly 9%, foreign direct investment (FDI) 17.5%. Pre-crisis levels of income per capita with purchasing power parity were exceeded in 1999 in South Korea, in 2000 in the Philippines, in 2002 in Malaysia and Thailand, in 2005 in Indonesia.

Within East Asia, the bulk of investment and a significant amount of economic weight shifted from Japan and ASEAN to China and India.