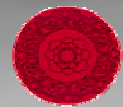


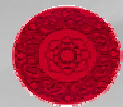
A Comparative Study of East Asian and Latin American Development Models since WW II



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❁ Economic Development since WW II

- ❁ East Asia: fast & stable development
- ❁ Latin America: relatively slower development & sporadic crises
- ❁ Seeking common future



- ❁ Asia and Latin America: Learn from each other in development experiences?
- ❁ How to face the information age and globalization?



Objectives

- ❁ Discover the development experiences in both areas
- ❁ Compare the similarities and differences in the development models
- ❁ Discuss future challenges and opportunities



The East Asian Development Model

❁ **Conditions leading to reform:**

- A general condition is the East-West division in the Cold War period.
- Japan: Turning war-time capability into economic reconstruction
- South Korea: After Korea War, reconstruction under US assistance



The East Asian Development Model

- ❁ **Conditions leading to reform:**
- ❁ Hong Kong: under UK rule, as a direct contrast between socialist China and capitalist Hong Kong
- ❁ Singapore: after independence
- ❁ China: after 1978, Deng Xiaoping's reform & open-door



Characteristics of East Asian Development Model

Guided Free and open economic system

- 🌸 Market system
- 🌸 Open economy
- 🌸 Strong government role, esp. in the
early stage



Characteristics of East Asian Development Model

China's experiences:

- ❁ Rural household responsibility system
- ❁ More freedom to state enterprises
- ❁ Allow non-public enterprises (rural & township enterprises)
- ❁ Less control for products and factor prices



China's experiences:

- ❁ Introduce foreign investment, expand trade, allow FDI, foreign ventures and joint ventures, education exchanges

Central command economy → market economy



Characteristics of East Asian Development Model

Export-driven

- ❁ Focus on exporting goods to rich industrialized countries
- ❁ Discourage domestic consumption through high import tariffs (e.g., cars), low exchange rate



Emphasis on Education

- ❁ Emphasized education as the major means to increase productivity
- ❁ High productivity yields competitive products in price and kind on the world markets, thus facilitating exports.



Land Reform

- ✿ Redistribution of land in early development
- ✿ Lesser over-urbanization
- ✿ Property rights of land holding (China's experience is different)
- ✿ Agricultural subsidies (China begin to reduce agri tax to zero in 5 years)



Characteristics of East Asian Development Model

Monetary and other Policies

- ❁ Low exchange rate, slow financial reform
- ❁ Large holding of U.S. Bonds
- ❁ Trade surplus
- ❁ High savings rate
- ❁ Sound fiscal policy
- ❁ Sustained high growth rate for decades (Table 5)



Characteristics of East Asian Development Model

- ❁ Deng Xiaoping's: "Cross the river by feeling the stones."

A summary of East-Asian development experiences and a principle for the future

- ❁ Other things like culture, traditions, family values, etc



❁ General Principle

As long as a new measure does not affect the stability of the existing social systems, discussions will be allowed, and experiments taken.

China does not expect one system or doctrine to cure all problems, so it is always willing to experiment



The Latin American Model : conditions for reform

History

- Most Latin American countries won independence after Napoleon conquered Europe
- Most independent Latin American countries with a democratic system(e.g., Brazil's initial name was US of Brazil), but seldom maintained a stable system
- After independence, export-oriented with raw materials → limited income source → crises
- After WW I and the 1930s' economic crisis, Latin American countries gradually moved to import substitution
- 1980s, crisis period (Tables 3 and 4)



The Latin American Model : conditions for reform

History

- 1980s, crisis period (Tables 3 and 4)
- Current development status (1998, Table 1)



The Latin American Model : conditions for reform

Import-substitution strategy

- GDP growth rate: 1951-1960 5.1%, 1961-1970:5.8%, higher than most other areas except for East Asia and Germany
- Established the industrial sector: manufactured value/GDP, 1950-18.8%, 1960-21%, 1970-23%, 1980-24%.
- Investment/GDP, 1950-17.7%, 1980-29%
- Life expectancy, 1950-55, 52, early 1980s', 65
- Infant Mortality Rate: 128/1000 –23/1000



The Latin American Model : conditions for reform

Declining Investments

- Emphasizing capital-intensive industries
- Low domestic savings rate (<20%)
- Highly dependent on foreign investment



**The Latin American Model :
conditions for reform**

Low and declining growth rate

Under high trade barriers, firm's economic efficiency cannot be improved, low international competitiveness, leading to declining importance in the world's trade. In 1950's, Latin American's export made up 12% of the world total, but in the early 1980's, it declined to 4%



The Latin American Model :conditions for reform

Large Budget Deficit

- ❁ Declining import (lower tariff income)
- ❁ Lower export
- ❁ Economic recession
- ❁ Debt payment
- ❁ Large urban population



The Latin American
Model :conditions for reform

❁ Chronic hyperinflation

Annual inflation rate: 10%-
8000%

(Table 2)



The Latin American
Model :conditions for reform

Unequal income distribution (land reform?)

- ❁ Family income distribution, Brazil, Mexico, Argentina, Gini Coeff. $>.45$



❁ Declining Financial Intermediation

Budget deficit in investing countries reduced the availability of international capital)

August 1982, Mexico announced its inability to pay back foreign debt, thus leading to the Latin American Debt crisis, and capital outflow.



The Latin American Model :conditions for reform

- ❁ Export expansion was limited, import of capital goods increased
- ❁ Debt and economic crises in the early 1980s



Similarities between the Two Models

- ❁ **Both areas experienced colonial or semi-colonial rule, and civil wars**
- ❁ **Both areas were mostly underdeveloped after WW II**
- ❁ **Both areas' reform policies were import substitution**



Similarities between the Two Models

- ❁ **Both areas had long history before the colonial rule**



Differences between the Two Models

Causes of Reform

- ❁ **The Latin American Model is the often the result of shocks and crises**
- ❁ **East Asian Model is often designed (like China's Open Door Policy and Reform Policy)**



Differences between the Two Models

Staging of Reform

- ❁ **Latin America's reform was often fast-paced and often expected to solve all problems once for all in one economic package**
- ❁ **East Asian's reform was often piecemeal, especially in China**



Differences between the Two Models

Political environment:

- ❁ **In Latin America, regimes changed often, and this frequently affected the business environment and policies**
- ❁ **In the beginning of the reform, East Asian tigers were often authoritarian, and political reform gradually followed as a result of economic progress**



Differences between the Two Models

Economic Systems

- ❁ **Latin American economies were market economies before the reform**
- ❁ **East Asian economies were most command(or planning) economies before the reform**



Differences between the Two Models

Urbanization

- ❁ East Asia's urbanization often lags behind economic development
- ❁ Latin America often exhibits over-urbanization, and there is a large urban population in poverty



Differences between the Two Models

Land Ownership

- ❁ **The land systems in East Asia were more egalitarian through historical land reforms**
- ❁ **Latin America's land ownership was highly concentrated**
 - 1995 land reform in Brazil only redistributed 250000 acres of land. 1% of population owns 45% percent of land**



Future Trends: A Globalization Perspective

- ❁ **Sharing markets, products and resources**
- ❁ **Openness and freer domestic markets**
- ❁ **Sharing and Exchange in human resources and other fields**
- ❁ **Technological cooperation and transfer**
- ❁ **Seeking common ground for future development frameworks: regional coop, independent decision making, free trade**



Future development frameworks:

- ❁ **Government guidance**
 - a. **Short term policies**
 - b. **Long term planning**
 - c. **Stable social and political environment**
- ❁ **Market system**
- ❁ **Free trade**
- ❁ **Regional cooperation**
- ❁ **Independent decision making**



General Discussion

- ❁ **Asian: thrifty, hardworking, conservative, from centralization to democratization?**
- ❁ **Latin American: wasteful/squanderous, lazy(hot weather), liberal/conservative? from democratization to some centralization?**



❁ Challenges

- ❁ **In between North and South America, the Caribbean countries should avoid being marginalized in the new development wave**
- ❁ **Caribbean countries can learn from East Asian economies like Taiwan, Hong Kong and Singapore**

❁ Opportunities

- ❁ **Close to North and South American Markets**
- ❁ **More available experiences to follow**

