

# The East Asian 'Tigers': Following Russia and Latin America?

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Probably, the title of this paper is surprising for many specialists in various fields of economics, politics and other social sciences. Indeed, despite the financial-economic crisis of 1997-98, the newly industrialised countries (NICs)<sup>1</sup> of East Asia ('East Asia' herein refers to East and Southeast Asia together) have been symbolised the successful development's pattern for the non-western regions while neither Russia (and the other CIS countries, formerly republics of the USSR, as well) nor Latin American nations demonstrate fascinating achievements in development over the last fifteen-twenty years, good rates of the economic growth in some periods notwithstanding. By dynamics of the social indicators, such as a life expectancy, infants' mortality, or human development index, the both regions lose competition to the East Asian countries, too.

Therefore, it is seemingly difficult to find real foundations for a comparison of Russia and Latin American countries, on the one hand,<sup>2</sup> and the East Asian NICs, on the other, if such a comparison is not used for banal conclusion about rather negative than positive results of reforms in the first case and acquired success in the second one.

However, as Karl Marx once noted, "all science would be superfluous if the outward appearance and the essence of things directly coincided." [*Marx K.*, 1959, p. 797]. In the recent study, a matter of comparison can consist not only in a recognition of predominantly extensive character of the economic growth in the both groups of countries under consideration, as Paul Krugman argued in his famous paper of 1994

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<sup>1</sup> Hong Kong, Singapore, South Korea, and Taiwan (Taipei) province make up a group of the first-tier NICs, or economic 'tigers'. Indonesia, Malaysia, and Thailand are the second-tier 'tigers'.

<sup>2</sup> About similarities between Russia and Latin American countries see: [*Krasilshchikov (Krasilchtchikov) V.*, 2004; *Krasilchtchikov V.*, 2003a; *Krasilchtchikov V.*, 2005].

[Krugman P., 1994]. Also, it concerns some other invisible similarities hidden beyond the formal statistical indicators. Respectively, the object of this paper is threefold: at first, to find out such similarities; secondly, to propose the proper assessment of the Asian crisis of 1997-98 and the regional post-crisis recovery in light of Russian and Latin American experience over the last decades, and, thirdly, to stimulate discussion aimed at re-thinking widespread approaches to a complement of development studies.

### **1) The General Context of the East Asian 'Miracle': The Rise and Decline of Developmentalism**

The problem of development of non-western regions has to be considered in the general world context being linked to the processes that take place in the core countries. Moreover, this problem cannot be treated as endogenous and distinct from essential features of the XX century capitalism.

These features can be described briefly as following:

- A prevalence of the function of management over the private property institutions (in the western countries a domination of capital-function over capital-property was a necessary condition to preserve the private property's institutions from destructive collisions as inevitable consequences of the internal contradictions of capitalism at the industrial stage);

- An organisation of productive forces correspondingly to the mass production for mass consumption principle upon the base of scientific organisation of labour and conveyor assembly lines (fordism) instead of 'classical' economic anarchy inherent to the XIX century capitalism;

- An essential role of the state regulation aimed at maintenance of the effective demand (keynesianism).

Due to the rationally organised mass production technologies and enlargement of the internal markets, the fordist-keynesian capitalism could overcome some (but not all!) acute contradictions and smoothed the social-class conflicts. It turned into 'the capitalism with human face'. However, despite a definite humanisation of the capitalist mode of production in the core of the world system, this humanisation did not spread to peripheral zones outside of Western Europe, North America, and Australia with New Zealand. (Later, Japan had become the only non-western country that joined this privileged group of the world leaders.)

The fordist-keynesian engine of capitalism needed to enlarge the markets to bigger degree than it was necessary at the preceding capitalist stages. It required an ever-increasing supply of raw materials, fuel, and yields of tropical agriculture for productive

and personal consumption in the developed countries as well as an augmenting exportation of various goods to poor, underdeveloped areas of the globe.

Factually, the trade between centre and periphery of the world system (I do not consider here whether this exchange was equal or unequal) became one of the necessary conditions to maintain the effective demand without which the fordist-keynesian capitalism could not function in the global scale. Hence, this capitalism was interested in development of peripheral countries, although, accordingly to its strategic goals in the conditions of cold war. Certainly, the West could not transplant its model of development to non-western regions. It was impossible on objective causes; in addition, several countries of the world periphery, mainly in Africa and Asia, preferred to copy the Soviet or other socialist model.

Meanwhile, either Soviet or other 'pro-socialist' models were the modes of development, too. The so called 'socialist construction' in the former Soviet Union enabled Big Russia to catch up with the leading countries of the world and to become the second super-power after 1945. Due to accelerated industrialisation, the Russian GDP per capita increased from the rate 0.93 of average in the world in 1913 up to 1.4 of the same indicator in 1970 (counted on: [*Maddison A.*, 1995, pp. 23-24, 212; *Maddison A.*, 2001, pp.169, 330]). In the 1960s-1970s, a gap between Big Russia (existed in the form of the USSR) and the advanced western nations was narrowing and had been minimal since the reforms of Peter the Great. Moreover, by scientific-technical accomplishments and such important indicators of the social development as a literacy of the population, a level of the secondary and tertiary education, a mass health-care, a life expectancy, etc., the former Soviet Union came closely to the advanced western nations or even surpassed some of them.

While the Soviet Union had become the first power that moved on the non-capitalist (non-market) way of the capitalist development in the XX century, Latin America attempted to resolve the same problem of development not abolishing the market relationships and private property. The populist regimes, which came to power in some Latin American countries after a series of social-political collisions because of the old, oligarchic capitalist system's collapse in the early 1930s, realised a strategy of import substitution industrialisation (ISI) aimed at weakening the economic dependence of their countries on the world market. Apparently, the Latin American ISI was not as successful as the Soviet industrialisation had been. Nevertheless, it resolved some social-economic problems of the continent, though unevenly in various countries, and put up fundamentals of industrial development. To the end of the 1950s – the mid-1960s, 'the general balance' of the both Soviet and Latin American catching up

industrialisations looked as undeniable accomplishments of the peoples outside of the West. Simultaneously, it was the time when ideas of catching up development and modernisation spread widely among politicians and intellectuals in African and Asian countries. It seemed, nothing wrong could impede, in the long-term prospect, to an effective functioning of the social-economic and political-institutional mechanisms of fast industrial growth of non-western regions. 'The bright future' of most peripheral and semi-peripheral countries, with few exceptions, appeared to be undoubtable, approving, thereby, universality of the west-centred way of development.

However, very soon the future prospects ceased to be shining. In the 1970s, the Soviet economy entered the period of constantly falling effectiveness. In Latin America, the ISI strategy came to its objective limits. The attempts to replace it by the programmes of 'authoritarian modernisations' under guidance of the repressive regimes did not resolve the problems the continent faced, and then failed. (In Argentina, a result of the ultra-reactionary, obscurant junta's 'activity' in 1976-1983 was a social-economic decay.) In other developing regions of the world, a situation was hardly better than in Latin America. Various programmes of development in Africa and Asia failed one for one while the rise of traditionalism, the new revolt against modernity and industrialisation, became widespread phenomenon. Signs of the 'reverse development' were seen in Cambodia ("*Khmers rouges*"), Iran (anti-Shah movement and Islamic revolution), Afghanistan, and the Soviet Central Asia where a resistance of the traditional society to industrialisation took forms of return back to Islamic fundamentalism, particularly, in Ferghana Valley.

At the same time, the Third World initiated a struggle for establishment of the New International Economic Order. The latter presupposed a re-distribution of incomes of the world trade for advantages of the developing countries through increasing of prices for petroleum (OPEC!) and other raw materials. But it was factually a *swan song* of the old developmentalism in the XX century. The West neutralised these requirements approaching, in both technological and social-economic respects, to resolve its internal problems it faced since the end of the 1960s.

These problems consisted in obtaining the limits to industrial growth upon the existed technological base what denuded a crisis of the fordist-keynesian model of economy as a whole. This crisis did not mean a catastrophic down of outputs; rather, it had been expressed in the falling effectiveness of 'the production engine' and deteriorating environment (air pollution, acid rains, and other similar 'inconveniences'). One of the major aspects of this crisis was *the crisis of labour*, which had two dimensions. The first of them consisted in an extending discordancy between the

monotonous character of assembly line labour and the new quality of labour force that required new opportunities for human self-fulfilment in the process of labour. (See: [Gyllenhammar P.G., 1977, p. 9-10]). The second one was that in the conditions of welfare state, a significance of salaries and wages as incomes had been declining whereas various payments from public funds looked increasingly important. [Carton M., 1984, p.19-25]. Evidently, it eroded the labour ethics, provoked mass absenteeism and became burdensome, wasting charge for economy at the macro- and micro levels.

The West had found a response to the internal (crisis of the fordist-keynesian economy) and external (the Third World's requirements to establish 'fair prices' at the world market) challenges through the technological innovations (microelectronic and then information revolution) that had been accompanied by the neo-conservative wave in politics and ideology. Such a response had threefold character. Firstly, it enabled to initiate a restructuring of the western economies constraining the growth of welfare state and pretensions of the trade unions. Secondly, it allowed reducing consumption of fuel and raw materials per unit of GDP. Thereby, the new technologies contributed to depreciating exports from the Third World to the core countries and, hence, buried attempts to establish the New International Economic Order [Inozemtsev V.L., 2001, p. 322-326].<sup>3</sup> At last, the western corporations began to remove some labour-intensive manufacturing branches of economy to Latin American and, later a little, East Asian countries stimulating their industrialisation. (See, in particular: [Fröbel F., Heinrichs J., Kreye O., 1980, pp. 44 et ff., 63-64, 90-96, 106-131, 222-226, 339-364]).

Thus, a transition of the most developed countries towards a new stage began to weaken their dependence on periphery as supplier of fuel and raw materials. Respectively, the West became interested in peripheral countries to a lesser degree, and development turned into 'magic word', which had been pronounced by social alchemists, but had none real sense. The development policies and theories diverged insofar as a kind of scholasticism from reality and concealed a mournful situation. In these conditions, the growing newly industrialising countries of East Asia began to look as 'shining alternative' to decline of the other developing regions.

However, I risk asserting that the East Asian 'miracle' might not appear without this decline of various development models in other parts of the former Third World and

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<sup>3</sup> "In the case of copper, for example, United States producers were able to cut average production costs from 85 US cents per pound in 1982 to 50 cents in 1989 (average production costs for Chile's State-owned CODELCO, the largest Latin American copper producer, are running at about 40 US cents per pound" [Benavente J.M., 1991, p. 54, note 9]).

deep transformation of the western countries. As well, in addition, it would hardly become a reality outside of the concrete geopolitical position of the region.

In the 1960s-1970s, East Asia comprised in itself all thoughtful conflicts and contradictions of the cold war epoch. Besides the clash of the both superpowers (wars in Korea and later in Vietnam), it was a field of controversy between the USSR and China concerning 'the best way of liberation' from imperialism. In some countries, the clandestine Communist parties and groups oriented to Maoist leadership of the CP of China troubled the Americans either local ruling elites. Political instability and uncertainty were indistinguishable features of the region's everyday life. In such difficult, unfavourable conditions, the enforced modernisation was the only way to neutralise a lot of threats and jeopardies that hung over the East Asian nations. As Manuel Castells wrote, development had been a means of survival for them. [*Castells M.*, 1998, p. 271-272].

One of the main peculiar characteristics of the East Asian NICs' development was their outward-looking industrialisation. The ever-increased exportation of manufactured goods had been 'the leading engine' of wonderful transformation of small, weak 'kittens' into 'tigers' of the Asian economy. (In fact, these countries passed throughout the stage of ISI but very rapidly, so many observers did not pay attention to this period.) Their export-oriented growth was conditioned by a set of the external factors. The first of them, by its importance, was a rise of the new international division of labour, i.e. the mentioned above removal of mass, assembly line production to the East while the markets for their outputs remained to be linked to the West. The second one was intention of the US restrain both the Maoist expansion and the Soviet influence in the region by means of successful capitalist modernisation of the American satellites in Asia. The US supported the local elites aimed at building 'good' capitalism instead of peripheral one and endeavoured to perform 'the capitalist vitrine' in the region to the world community. Reaching these goals, Uncle Sam delivered the trade preferences to the future 'tigers', in particular, facilitated an access of the exported goods from East Asia to the US market. [*Li Xing, Hersh J., Schmidt J.D.*, 2002, p. 35-41]. It was much more efficient form of the economic assistance than donations and loans that had been plundered by dishonest, corrupted officials and top-positioned cheats, as an experience of the Third World demonstrated many times.

Factually, the governments and business communities of East Asian countries used the structural changes in the western economies as well as the concrete global situation for accelerated development of their countries. In addition, they derived 'a comparative advantage' from a decline of the development strategies in other regions

of the Third World. Thereby, they implicitly convinced the West that their countries could be modernised whereas the rest developing regions could hardly compete with East Asia in this respect.

Thus, successful catching up development of the East Asian NICs had been outcome of the unique, economic and political, external conditions that matured in the region and the world capitalist economy at dawn of these countries' fascinating industrial take-off. At the same time, even the most favourable conditions (which were truly unfavourable!) could hardly be sufficient for success without *the internal premises* of Asian 'miracle'.

## 2) The Internal Secrets of East Asian Take-Off

Undoubtedly, the internal premises and conditions of Asian 'miracle' were no less important than the external ones. In this connection, it is worth to refer to Mahathir bin Mohamad, formerly Prime Minister of Malaysia, who was ruling the country over 22 years and left the office in the end of October 2003. He wrote: "Personally, I never liked the term 'East Asian Miracle', because it seemed to imply that our accomplishments were achieved through some form of magic rather than through the hard work, blood, tears and genius of our peoples." [Mahathir, 1999, p. 27].

Various authors call many internal factors, except the export-orientation mentioned above, that contributed to the NICs' growth. A spectre of these factors is very broad: from 'purely' economic (macroeconomic stability, effective industrial policy, etc.) and institutional (good governance, adequate management, mass education) to such social-cultural factors, as traditions of communalism, social paternalism, or heritage of Confucianism, Buddhism and Taoism. (See, in particular: [Adams F.G. 1998, p. 3; Ito T. 2001, p. 56-64; Stiglitz J. 2001, p. 512-520; Yusuf Sh. 2001, p. 5-7]. For example, recognising a significance of land reform, availability of credits, etc. for the NICs' development, A. Sen argued that the most important factor of the 'tigers' accomplishments was the basic education of ordinary people. [Sen A., 2000, pp. 6-7, 10-12, 14-19].

Certainly, it is impossible to reduce an explanation of the East Asian fascinating development to an operation of exclusively whatever one factor. Really, many factors attributed, in one or another forms, to the growth of 'tigers'. For instance, the social-cultural traditions, including religious and ethical views of the East Asian peoples, played if not major but, definitely, significant role in the rise of Asian 'miracle'.

Probably, it would be relevant to remind that Max Weber excluded any possibility of the endogenous capitalist development in the Orient because of a dominance of

Hinduism, Buddhism, Taoism, and Confucianism (although the latter was not religion but social-philosophical and moral doctrine), which were, in his opinion, incompatible with the spirit of capitalism. [*Weber M.*, 1978, p. 630]. Indeed, such an explanation was seemingly adequate in the end of the XIX – the beginning of the XX century when an economic expansion of the western powers had factually sank into depths of the Chinese mainland and did not succeed to the capitalist development in the 'Celestial Empire', an obvious functional debilitation of the local authorities and decomposition of the archaic social structures notwithstanding. (See in details, for example: [*Fairbank J. e. a.*, 1973, pp. pp. 563-596, 619-647]).

Suddenly, in the last third of the XX century, something wonderful had occurred, and many researchers who studied East Asia began to write about a complete compatibility of Buddhism, Confucianism, or Taoism with the successful capitalist development in the region. All attempts to reconcile this fact with the theoretical constructions of M. Weber, T. Parsons, or N. Smelser did not allow to evaluate Asian 'miracle' because these attempts neglected, as a rule, a simple supposition: if theory ceased to correspond to reality, may be, theory is not wrong but something has happened, and theory does not reflect the changed reality.

Some authors explain the East Asian industrial boom, in particular, in Taiwan province, referring to Buddhism and Taoism. Accordingly to their attitudes, these religions played a role of the 'counterculture' in regards to Confucianism with its cult of the strong state headed by moral, enlightened ruler surrounded by responsible officials. Both Buddhism and Taoism 'countervailed' stringency and requirements of obedience to elders and officials that Confucianism imposed on people's everyday life, and justified various expressions of personal initiative or even disobedience to the authorities. It seemingly succeeded to the growth of small and medium business, and, thereby, to the economic prosperity in the province. [*Lam D., Clark C.*, 1998, p. 126-130]. Obviously, the same explanation could be applied to an analysis of all four first-tier NICs' development.

Nevertheless, such an explanation looks not very convincing in relation to the main problem. Why, in particular, neither Buddhism nor Taoism could play a role of 'counterculture' in relation to Confucianism in the first half of the XX century? Why Max Weber did not oppose them to the Confucian principles but considered the both mentioned 'counter-cultural' religions and the Confucian doctrine altogether as contradicting to the rational entrepreneurship and the rise of capitalist relations?

Probably, what is actually a matter is neither peculiar features of each social-philosophical or religious system nor opposing both Buddhism and Taoism to



Confucianism. Instead, an essence of the problem is a correlation between religious and moral doctrines, on the one hand, and character of the XX century capitalism, on the other. When East Asian countries approached to their fast modernisation, the state intervention as well as the essential role of the state and corporate bureaucracy was indistinguishable feature of the capitalist development. The strong state and the highly moral, socially responsible officialdom, these key actors in the Confucian system, stimulated the private initiatives and interests to contribute to the process of development, steering them in harmony with the social purposes. The main social agent of the East Asian industrial modernisation, as in the case of some leading Latin American countries, had been *the developmental state* whose strength was based upon the partnership between the state officials and entrepreneurs.<sup>4</sup> In many respects, this state corresponded to some essential principles of the Confucian ideal in the last third of the XX century, so Confucianism and the capitalist development became compatible with each other only at the concrete stage of this development in the concrete global conditions. Namely, it was true for managerial, functional capitalism under which a strong bureaucratic hierarchy and organisational discipline were no less important for economic effectiveness than 'entrepreneurial spirit'. [Brook T., Luong H.V., 2000, p. 9].

What concerned Buddhism, it had been rather 'partner' of Confucianism than the opposite, 'counter-cultural' element. An endeavour to harmony inherent to the Buddhist doctrine, as well as its attitude that oriented an individual towards the moral and intellectual self-perfection, instigated to smooth various conflicts, sanctified propensity to saving and moderateness, and accustomed to be obedient and respectful to senior members of community. Besides, either Buddhism or Confucianism, or Taoism called for indispensable accomplishment of duties by each person, whether he/she was a top manager of big corporation, university intellectual or unskilled worker at assembly line.

Thus, it was not occasional that processes of the East Asian development presupposed a specific cohesion of local social-cultural and/or moral traditions with modernisation. Such synthesis alleviated inevitable inconveniences and tensions conditioned by rapid social transformations in the process of transition from traditional towards modern, industrialised society. Factually, Confucianism was adopted as the general doctrinal framework for the modern practice of management and rule. (See in

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<sup>4</sup> In the case of Asian studies, the concept of the developmental state was proposed by Chalmers Johnson who applied it to an analysis of the Japanese development. [Johnson Ch., 1982, pp. 10, 17, 51, 70 et ff.; Wolfereen van K., 1989, p. 6-7]; cf.: [Cardoso F.H., Faletto E., 1970, p. 123-129; Cardoso F.H., Faletto E., 1978, p. 143-148].

details: [Tamney J.B., Chiang L. Hsueh-Ling, 2002, chapter 3]. In addition, since Confucianism taught that the ruler ought to “keep from oppressing the helpless, and not to neglect the strained and poor” [Confucius, 1966, p. 46-47], an appealing to the Confucian and/or Buddhist doctrine(s), being practically combined with gradual enlargement of the circle of people who got real yields of the accelerated development, allowed to neutralise a possible reaction to modernisation – a reaction of rejection from backward social groups – that took place, for example, in Iran in 1978-1980.

In other words, one of the main peculiarities of the East Asian development in the last third of the past century was a compromise between traditions and modernity. Factually, it was, to a big degree, *the conservative modernisation* resemble to the Bolshevik modernisation in Russia where the former Soviet system had been, at least, until the late-1960s, a form of the great historical compromise between the Russian Universe and the main trends of the XX century development. (See in details: [Foursov A., 1996, pp. 112-113, 120-121, 124; Krassilchtchikov V., 2003b, p. 38-39]).

Certainly, such a compromise was stabilising for the entire process of development. However, simultaneously, it implied an internal conflict between its both sides. This conflict, being extremely contradictory in itself, attributed a wonderful dynamism to modernisation at its first stages but was increasingly hindering to a further development in the long-term prospect. Soon or later, this conflict should be resolved for a gain of either modernity or traditions.

It is hardly worth to remind statistical data on rates of the economic growth, poverty reducing or flows of the external trade of the NICs. All these fascinating data and achievements are well known and available. What is important for understanding of the ‘tigers’ accomplishments and problems, at the same time, concerns ‘internal vulnerabilities’ of their rapid development.

At first, East Asian ‘miracle’ was predominantly based on the extensive, input-resources growth. The main sources of the NICs’ GDP increase were inflows of capitals and labour force, as many researchers affirm. (See, for example: [Abe Sh., Plummer M.G., 1998, p. 94; Ezaki M., 1998, p. 32-33; Sarel M., 1997, World Bank, 1993, p. 46-69].) Various treatments and quantitative estimations of these inflows by various authors lead, respectively, to different estimations of the total factor productivity’s (TFP) contribution to the economic dynamics of ‘tigers’. Nevertheless, despite relatively broad dispersion of the TFP data presented in different publications, they all approve that this contribution was low or, in the best case, moderate. Furthermore, like any accelerated, enforced development, the growth of ‘tigers’ had been uneven. It

succeeded to serious macroeconomic disproportions that pierced the whole economy and influenced on the social sphere.

Thanks to the rapid growth of GDP and evident positive changes, these disproportions and imbalances were seemingly invisible over the long time. An exterior side of the undeniable achievements hid the real costs of successful development but the problem of co-measurability of these achievements and costs should have inevitably to appear in one or another form.

In particular, the export expansion of 'tigers' had been accompanied by the growing imbalance between outward- and inward looking sectors of their economies. The former attracted the foreign direct investments (FDI), used the advanced technologies, and the developmental state drew its untiring attention to it. The latter, oriented mostly towards the internal market, looked relatively backward and was not as effective and advanced as its 'co-brother' working for the global demand. Respectively, the workers occupied at small and medium enterprises of the inward-looking sector got lower wages.

The other imbalance concerned a correlation between dynamics of GDP and level of the most working people's wages, between production and private consumption. As it was in the cases of the former Soviet Union and some Latin American countries in the past, an accelerated growth required investments in the extended scale. It influenced not only on proportions between investments and consumption, private and public, but also on a quality of the labour force and, in the medium- and long-term prospects, on competitiveness at the world market. As the statistical data of Asian Development Bank indicate, the gross domestic investments in the East Asian NICs grew much faster than private and public consumption increased. Hong Kong had been the only 'tiger' that accomplished 'a function of exception' from the general tendency of the production/consumption ratio in the NICs to be increasing. In the course of long time, the private consumption's share in GDP of this formerly British colony corresponded to that of West European countries. The other members of 'tigers family' retarded from West European countries by their level of private consumption than by their GDP per capita for longer time distance. In particular, when GDP per capita in Taiwan province, Korea, and Malaysia had exceeded the level of 7000 international dollars (in 1983, 1988, and 1996, respectively), their private consumption per capita was lower by 25-30 per cent than in most West European countries when the latter reached the same level of GDP per capita in the 1960s. As a consequence of disproportion between consumption and investment, by volume of private consumption per capita, Singapore retarded from most West European countries for 10-15 years while by GDP per capita

this city-state had overtaken them in 1995. (Estimated on: [Maddison A., 2001, pp. 276-277, 304-305].) The share of private consumption in Singapore GDP permanently decreased since the mid-70s. It dropped from 60-62 per cent in 1977 to 44-47 per cent in the mid-80s and onward. Then it had fallen to 41.9 per cent in 1995, 41.1 – in 1996 and 40.1 per cent of GDP – in 1997. Simultaneously, the share of government consumption in this period diminished from 16.2 per cent in 1977 to 10.2 per cent in 1990 and, at last, to 8.5-9.5 per cent in 1994-1997.

The similar trends took place in Malaysia where the share of private consumption in GDP declined from 53.1 per cent in 1981 to 45.0 per cent in 1997 and 41.0 per cent in 1998. Respectively, the share of government consumption decreased from 18.1 per cent in 1981 to 11.1 – in 1997 and 10.8 per cent – in 1998. (Counted on: [ADB, 1999, pp. 182-183, 282-283].)

In regards to the rate of the private consumption growth, the East Asian NICs followed way of the former USSR where a disproportion between production, linked, to an enormous degree, to military-industrial complex, on the one hand, and consumption, on the other hand, led to an under-investment into human capital.<sup>5</sup> It widened gap between the *internal* centre and periphery, and, in the prospect, succeeded to the deep systemic crisis.

A relatively insufficient level of private consumption (an evident alleviation of poverty notwithstanding) had been one of the factors that impeded to a formation of the labour force capable to create new technologies. The other factor was a scientific-technological policy of the developmental state. This policy oriented public either private research and development (R&D) centres rather to imitation of the borrowed technologies than to elaboration of the proper ones. (Certainly, such an imitation could be explained, to a big degree, by insufficient experience of the scientific researches and technological innovations.) As a rule, public and private expenditures for R&D in the East Asian NICs did not correspond to the acquired level of industrialisation and manufacturing output. Even in those cases when such expenditures reached 1.5 – 2.0 per cent of GDP (Taiwan province and South Korea), what was close to the similar indicators in the industrially developed countries, their level did not allow to pretend for scientific and technological breakthroughs. In its turn, weak scientific and

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<sup>5</sup> As Fernando Henrique Cardoso wrote on the Soviet economic planners and strategists, "they still saw the world through infrastructural lenses. 'Production' was their watchword, and productivity was to be improved only by investment in the 'hard' industries - nothing 'soft', no 'human capital', no telemetrics for them." [Carnoy M. e. a., 1993, p. 155].

technological capacities constrained opportunities to increase the region's competitiveness maintaining its export expansion.

At last, the outward-looking development made the East Asian NICs vulnerable to fluctuations of the global demand. A further development of 'tigers' depended on the export expansion in ever-extending degree while the efforts aimed at improvement of the internal situation had been depreciating because of narrow 'space' for manoeuvres. Objectively, it did not enable to avoid of troubles, including those initiated from abroad.

### **3) The Crisis of 1997-1998 and its Essence**

The 2<sup>nd</sup> of July 1997 was a day when East Asian 'miracle' had turned into debacle. The attacks of financial speculators to Thai baht had led to a devaluation of the national currency. Baht had decreased by 30 per cent in ratio to US dollar, and it was only beginning of its fall. In January 1998, baht was depreciated more 2 times when a slow recovery resumed.

A down of Thai currency meant a start of a series of devaluations in East Asia. Very soon, Malaysian ringgit, Korean won, Singapore dollar, not speaking about Indonesian rupee, were suffering a depreciation, too, though to different degrees in various countries. After financial earthquakes, the crisis spread into a sphere of real economy. Banks and industrial companies, including worldly known Korean chaebols, came to a threshold of bankruptcy, and some of them actually collapsed. The economic recession had begun. Only in Taiwan province the growth was slowed but not ceased, and the economies of Singapore and Hong Kong were affected by relatively 'light disease'. The main victims of the crisis had been Korea and the second-tier NICs where the crisis' consequences were particularly destroying, including a crash of the "New Order" regime of general Suharto in Indonesia. Moreover, in this country and Thailand as well, the process of de-industrialisation and de-urbanisation had started because a part of the urban population began to return back to countryside where to find means of subsistence was easier than in the crisis-affected urban areas with high unemployment.

The financial mechanism of the crisis of 1997-98 is described in details, including a study of common features of the latter and those occurred in Latin American countries, from 1994 ('tequila crisis') in Mexico to 2001-02 (*el colapso de la convertibilidad* in Argentina).<sup>6</sup> Hence, it would hardly be relevant to consider a complement of all factors

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<sup>6</sup> See, for example: [Oddone C.N., 2004, pp. 58-62, 69-77, 106 et ff.].

that contributed to an emergence of the crisis. These factors, from pegging of the national currencies to US dollar (while the latter was devaluated in ratio to Japanese yen since the mid-80s) to ineffective management of chaebols, from snares of financial speculators to over-exceeding, spoiling financement of the ultra-prestigious technical-economic projects, from irrational private borrowings at the world market to an absence of financial transparency, were mentioned in many publications devoted to different aspects of the 1997-98 'debacle' in East Asia. What should indispensably be marked concerned *an essence* of the events under scrutiny. Namely, the crisis of 1997-98 in East Asia was not merely *the financial crisis* with devastating consequences for a real sector of economy. Moreover, it would be incorrect to reduce this crisis to the financial problems only. In essence, the main cause of the Asian NICs' failure in 1997-98 was *their successful development as itself*. [Masina P.P., 2002, p. 2]. The 'tigers' found themselves in the same modernisation trap as that in which the former Soviet Union had sunk and, earlier, Latin American countries suffered the lost decade of the 1980s when the ISI strategy under a guidance of the state declined.

*Modernisation trap meant a situation when undeniable achievements that were outcome of catching up industrialisation in the past, as well as social-political institutions, principles of management and approaches to governance as a whole, which enabled to reach a certain level of the social-economic and technical development, became obstacles to a further development in the changed conditions. At the same time, inertia of accomplishments in the past bore illusions that it would be possible to follow 'approved way' whereas this way led to a blind alley.*

The modernisation trap situation matured gradually, in the process of development, as result of the internal evolution of society. Meanwhile, in all three cases, whether it was the case of Latin America, the collapse of the former Soviet Union, or the events in East Asia in 1997-1998, the internal problems had been redoubled by the external challenges. In each of these cases, the social-economic and political-institutional systems were incapable to respond to the challenges from the West. In particular, they could not compete with the rising *post*-industrial, knowledge-based economies, which depreciated, to an essential degree, efforts of the countries that attempted to catch up with the world leaders through accelerated industrialisation. It was not a vice of the developmental state. Objectively, in the course of fast, catching up development, it was impossible to create such scientific-technological capacities as those existed in the most advanced OECD countries where the R&D base and traditions of creative, innovative activity had been developed over many decades and even centuries. Indeed, 'tigers' adopted and appropriated new technologies much more successfully

than the industrial countries of Latin America or the former Soviet Union (where new technologies had been elaborated, *prima facie*, in a sphere of military techniques). However, their R&D efforts were mainly aimed at an improvement of several details of small importance and adjusting them to concrete needs of the industrial growth whereas they *could not create* these technologies.

Meanwhile, the scientific-technological capacities of each country depend, as it is well known, on amount and quality of the respective human resources, namely, on the secondary and tertiary education. Accomplishments of the East Asian NICs in this sphere are world-widely recognised. Systematically, 'tigers' resolved a problem of illiteracy, training large contingents of the labour force, correspondingly to requirements of the outward-looking mass assembly production. Later, they commenced developing the tertiary education. However, their system of the secondary and tertiary education as a whole was adapted to the tasks of *industrial* development based mainly on the borrowed technologies. It did not train the specialists capable to proceed and promote the proper basic scientific research and new technologies. In other words, the system of education in the East Asian NICs was destined to training of the skilled executives but not creators.<sup>7</sup> Moreover, despite an evident progress of the tertiary education, 'tigers', particularly the second-tier ones, suffered a shortage of the specialists in engineering and natural sciences. The highest ratio of engineering and natural sciences specialists among all those with bachelor's degree was in Malaysia (24.4 per cent in 1998) while in both other countries of this 'tigers' group, Indonesia and Thailand, these ratios were 21.7 (1999) and 17.8 per cent (1998), respectively. [Yusuf Sh. *et al.*, 2003, p. 204; OECD, 2000, pp. 167, 173-174; *National Science Foundation*, 2004]. Obviously, a relative deficit of the technically educated specialists constrained the innovative capacities. These circumstances, a character of the education system either a shortage of the respective specialists, hindered to renovating an assortment of output upon the proper R&D base. In essence, it was the same thing as decline of competitiveness, particularly, in the conditions of growing export expansion of China, Vietnam and India.

In addition, it is probably worth to draw attention to such fact as 'industrial organisation' of R&D that has been, for example, character feature of enormously big scientific and technological centres of the Korean chaebols. The higher colleges and

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<sup>7</sup> Almost the same problem arose in Japan which was a pattern for 'tigers'. Still in 1985, the council for educational reform organised under supervision of the Prime Minister Nakasone assessed the Japanese education system negatively because its 'products' were people biased to "stereotypes without clear individuality unable to think properly". [Wolfereen van, 1989, p. 90]. What did change over twenty years?

universities educated specialists should had to work in the same manner as the assembly lines workers, outputting 'products' in a form of new ideas or engineering solutions. The owners and top managers of chaebols did not comprehend real differences between two, intellectual and manual, kinds of labour. They treated the specialists, researchers and engineers, as serfs of the big feud or domain who should be obedient executives of seigneurs' will. Such a managerial attitude to people potentially capable to maintain a competitiveness of the national economy at the appropriate level weakened 'the creative power' of chaebols. In the end, this practice restrained innovative capacities and contradicted to the strategy of export-led growth.

Therefore, it was not occasional that still the UNCTAD "Trade and Development Report 1996" predicted a slowdown of the NICs' export expansion to the developed countries market, and, respectively, a rise of difficulties 'tigers' could confront. [UNCTAD, 1996, pp. 89, 102, 123]. The market should inevitably react to these problems. Indeed, being aggravated by simultaneous operation and coincidence of many other factors, it had actually reacted, mostly in a form of the financial crisis.

Hence, the main problem the East Asian NICs faced in the second half of the 1990s was, in essence, the same as that either the former Soviet Union, or post-soviet Russia, or Latin American countries were unable to resolve – the problem of insufficient development of human resources and creative (innovative) capacities of their economies. Thus, the Asian crisis of 1997-98 was neither the financial, nor structural, nor over-production crisis only. It encompassed all these crises simultaneously, denuding an inadequacy of the Asian industrial catching-up development model to the challenges of rising post-industrial, knowledge-based society in the West. Namely, it demonstrated an inability to compete with economies where a creative, intellectual activity, education, scientific researches and 'a force of human imagination' play the extending role. Furthermore, the Asian crisis indicated historical limit of *the conservative modernisation* in East Asia. In the changed global conditions, such specific traits of East Asian capitalism as paternalistic corporate management, the state interventionism and activity of the developmental state as a whole, the entire system of formal and informal business relationships grounded upon customs and attitudes that facilitated the fast development in the 1960s-1980s became ineffective and appeared as inadequate to transition towards the next stage.

Thereby, the Asian crisis of 1997-98 should be treated in much larger context than the most economists designed it just after the event. It could be understood as subject matter of the multidisciplinary studies. In practical respect, a multidimensionality of the crisis meant that a jeopardy of new storms could not removed in East Asia until the



regional economies conserved all essential features of the industrial system based upon catching up development that presupposed, to a big degree, imitation of the advanced countries' accomplishments instead of real endogenous breakthroughs, whether they concerned manufacturing or social technologies.

Respectively, the after-crisis development has to be considered and assessed from the point of view of opportunities to resolve the problems, contradictions and discordancies that inevitably emerged in the course of previous development.

The economic growth in East Asia resumed after the crisis in 1999. As a whole, it was not as fascinating as in the times of East Asian 'miracle' and was interrupted, although unevenly, by slowdown or recession in 2001. This recession was mostly conditioned by the fall in manufacturing industries. However, despite temporary difficulties 'tigers' met in the beginning of the recent decade, rate of the regional economic growth was higher than average in the world, and the East Asian NICs demonstrated good, positive dynamics. Perhaps, only Indonesia deviated from this trend being the most profoundly crisis-affected country in the region with serious consequences almost in all spheres of life.

Nevertheless, a quick resumption of the after-crisis (post-crisis) growth was not surprising. The crisis facilitated purging the NICs' economies of obsolete managerial structures and ineffective companies. Simultaneously, measures, which were realised by the governments for recovery, concerned the both macro- and microeconomic respects. It is hardly necessary to mention and describe these measures in details. Their complement spread from further liberalisation and de-regulation of the national economy (Korea, Taiwan province) to selective strengthening the state interventionism, particularly, in the financial system (Malaysia). Relevance of all these policies taken within wide spectre of the post-crisis measures looks to be indispensable. However, do they concern the long-term shifts in depths of the region's economies and societies? What was really done to abolish the causes of crisis?

#### **4) Did Something Change after the Crisis?**

Apparently, politicians and scholars in the NICs conceive very well what has to be done in the course of post-crisis development. The government officials, analysts, whether they are affiliated with the ruling circles or are independent, and experts of the international organisations speak about an insistent necessity for 'tigers' to transcend 'purely economic' approaches to the regional problems and to initiate a transition towards creative, knowledge-based society. Moreover, the governments of the NICs undertook some real initiatives aimed at practical realisation of new strategy.

In particular, the Singapore government has increased the public expenditures for R&D from 0.85 per cent of GDP in 1990 to 2.25 per cent – in 2004 and continues augmenting them, having the goal to achieve 3 per cent by 2010. [*MTI*, 2006, pp. IV-V, 3, 7, 16].

The government of Malaysia raised the share of R&D expenditures in GDP from 0.22 per cent in 1996 to 0.39 per cent in 1998, then to 0.50 per cent in 2000 (growth by 48 per cent over two years!!), and to 0.69 – in 2002. [*MASTIC*, 2000, pp. II, IV, 10; *MASTIC*, 2004, pp. 43, 7, 16]. (With such pace of the growth, in 2005 Malaysia should cross a symbolic line of the R&D expenditures ratio to GDP equal to 1 per cent.) Besides, the government of the country issued the master plan “Knowledge-based Economy” [*ISIS*, 2002], which specifies and deepens the strategic programme “Vision-2020” aimed at turning Malaysia into post-industrial, developed nation. This plan assesses self-critically all previous achievements of the country and proposes the concrete measures to overcome the limits to further movement towards qualitatively new state of the Malaysian society. The Korean Ministry of Education took decision to open special high schools with the advanced teaching programmes in math, physics and other natural or technical sciences for the talented youngsters. These schools should orient students to creative activity and studies at prestigious universities, which could train an intellectual capability to think properly.

However, a distance from declaration to reality may be very long. For initiating a genuine transition towards new, post-industrial stage of development, ‘tigers’ have to overcome (or to jump over?) two kinds of obstacles to reaching the proclaimed goals, although both kinds have the common sources and are rooted in the character of the East Asian ‘conservative modernisation’. (In essence, this is the same situation as in Russia where the main obstacles to development, without drag that has been injecting from petroleum pipeline, consist in the Russian Universe, namely, in traditions and long-established customs of the Russian people inhabited to obey themselves to ‘authorities’ of all ranks, to hope for ‘good tsar’, and to survive thanks to enormous wastage of the natural resources instead of intensive labour efforts).

The first group of such obstacles concerns the properly economic, managerial and institutional aspects of restructuring. In particular, it consists in existence of the relationships between the state officials and private big business, on the one hand, and a practice of corporate management accordingly to traditions of social paternalism, on the other. For example, attempts to restructure some chaebols in Korea initiated still in 1998-2000 faced a resistance of officials and corporate managers who intended to rescue the old interpersonal ties between them from the radical changes (=abolition).

Motives of such behaviour were double: there was a desire to conserve the accustomed system of relationships and, at the same time, an opportunity of unrestricted access to financial flows and levers of control. (See, for example: [Larkin J. 2001; Kim Jung Min 2003]). (Up today, a full transparency of business, including a defence of rights of minor shareholders, remains to be goal but it did not yet become a reality in East Asia.) It is a fact that the Korean chaebols, as well as many 'bumiputras' big companies in Malaysia, rather imitated reforms not being really reformed.<sup>8</sup> [Bidet E., 2003, p. 333-337]. In 2005, a group of the World Bank's experts has drawn attention to an 'unchangeability' of the Korean economic system: "After the waves of the reform, the present state of the economy seems to be not much different from the initial conditions although some progress, of course, has been made." [Lee K. e. a., 2005, p. 10]. Such a reaction of adjustment to the challenges is a form of the bureaucratic mimicry, which, although to bigger degree, takes place in Russia where it succeeds to an emergence of 'the bureaucratic market' with extremely imperfect competition and corruption as its structural element. This 'market' makes up an economic base for existence of the so called 'transit class' whose main interest is the conservation of 'eternal transition' from the old system towards a state of permanent rent-seeking. Obviously, there is none solution of this task because any social-economic transition cannot be eternal process. However, as Russian experience shows, attempts of bureaucracy to eternalise 'a process of transition' for more 'effective' rent seeking may be very costly and destructive. This circumstance should be taken into account considering the prospects of the post-crisis structural reforms in Korea or other East Asian NICs.

The other problem that should be resolved in the course of reforms in East Asia concerned the macroeconomic proportions between investment and consumption, consumption and savings. A resolution of this problem could have, so to speak, two dimensions. The first would consist in enlargement of the internal market that should attribute an additional stability to the local economies reducing their vulnerability to fluctuations of the global demand. The second dimension would be significant from the point of view of the human resources development because an increasing share of consumption in GDP might augment a level of consumption of most working people.

Indeed, a new quality of the labour force as a whole in the NICs is indispensable for further development if 'tigers' want to be 'tigers' but not to be turned into Russian

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<sup>8</sup> In this respect, the so-called 'liberalisation and de-regulation' has not any positive significance; on contrary, 'de-regulation' in regards to big companies leads to a further monopolisation of market and, thereby, estranges a real situation from 'a triumph of liberal principles'.

'bear' sitting on petroleum pipeline. And neither increase of the R&D expenditures, nor reforms of the education system, nor artificial nurture of the students' creativity will aid to keep the acquired positions in the world economy if a majority of the working people in the region will not have an opportunity to develop 'creative capacities' of their children because of the low level of wages. One of the most important conditions to solve this strategic task consists in increasing consumption of the large masses of hired labourers. In this respect, some positive changes took place in several NICs after the crisis. For example, the share of private consumption at count of the share of investments in GDP increased in Hong Kong, Taiwan (where it has become the long-term macroeconomic tendency), and, to a lesser degree, in South Korea. In the latter case, ratio of the gross domestic investments to GDP diminished from 35-37 per cent by the end of the 1980s – the beginning of the 1990s to 26.1 per cent in 2002 but then has begun to grow again and has reached 30.1-30.2 per cent in 2004-2005. [ADB, 2002, p. 60-61; ADB, 2006, p. 317]. Such increase of investments, taking into account what is the general level of the country's technical-economic development, can hardly correspond to the long-term task to raise consumption of ordinary people (particularly, when the social-economic inequality is a little increasing or, at least, is not diminishing). Factually, it means that only a small part of the GDP growth has been appropriating in a form of the wages increase. Despite an absence of visible poverty in the first-tier NICs, such a situation becomes resembling to that in Russia or Mexico when the economic growth has not been accompanying by the respective poverty reducing.

At the same time, in Singapore and Malaysia, the countries that pretend to become the scientific-technological centres in Asia, a private consumption remains almost at the pre-crisis level. Notwithstanding a decrease of ratio of the gross domestic investments to GDP (from 27.1 per cent in 2000 to 22.5 per cent in 2004 in Malaysia, and from 32.3 in 2000 to 18.3 per cent in 2004 in Singapore [ADB, 2005a, pp. 104, 115; ADB, 2005b, p. 162]), the share of savings in 2001-2002 was equal to 42-43 per cent in Singapore and 44-45 per cent in Malaysia [ADB, 2003, pp. 80, 91] not indicating a tendency to fall in the subsequent years. Respectively, the share of private consumption in GDP continued remaining at low level: in 2004, it was 42.9 per cent in Malaysia and 42.2 – in Singapore. [ADB, 2005b, p. 162]. Hence, a big amount of resources has been diverted from consumption, thereby, devaluing efforts of the NICs to transit toward the new model of development.

(It is worth to remind an experience of modernisation in Brazil where the military-bureaucratic authoritarian regime of 1964-1985 attempted to develop education,

sphere of R&D, new branches of economy, including such ones as nuclear energy power stations, aircraft industry, space research, etc. But it abolished neither the mass poverty nor the tremendous disparities between advanced and backward sectors of the Brazilian economy and society because almost nothing was done for improvement of 'ordinary' human resources, and some progress in the primary and secondary education was insufficient for the country's radical transformation. As a result, the authoritarian modernisation in the largest Latin American country restrained itself due to its elitist character.

Approximately the same should be said about the Soviet achievements in science and technology that were mainly concentrated in the military sphere and only a few of them became available for use in the civil branches of economy. The low level of wages of most working people did not stimulate the technological innovations but doomed a lot of workers to alcoholism and degradation.)

Factually, Asian 'tigers' risk following Russian or some Latin American countries' way, involuntarily promoting truncated and, consequently, self-depreciating technological development with negative social-economic results, the efforts to change trajectory of their path notwithstanding. Jeopardy of such movement, in essence, towards a state of the world periphery, has been conditioned by an exceeding vulnerability of the NICs to changes of the global demand. After the crisis, a dependence of the region on the external markets did not diminish. Rather, it began to be reorienting from the US, EU and Japan towards the Chinese mainland and interregional market. However, since 1995-96, in the course of such reorientation, a share of the technologically advanced goods grew by slowing rate. [Ng F., Yeats A., 2003, p. 34-35]. Does it mean 'a start of de-industrialisation' of the Asian NICs, a phenomenon that is well-known in Latin American countries, Russia, or Ukraine where the advanced branches of industry have become the main victims of 'liberalisation'? Certainly, the acquired technological level of East Asia, particularly, in the first-tier NICs, is much higher than in Latin America or Russia. However, what is important in the given case is not the quantitative indicators of industrial development but *the qualitative trend* which is a little foundation for the optimistic prognosis.

At the same time, a majority of recommendations how to cure 'tigers' after the crisis (exceptions from this stream were rare!) concerned such things as transparency, good governance, struggle against corruption but neither technological improvements, nor industrial policy, nor technical innovations, nor effectiveness of production process, etc. Evidently, a significance of institutional environment and good organisation or management is undeniable; however, it hardly has any sense without development of

all production factors. Furthermore, there is a risk to forget about development as itself for advantage of its conditions. It can be seen, in particular, in Thailand after the crisis. [Orlandini B., 2003, pp. 16-43, esp., pp. 28-35]. Really, the process of de-industrialisation or, at least, that of simplification of the industry's branch structure, though in 'moderate forms' can become the self-sustaining trend in some Asian NICs, as it occurred in Latin American countries due to 'liberalisation' since the early 1990s. (See, for example: [Sotelo Valencia A., 2004, p. 91-99].

Meanwhile, refuse of development for the sake of 'optimisation' presupposes that premises of the new crisis are remaining in the region, and these premises cannot disappear even in the conditions of rapid growth. Their subverting 'work' can be accelerated and facilitated by a set of unfavourable factors of the secondary importance. May be, each of these factors is unable to impact essentially on a situation but operating together they can make up a single 'gang of poachers' adverse to 'tigers'.

Nonetheless, an alleviation of the structural disproportions and disparities inside of the NICs' economies (not speaking about insistent necessity to raise consumption of the working people in the second-tier NICs) will hardly be sufficient to alternate the region's model of development driving it towards knowledge-based society. In addition, there is also another set of obstacles, which can impede to transforming industrial 'tigers' into post-industrial 'dragons'. These are social-cultural traditions and habits, including ones profoundly rooted in Confucianism, which played a positive role at the stage of accelerated industrialisation under guidance of the developmental state, wise, morally pure and socially responsible officials. However, today it is difficult to imagine how the habits of obedience to seniors and chiefs, communalism, paternalism and blind adoration to authorities regardlessly to their 'business qualities' can be compatible with imperatives of creativity and free individuality. In particular, it is easy to proclaim reforms in the education system aiming it at 'nurturing creative capacities' of students but it is very difficult to realise these reforms when the education bureaucrats either teachers and students' parents resist to innovations because of their adherence to 'good merry traditions'. Therefore, a long time will be required until reforms will really yield suggested results. Have the Asian 'tigers' an opportunity to expect ten, fifteen or twenty years for real changes in social structure and consciousness corresponding to the challenges they confront since the mid-1990s?

Meanwhile, the old balance between traditions and modernity that made up a ground of 'conservative modernisation' in the region can be destroyed at expense of modernisation. In other words, traditions can win and block impulses to development.

Will the ruling elites and peoples of East Asia be capable to avoid of temptation to choose autochthoneity instead of renovation? Now there are foundations for optimism but nobody can guarantee that widespread disappointment in development will never arise in the region.

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The East Asian newly industrialising countries were the last children of the past century developmentalism. It will be the great tragedy not only for them but also for the West, if they will not resolve their problems in adequate manner and, involuntarily, will follow post-soviet Russia or Latin America, growing with slowed development or without development at all. The 'tigers' success, as well as possible but not pre-determined accomplishments of China and India, will mean the victory of development in a broad sense. Their failure can ensure a new wave of fundamentalism and strengthening of the global turmoil.

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