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## **G-24 Discussion Paper Series**

# **Growth After the Asian Crisis: What Remains of the East Asian Model?**

**Jomo K.S.**

*No. 10, March 2001*

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TRADE AND DEVELOPMENT**

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***G-24 Discussion Paper Series***

**Research papers for the Intergovernmental Group of Twenty-Four  
on International Monetary Affairs**



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## PREFACE

The *G-24 Discussion Paper Series* is a collection of research papers prepared under the UNCTAD Project of Technical Support to the Intergovernmental Group of Twenty-Four on International Monetary Affairs (G-24). The G-24 was established in 1971 with a view to increasing the analytical capacity and the negotiating strength of the developing countries in discussions and negotiations in the international financial institutions. The G-24 is the only formal developing-country grouping within the IMF and the World Bank. Its meetings are open to all developing countries.

The G-24 Project, which is administered by UNCTAD's Macroeconomic and Development Policies Branch, aims at enhancing the understanding of policy makers in developing countries of the complex issues in the international monetary and financial system, and at raising awareness outside developing countries of the need to introduce a development dimension into the discussion of international financial and institutional reform.

The research carried out under the project is coordinated by Professor Dani Rodrik, John F. Kennedy School of Government, Harvard University. The research papers are discussed among experts and policy makers at the meetings of the G-24 Technical Group, and provide inputs to the meetings of the G-24 Ministers and Deputies in their preparations for negotiations and discussions in the framework of the IMF's International Monetary and Financial Committee (formerly Interim Committee) and the Joint IMF/IBRD Development Committee, as well as in other forums. Previously, the research papers for the G-24 were published by UNCTAD in the collection *International Monetary and Financial Issues for the 1990s*. Between 1992 and 1999 more than 80 papers were published in 11 volumes of this collection, covering a wide range of monetary and financial issues of major interest to developing countries. Since the beginning of 2000 the studies are published jointly by UNCTAD and the Center for International Development at Harvard University in the *G-24 Discussion Paper Series*.

The Project of Technical Support to the G-24 receives generous financial support from the International Development Research Centre of Canada and the Governments of Denmark and the Netherlands, as well as contributions from the countries participating in the meetings of the G-24.

# **GROWTH AFTER THE ASIAN CRISIS: WHAT REMAINS OF THE EAST ASIAN MODEL?**

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**G-24 Discussion Paper No. 10**

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## ***Abstract***

*This paper focuses on the prospects for sustained development in the four East Asian economies most adversely affected by the crises of 1997/98. These include all three second-tier South-East Asian newly industrializing countries (NICs) – Indonesia, Malaysia and Thailand – as well as the Republic of Korea, the most adversely affected of the first-generation newly industrialized economies (NIEs). The first section critically examines the East Asian model presented by the World Bank’s “East Asian Miracle” (1993). The study emphasizes the variety of East Asian experiences. The three second-tier South-East Asian experiences are shown to be quite distinct from, and inferior to, those of the first-generation NIEs, especially the Republic of Korea and Taiwan Province of China.*

*The circumstances leading to the onset of the East Asian crises of 1997/98 are then reviewed to assess whether and how the East Asian “models” may have contributed to the crises. Macroeconomic indicators in Malaysia and the three most crisis-affected economies – i.e. Indonesia, the Republic of Korea and Thailand – are reviewed to establish that, despite some misdemeanours, the crises cannot be attributed to macroeconomic profligacy. After reviewing the causes of these crises, the role of international financial liberalization and the reversal of capital inflows are emphasized. Nevertheless, the trend towards further financial liberalization continues. Malaysia is shown to have been less exposed as a result of restrictions on foreign borrowings as well as stricter bank regulations, but more vulnerable owing to the greater role of capital markets compared to the other three economies in the region. The role of the IMF and financial market expectations in exacerbating the crises is also considered.*

*The emerging discussion begins by asserting that economic recovery in East Asia since 1999 – especially in Malaysia and the Republic of Korea – has been principally due to successful reflationary measures, both fiscal and monetary. The main institutional reforms currently claimed as urgent to protect the four affected economies from future crises and to return them to their previous high growth paths are critically assessed. It is argued that the emphasis by the IMF and the financial media on corporate governance reforms has been misguided and that such reforms are not really necessary for recovery. Instead of the Anglo-American-inspired reforms currently proposed, reforms should create new conditions for further “catching-up” throughout the region. Although the prospects for reform of the international financial system remain dim, a reform agenda in the interests of the South is outlined.*

*Globalization, including international financial liberalization, has reduced the scope for selective interventions so crucial to the catching-up achieved during the East Asian miracle years. However, the process has been uneven and far from smooth, leaving considerable room for similar initiatives more appropriate to new circumstances. In any case, it is unlikely that globalization will ever succeed in fully transforming all other national economic systems along Anglo-American lines. The emerging hybrid systems have not really advanced late development efforts. There is an urgent need to understand better the full implications of globalization and liberalization in different circumstances so as to identify the remaining scope for national developmental initiatives.*

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# **GROWTH AFTER THE ASIAN CRISIS: WHAT REMAINS OF THE EAST ASIAN MODEL?\***

**Jomo K.S.**

## **I. Introduction**

From the 1980s, and especially in the early and mid-1990s, there was growing international recognition of the sustained rapid economic growth, structural change and industrialization of the East Asian region. There has also been a tendency to see East Asia as much more of an economically integrated region than it actually is, and a corresponding tendency to see economic progress in the region as being similar in origin and nature. Terms such as the “Far East”, “Asia-Pacific”, “Pacific Asia”, “East Asia”, “yen bloc”, “flying geese”, “tigers”, “mini-dragons”, and so on, have tended to encourage this perception of the region as far more economically integrated and similar than it actually is.

The World Bank (1993) argued that of the eight

(1988) had earlier argued that South-East Asian economies were characterized by ersatz capitalism because of the compromised and inferior role of their states, their discriminatory treatment of ethnic Chinese and their failure to develop better technological capabilities. Jomo et al. (1997) criticized the World Bank’s claims that the South-East Asian highly performing economies were superior models for emulation, pointing to various differences suggesting the inferiority of South East Asia’s economic achievements.

The East Asian currency and financial crises of 1997/8 radically transformed international perceptions and opinion about the East Asian experiences, with earlier praise quickly changing into severe condemnation. This was most obvious with regard to the issue of business government relations, which had previously been characterized as key to the East

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