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ORIGINAL ARTICLE

EAST ASIAN ECONOMIC DEVELOPMENT: AN APPRAISAL

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Abstract:

This paper is an attempt to analyze the various factors that led to equitable growth in the East Asian economies and whether there is scope for such process to be replicated in other developing countries without availing support from the advanced industrialized nations. Accordingly, the paper discusses the recipe behind this so-called East Asian Miracle, and on that basis, the policy alternatives that could base as the lessons for other developing economies.

KEY WORDS:

East Asian economies, Growth with equity, Factors, Lessons for other developing economies.

I. EAST ASIAN DEVELOPMENT

From 1965 to 1990 the twenty three economies of East Asia grew faster than all other regions. Most of this achievement is attributed to seemingly miraculous growth in just eight economies: Japan; the 'Four Tigers," Hong Kong, the Republic of Korea, Singapore, and Taiwan, China; and the three newly industrializing economies (NIEs) of Southeast Asia, Indonesia, Malaysia, and Thailand. Moreover, these eight economies have been unusually successful at sharing the fruits of growth. Compared to other developing economies, they have had lower and declining levels of inequality. Rapid growth along with improving equity, which characterizes broad based economic development, is the defining characteristic of the East Asian miracle and these eight high-performing Asian economies (HPAEs) are therefore the concern of this paper.

II. FACTORS ACCOUNTING FOR EAST ASIAN MIRACLE

How could an equitable growth emerge as a miracle in East Asian Economies? This is the question that needs to be answered. Overall, there were a significant number of factors that collectively could make it a reality. We can list these policy frameworks under seven broad categories, which can be enumerated as (1) redistribution and land reforms; (2) balanced development between manufacture and agriculture; (3) human resources and education; (4) housing; (5) outward orientation; (6) international environment and external influences, and finally (7) family security. Now we will discuss each of these factors in detail and then lay out the lessons that other developing countries can learn from the East Asian experience.

1.Redistribution and Land Reform

Theory and empirical evidence suggests that widespread ownership of land not only improves

equity but also improves land productivity (Berry and Cline 1979). All the HPAEs with substantial agrarian sectors have widespread land holding, resulting from either traditional ownership patterns (Indonesia and Thailand) or land reform (Japan, Korea, and Taiwan, China). The South Korean and Taiwanese land reforms in the late 1940s were the first important initiatives to reduce poverty and inequity in the Northeast Asian economies under consideration. They began land reforms under broadly similar circumstances. In both cases, authoritarian governments facing a communist threat were dependent on the assistance of the United States, whose advisers urged them to adopt more egalitarian land holding. In Taiwan, China, the Kuomintang government seized land from the landlords, compensating them with shares in state enterprises. It then sold the land to the tillers at favorable credit terms and favorable prices. The government then helped the tillers upgrade production for domestic and export markets. The programme worked, economically and politically. These reforms reduced land rents to 37.5 per cent of the yield for major crops, resulted in the sale of public land to cultivators and tenants, and effectively limited ownership by landowners in Taiwan (Yu, 1994). Land reform helped Taiwan, China, achieve one of the world's most equitable income distributions (Kuo, 1976). Political stability benefited in two ways. Newly landed farmers, focused on boosting production, had little interest in radical activities. Former landlords, as new shareholders in state enterprises, had a vested interest in the success of the Taiwanese authorities' economic programme. In Korea, land reform occurred in two stages. The first, initiated by U.S. forces in 1947, distributed the land confiscated from the Japanese at the end of World War II to the tillers and put a ceiling on rents of other land. The second, begun in 1950 and completed after the Korean War, was undertaken by the Korean government after a lengthy debate in the legislature. The government took over landlord properties, paid the latter nominal compensation, and distributed the land to 900,000 tenants, effectively eliminating tenancy. The amount of cottiers and semi-cottiers in Korea was 84 percent of the whole farmers before land reform, and it fell down to 7 percent in 1970. The yaomen' proportion rose to 69 percent. Taiwan's land reform also took obvious effects. The proportion of big farmer (who had 3 units of land and above) dropped from 11 percent before land reform to 3 percent. The proportion of those who owned less than one half unit of land fell to 21 percent from 43 percent, indicating a more equable trend in land allocation (Jiang, 2001).

In Malaysia, corporate-owned plantations have dominated agriculture since the colonial era. There has not been any major land reform in Malaysia, new agricultural areas have been distributed through land development schemes managed by government agencies such as the Federal Land Development Authority (FELDA), Federal Land Consolidation and Rehabilitation Authority (FELCRA) and the Rubber Industry Smallholders Development Authority (RISDA).Since Malaysia has a relatively small population and ample land, it has avoided equity problems common to other developing economies. In Japan, drastic land reforms began after World War II. Landlords, who dominated the rural society in prewar Japan, disappeared by the reform. Most of the community members in rural society became owner farmers, which brought more equal assets and income distributions among the rural population. During the span of 3 years i.e. 1945-48, 33-34 percent of the cultivable area was redistributed in Japan. Hong Kong and Singapore have almost no agricultural sector.

The success in land reform provided a solid basis for East Asia's rural sector. With the fair allocation of land ownership, the production efficiency was improved and the income distribution in rural area was evidently going better. Meanwhile, the competition among food producers and United States food aid under Public Law 480 ensured low food prices in East Asian countries and beyond. The surplus labor force became the growth source of labor-intensive industrial sectors, and satisfied the great demands for non-technical workers in manufacture, construction, trade and service sector.

2.Balanced Development between Manufacture and Agriculture

The proportion of public investment in the total investment in East Asia was higher than other middle-low income countries. Compared to other developing countries, HPAEs governments' undertook direct action to provide roads, research, and extension services to raise agricultural productivity and provide access to markets. Indonesia, Korea and Thailand allocated its public investment in sanitation and irrigation works between city and rural area more balancedly. Korea and Taiwan have realized the electrification in rural area since 1980s. In Malaysia and Thailand, the rural population who had access to electric power was near half of total population, while in same period, in Argentina, Bolivia and Brazil, this proportion was lower than 20 percent(World Bank, 1995). When food aid ceased following the 1973 oil shock, the Korean government launched the Saemaul Undong program that, inter alia, increased domestic food supply. With the help of price controls, the state succeeded in providing industrial workers with cheap food, thus lowering the wage bill for manufacturing firms. Price controls helped keep consumer prices low

so that both savings and investment rates rose in these economies. Taiwan also emphasized rural industrialization, encouraging manufacturing alongside farming. In the 1970s, both Korea and Taiwan introduced hybrid grain varieties and modernized farming, which helped expand the food supply and free more farm workers for industry. The fundamentals in rural area were improved step by step and the rural labor was utilized in full capacity, which allowed the economic development further.

The development central to reducing poverty and inequality in East Asia was rapid employment growth in the rural non-farm sector and in urban areas. Growth in rural non-farm employment opportunities has been a major feature of rural income growth, helping to absorb workers from lower-productivity farming. This growth has been driven by a robust agriculture and improved rural economic infrastructure. Higher agricultural incomes have increased the demand for goods and services and helped finance off-farm investments (with input supplies playing a secondary role). Rural infrastructure both provides employment in the construction phase and reduces the costs of rural commerce. These employment transformations were immense. In the late 1950s less than 30 percent of Malaysia's workforce was in wage-paying industrial and service jobs; by the late 1980s this share had risen to 60 percent. In Korea agricultural employment fell from 50 percent of the workforce in 1970 to 20 percent in the late 1980s. Rural Java (Indonesia) experienced a transport revolution and a burst of rural nonfarm and peripheral urban employment in the late 1970s and early 1980s. This was the result of steady growth in rice incomes and direct and indirect government spending on schools, roads, and other rural infrastructure.

Just as numerous small land holdings improved equity and efficiency, the HPAE's benefited from a profusion of small and medium-size enterprises (SMEs). The large number of SMEs generally reflected market forces rather than government intervention. But several of these economies supported SMEs with preferential credits and specific support services. Rapid growth of labor-intensive manufacturing in these firms absorbed large numbers of workers, reducing unemployment and attracting rural labor. As firms shifted to more sophisticated production, efficiency rose and workers' real incomes increased. Support for SMEs has been most explicit and successful in Taiwan, China. SMEs comprise at least 90 percent of enterprises in each sector. Not surprisingly, the SMEs also dominate the export sector, producing about 60 percent of the total value of exports Other HPAEs have also encouraged small and medium size industries. Japan has directed enormous financial resources toward developing small and medium-size enterprises. Public financial institutions have allocated an average of 10 percent of lending toward SMEs.

3.Human Resources and Education

Investments in human resources have helped reduce poverty and inequality. Through government efforts, Korea and Taiwan have developed highly educated labour forces. Universal primary education since the 1960s has been complemented by high enrollments in secondary and tertiary levels, and a strong emphasis on technical and engineering disciplines. Clearly these investments in human capital went well beyond the primary schooling limit recommended by the World Bank, with labour market interventions based on long-term considerations beyond current prices (Alesina and Rodrik, 1994). The expansion of education not only helped generate technical and professional human resources for industrial upgrading, but also enhanced opportunities for upward socio-economic mobility, including skills enhancement and higher remuneration (Deyo, 1989). Though Malaysia and Indonesia managed to reduce inequality over long periods, this success was not due to market forces, but rather to significant government expenditures on rural development, education, and employment programs.

Levels of human capital were higher in the HPAEs in the 1960s than in other low- and middle-income economies. Educational investments resulted in universal primary education and in widely available secondary education. In addition, the quality of schooling has improved more rapidly in the HPAEs than in other middle-income economies; as fertility rates fell in the 1 970s, education spending per child rose sharply even as education expenditure as a percentage of GNP remained constant or, in some cases, declined.

Rapid human capital accumulation was fostered by two additional factors. First, many HPAE had a head start on a virtuous circle: initial low inequality of income and education let to educational expansion, which reinforced low inequality. Second, in contrast to other regions, public spending has been concentrated on primary and secondary education. Demand for tertiary education was largely absorbed by a self-financed private system. At the post-secondary level, public spending has focused on scientific and technological education (including engineering) while demand for university education in humanities and social sciences has been handled through the self-financed private system. Average educational attainment in the low-wage end of the labor force is higher in HPAEs than in other middle-income economies. The HPAEs have also promoted enterprise training programs, including many subsidized by government Post

secondary education has focused on technical skills more than in other middle-income economies. Some HPAES also actively recruited foreign teachers and sent large numbers of students abroad, particularly in vocationally and technologically sophisticated disciplines. Overall, educational investments seem' particularly well focused on the acquisition and mastery of technology.

According to the research of World Bank, except for Thailand, the children who were in the school age accepted a higher quality of education than children in other countries in same income level. After HPAEs (High Performing Asian Economies) popularized its secondary education in the whole nation, they shrank the gap of education between boys and girls ten and several years earlier than other countries in same income level. But corresponding to the success, the spending on education in East Asia was average among developing countries. For example, the public spending on education accounts for 2.5 percent of GDP in 1960, while 2.2 percent among developing countries. In 1989, this proportion was 3.7 percent in East Asia, and 3.6 percent for all developing countries. The factors that determined the success more lay in the ways how East Asian governments allocate the spending between fundamental education and advanced education. The proportion of expenditures in secondary education was highest, while it was low in advanced education. Such a policy aimed to develop the basis of education pyramid in priority. When secondary education was populated, the demand for higher education would increase gradually. On the other hand, the subsidy to secondary education could guarantee the opportunities that children in low income family could receive education.

This assertion is in line with Birdsall, Ross and Sabot (1995), who strongly suggests that one thing distinguishing East Asian from other regions, is its willingness to emphasize investment in primary education instead of higher education. Higher primary enrollments are the most important contributor to the difference in economic growth rates between East Asia and other regions in the period 1960-1985 (see Rowen,). Further, they argue that East Asian advantage in primary education became the future supply of educated workers. However, for education to boost growth, demand for educated labor must also rise. In this respect, prudent macroeconomic policies and export promotion have been instrumental for increasing demand for labor. The demand for unskilled labor may develop first. Eventually as the economy progresses to a more mature state, the demand for sophisticated goods also increases. With this, the demand for educated labor also increases. The whole process signifies the role of manufacturing export providing the chance for educational endowment to make contribution to economic growth.

Using Japan, South Korea and Taiwan as a prime example, these countries have invested extensively in human capital and the result is a remarkable economic growth. The earlier assertion from Bruno et.al' and empirical works explained above are in line with the pattern of growth with relatively equal income distribution observed in East Asia. The tendency of governments in East Asia in emphasizing on primary and secondary education has profound impact on income distribution. Rapid increase in primary and secondary enrollment did much to reduce income inequalities in East Asia for two reasons. First, wage differential fell as rapid increases were made at all education levels. Second, the poor have much to gain simply by moving from no or little formal education to at least completed primary education. In turn, plentiful supply of labor with good basic education has been met by the increase of demand for labor especially in manufacturing.

The aspect of East Asian policy that most contributed to equitable growth in capabilities was government financing and provisioning of basic social services. The story is particularly clear for education, where all East Asian societies made expansion of first primary and then secondary education a priority. Government provisioning partially solved credit constraints, particularly those faced by poor people in financing the education of their children. Significant contributions were also made by households, since the opportunity cost of schooling-as opposed to working-is often larger than the pecuniary cost. Across the region the demand for schooling was reflected in a rapid rise in enrollments once schools and teachers were made available. Financing was strongly biased toward lower levels of schooling. In the Republic of Korea, for example, government finance accounts for almost 100 percent of the direct costs of primary schooling, plummeting to less than 50 percent for tertiary education. Starting in the 1970s Indonesia used oil rents to fund a nationwide school-building campaign, resulting in a massive expansion in primary schooling, but much secondary and tertiary education and technical training remains privately financed (World Bank, 1997). Studies of expenditure incidence confirm that primary schooling had relatively equitable incidence in the 1980s (more equitable than income), and secondary and tertiary spending is relatively inequitable (van de Walle and Nead, 1995).

Why does education matter for poverty and inequality? While the answer may seem obvious, there are in fact a number of influences. Most of the poor are rural dwellers that depend on agriculture. Direct effects of education on agricultural productivity are significant though not large-working, for example, by increasing the propensity to adopt

new technologies. Probably of greater quantitative importance are the effects on participation in

nonagricultural work: education encourages movement into better nonfarm rural work and migration to towns for industrial and service employment. A general finding from high- and middle-income countries was that expanding the relative supply of education tends to reduce earnings inequality. Consider Korea, where the large expansion in relatively educated workers was the most important source of a substantial compression in earnings differentials among workers between 1970 and 1990 (Kim and Topel, 1995). Educational expansion was much more equal in Korea than in Brazil, which helps explain Brazil's greater earnings inequality (Park, Ross, and Sabot, 1996).

Education also has significant indirect effects. For example, educated mothers are more likely than uneducated ones to ensure that their children receive an education and live healthily (World Bank, 1993; Birdsall and Sabot, 1993). And as we have seen, households with higher incomes are more likely to send their children to school.

4.Housing: Successfully Targeting Low Income Households

Two HPAEs, Hong Kong and Singapore, intervened heavily in housing markets to win the support and cooperation of non-elites. By providing low-cost housing for the majority of residents, both programs have helped to decrease inequality and minimize social unrest, thus providing the long-term stability attractive to investors. Moreover, the massive construction effort created jobs when both economies faced high unemployment, subsequently, the wide availability of low-cost housing for workers helped to hold down wage demands, subsidizing labor intensive manufacturing.

In Hong Kong, which has generally followed a laissez-faire approach to the economy, mass housing programs were a response to a massive influx of refugees and migrants from China. The rapid increase in Hong Kong's population from 600,000 in 1945 to 2.4 million in 1950 spawned slum areas, high unemployment, and poverty. These led to social disturbances, which culminated in riots in 1967. To diffuse the tension and improve living conditions of the general public, in 1972 the government launched a The fast- track public housing program that has since expanded to include the construction of entire new towns outside the city proper. By 1987, more than 40 percent of the population lived in public housing.

Like Hong Kong, Singapore experienced a dramatic influx of migrants in the late 1950s and early 1960s and faced similar problems. Its expulsion from the Malayan Federation made matters worse. The government responded by creating the Housing Development Board (HDB) in 1960 to provide public housing to low-income families. As these needs were met, the HDB has turned to development of middle-income public housing and self-sufficient new towns similar to those in Hong Kong.

5. Outward Orientation

Outward orientation is instrumental in achieving growth with equity. In the earlier stage of economic development, the shift toward labor-intensive export-oriented industrialization proved to be important for improvement of the standard of living for the poor by increasing the demand for labor. All countries started with a focus on technologically simple labor-intensive goods – clothing, sports goods, toys, processed foods and so forth. This does not mean the capital intensive industry is completely absent from the scene and East Asian countries remains locked in labor-intensive industry. Rather, the introduction of capital intensive is very gradual. Had the capital intensive been introduced earlier, it would be very difficult to absorb supply of labor, which might result in income inequality and social instability. So the manufacturing export has not been only functioning as engine of growth but also in promoting more equal income distribution. This path of industrialization was copied by Korean, Taiwan, Hong Kong from Japan, and which in turn copied by Malaysian, Thailand, Indonesia, the Philippines and now China also follows the same track. Regional proximity or the habit of “learning from your neighbor” seems to matter in the spread of the strategy of rapid growth but more or less equitable, through trade and exporting.

Most HPAEs began industrialization with a protectionist orientation and gradually moved toward increasingly free trade. Along the way they often tapped some of the efficiency-generating benefits of international competition through mixed trade regimes: they granted exporters duty free imports of capital and intermediate goods while continuing to protect consumer goods. Export prices were set in the international markets and were often substantially less than current marginal or average cost. Profits in protected domestic markers offset export losses, while competition in the international markets pushed firms to maximize efficiency.

Despite the protection of domestic manufacturers evident in all the HPAES except Hong Kong and Singapore, domestic prices in these economies are more closely aligned to international prices than in other developing regions. Two bodies of evidence support this conclusion. Fit, nominal tariff rates adjusted

for non tariff barriers are lower in the HPAEs than in most other developing economies. Second, comparisons of real GNP across economies indicate that domestic relative prices for tradable goods in the HPAE are more closely aligned t o international prices than in other regions.

The HPAEs have maximized the benefits of an outward orientation by actively seeking foreign technology through a variety of mechanisms. All welcomed technology transfers in the form of licenses, capital goods imports, and foreign training. Openness to foreign direct investment has speeded technology acquisition in Hong Kong, Malaysia, Singapore, and, more recently, Indonesia and Thailand. Japan, Korea, and, to a lesser extent, Taiwan, China, restricted foreign direct investment but offset this disadvantage by aggressively acquiring foreign knowledge through licenses and other means. Industrial structures and related policies and institutions changed gradually in accordance with shifts in the comparative performance.

6. Weak Social Security Offset by Family Security

In respect of its high-speed growth, the social security system in East Asia was not sound. Unlike that Japan has already made out the development strategy which gave same concern on growth and allocation, and realized a balanced development, built a universal social security, the Central Provident Fund in Singapore and Korea's social insurance plan are both old age allowances. The portion of spending on social security in the fiscal budget was quite small. Some countries even put limits on transferable payment turning to social welfare. However, different from Latin American countries, the families in East Asia had high saving rate which meant people could secure themselves through saving. Because the family was the core social unit which took more responsibilities in social security, the defects of an unsound social security system was partly offset. Moreover, though the governments of Singapore and Hong Kong held the liberalism idea, such as Small Society with Great Government, only provide a security to poor people to satisfy basic human demands, they set up a relatively sound housing and medical care system, which lessened the social conflicts brought by social allocation gap.

7. International Environment and External influences

Hardly any developing country has been free of invasions, migrations, colonialism, foreign threats and other major external influences in the past. As in other regions, colonialism has had a large impact here as well; although with one significant difference. None of these economies were directly under any colonial rule, still their position post World War II leaves space for significant insights to be drawn. The cold war, which started from the late 1940s to 1990s was a worldwide phenomenon but it was expressed more strongly in this region than in other developing one-as was the influences of the United States. The US-led Cold War efforts to secure a political cordon sanitaire around the 'communist bloc' ensured considerable aid as well as economic policies conducive to equitable and rapid development.

Several developing economies of East Asia simultaneously experienced major turnarounds in their clustered, sequential development process in the early 1970s and again in the mid-1980s. Behind this process, significant changes in the international economic environment indeed occurred. In macroeconomic policy, easy monetary policy among OECDs (organization of economic corporation & development) countries in the 1970s led to low real interest rates, and the Asian NIEs (newly industrializing economies, i.e. Chinese Taipei; Hong Kong, China; Korea and Singapore) found it convenient to finance their strong investment demand by borrowing petrodollars recycled through banks in London and New York (Frankel et al., 2003). Relocation of labour-intensive manufacturing among East Asian economies was also facilitated by successive rounds of real effective yen appreciation, particularly in the wake of the Plaza Accord on the dollar-yen currency realignment in September 1985. In the early 1990s, real interest rates in the United States and other OECD countries were once again low, so that international capital went to East Asian and other emerging economies to earn higher returns. Thus external macroeconomic factors exerted an important impact on the East Asian economies through trade and financial linkages. The emergence of a market-driven, trade-FDI (foreign direct investment) nexus in the form of a positive relationship between liberalization initiatives and strong trade and FDI performance was another critical factor underlying East Asia's development. Japan and the Asian NIEs have emerged as sources of FDI as they climbed technological ladders in industrial development and began relocating labour-intensive activities to less advanced developing economies within the region. In other words, growth stimuli and incentives have been generated and transmitted from more advanced to less advanced economies through continuous industrial restructuring and adjustment on the one hand and gradual reductions in trade and FDI barriers on the other. Unilateral tariff reductions for parts and components in machinery industries, together

with the extensive use of a duty drawback system, have played a pivotal role in the formation of international production and distribution systems, thereby stimulating intra-regional trade and investment in manufactured goods, especially electronic products. International aid, largely in the form of concessional loans, supported the developing economies' growth by focusing on the importance of foreign trade and inward direct investment, through financing economic infrastructure and human resource development. International aid also helped to strengthen recipient countries' policy frameworks and institutional fundamentals, as in China's reforms. The East Asian economies were able to create a trade-FDI nexus with their market-friendly policy environments (good investment climate) and their institutional and human capability to absorb foreign capital. They used such opportunities to expand exports and imports for industrialization and development. With manufactured trade, FDI and official development assistance (ODA), these economies were positioned to benefit from the positive impact of OECD-country policies.

Another area of direct relevance in the development of East Asian Economies has been – regional security. During the Cold War, maintaining regional security had the utmost importance for economies with strategic alliances with the Western bloc. East Asia has had no region-wide security arrangement in a traditional sense. It has had a combination of US-centered, bilateral security treaties — for Japan, Korea, the Philippines and Thailand — and loose regional forums for security co-operation. The US-centered security treaties are traditional arrangements that oblige signatories to defend their allies if adversaries attack or threaten them militarily. Forums for security co-operation have been developed around ASEAN6, including the Treaty of Amity and Co-operation in Southeast Asia (1976) and, more recently, the ASEAN Regional Forum (1994). Security co-operation in East Asia entails multilateral dialogue and information exchange, not only among allies but also with potential adversaries, to deepen mutual understanding and build trust, thereby reducing the probability of military conflict. Domestic political stability, underpinned primarily by the US-centered security arrangements, laid a critical foundation for development. Individual countries then undertook major policy initiatives to promote growth and poverty reduction within the general framework of GATT/WTO.

Therefore, the East Asian growth since the early 1970s and particularly the mid-1980s was a function of various positive developments in the international market place, such as favorable exchange rate and interest-rate changes, copious capital flows in financial markets and technological change that facilitated globalization and industrial restructuring. A “one-size-fits-all” approach to economic policy formation holds considerable risks. Hence, the first rule in applying lessons is to do so with considerable caution, bearing in mind country-specific circumstances.

III. LESSONS FOR OTHER DEVELOPING ECONOMIES

The policy orientations of East Asian economies as described above can conveniently be compartmentalized into two approaches: growth policy approaches and social policy approaches. Growth policies include standard measures that ignite and sustain private-sector dynamism such as provision of indicative visions, plans, and strategies; human resource development; technology; infrastructure; SME promotion; FDI attraction; finance; and subsidies among others. Social policies are a set of measures that helped these economies cope with problem of inequitable distribution associated with rapid growth.

Land reforms, for example, were important in many of these countries to create a more equal distribution of income and wealth and to allow a larger part of the population to benefit from the new export and growth opportunities. Economic growth and relatively equitable income distribution was achieved through more even distribution of opportunities. There were also instances of heavy investments in infrastructure by the Governments. At the early stages of development, a number of efforts focused on transportation networks – roads, railroads, port facilities – while investments in electricity and telecommunications were more important at later stages of the process. Investment in education was particularly important, and countries where human capital accumulation was slow have become trapped into low wage and low value added sectors. The education policies in these countries stressed universal primary education and improvements in educational quality at both primary and secondary levels.

World Bank gave a new name to these lessons: sound macroeconomic policies along with strict fiscal prudence path. According to the Bank, strict fiscal and monetary discipline kept budget deficits, domestic and foreign debt stocks, and inflation rates sufficiently low to be manageable. Exchange rates were managed to avoid over valuation of the domestic currency. The stability made it possible to avoid imposing general import restrictions to correct balance of-payments deficits, and facilitated a gradual reduction of trade restrictions. In fact, trade liberalization was often integrated with macroeconomic management, so that major phases of liberalization coincided with devaluation, exchange rate unification, fiscal reform, and inflows of foreign aid or concessional loans to offset the temporary weakening of the current account (World Bank, 1993). All this present a picture that these economies appear to have followed

a prudence path on the overall level. But what seems to have been missed out in the discussion by World Bank is the realization of the fact that these economies could sustain such a macro economic picture only because of their heavy reliance on the United States. It was their position in the cold war which significantly determined this growing association with the powerful advanced countries.

Hence for the present developing countries, lessons from Japan & East & Asia need to be interpreted in light of different institutions and external conditions. There are two extreme views on lessons from East Asia. One is that its experience was so historically and culturally determined that little is relevant or transferable to peoples elsewhere. The present Third World lives in a completely different era, where direct aid and protection with the advanced nations cannot be expected at the level similar to that in the East Asian countries.

However, with such an historic alliance East Asia could succeed largely because they adopted good economic policies and created good institution thereof. If such an environment be replicated with the support of 'State', even the Third World has scope of achieving a similar growth trajectory. and any country that emulated them will also do well.

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