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A Development Strategy for Asian Economies: Korean Perspective

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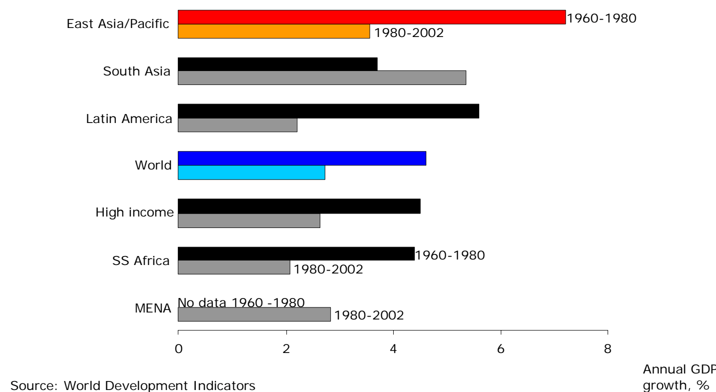
1 - Introduction

The rise of Asia was a transforming event of the economic and political history of the second half of the twentieth century. And with Asian countries, especially China, still growing at phenomenal rates, Asia's growth performance continues to transform the shape and center of gravity of the global economy.

East Asia's growth performance over the past four decades by far eclipsed that of the other regions of the world (Figure 1). The average growth rate of East Asian countries exceeded the average growth rate among other countries by 1.7% a year – an enormous difference over such a long timescale.

Figure 1. East Asian growth Rates in Global Perspective 1960-2002



Many Asian economies have shared in the success (Figure 2): first Japan; then the tigers, South Korea, Singapore, Hong Kong, and Taiwan, China; then the new industrializing economies, Thailand, Malaysia and Indonesia; and most recently and dramatically China. India looks set to be next. All East Asian economies have achieved historically exceptional rates of growth for at least two decades and often much longer. Over the last forty years, Korea has been one of the most impressive performers in this remarkable group.

These growth rates have inevitably increased the relative weights of the East Asian economies in the global economy (Figure 3). For instance, Korea expanded its share of global income more than four and a half times. Similarly, the share of East Asian countries in global trade has increased, from 14.1% in 1953 to 24.1% in 2002[2].

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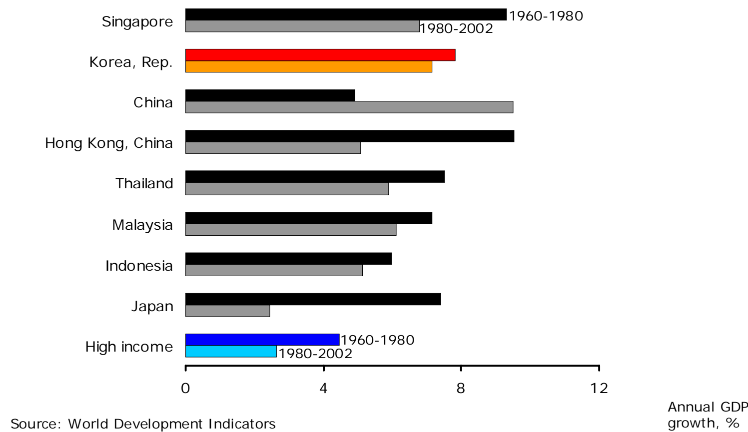
[2] Source: World Trade Organization. Average shares of world merchandise exports and imports.

It is tempting to project these growth rates into the future. A recent paper from Goldman Sachs (2003) forecast that China's economy would outweigh that of the UK and Germany within five years, pass Japan's around 2015, and overtake the United States by 2040. Within less than fifty years, East Asia could dominate the world economy; if the countries currently some distance from the current wealth of Japan – including China and Korea – continue to track a similar growth trajectory to that of Japan[3] some years ago, the East Asian economy could account for half of global GDP by 2050[4].

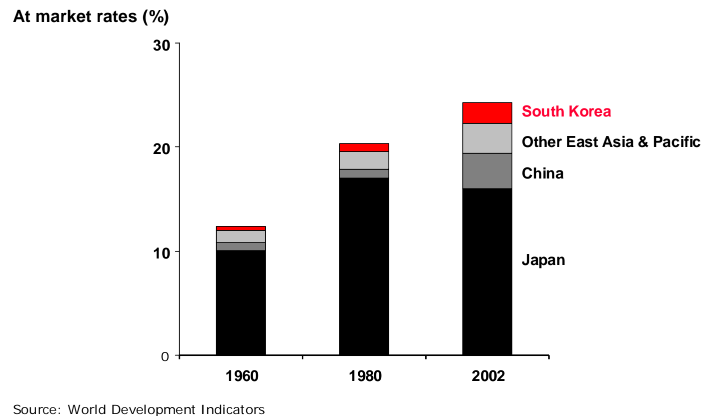
Figure 2. National growth rates, East Asia 1960-2002



Source: World Development Indicators

The East Asian development story of the last half-century has been a spectacular success, without historical parallel. The strategy followed by the East Asian countries appears to have been broadly similar. But there are many questions about what the strategy has been, how well it worked, and whether it can continue to work in the future. Those are the questions I now take up.

Figure 3. East Asian share of world GDP



Source: World Development Indicators

[3] Current rates and patterns of growth show some similarities with the Japan of earlier decades – see IMF (2004a).

[4] Assuming developing Asia outpaces world growth by 4% - it did so by over 4.5% the past 20 years.

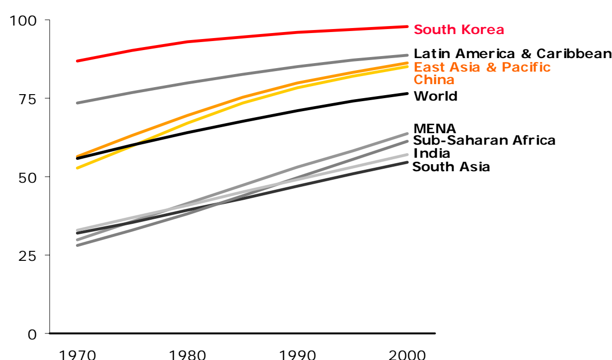
2 – East Asian development strategy before the crisis

Just over a decade ago, in response to the contrast between the successes of East Asian growth and the much slower growth in other developing countries, the World Bank undertook a study of the East Asian miracle (World Bank, 1993). One of its most interesting findings was that the development strategies followed by the eight East Asian miracle economies[5] were in some important respects different. Nonetheless, they also had much in common.

First, a stable business environment with – in most, but not all, economies – respect for property rights and low enough inflation to encourage long-term investments in physical capital. As part of these stability-oriented policies, macroeconomic policies were generally cautious, with both budget deficits and the size of government spending remaining small. For the most part, exchange rates were pegged against the dollar. In most of the miracle economies, high savings rates, combined with fairly accurate price signals, helped fuel high levels of productive investment.[6]

Second, complementing the high physical investment, and no less important, was investment in people. Educational standards were and are extremely high (Figure 4). The proportion of people graduating from high school in Japan and Korea in the 1990s was higher than almost anywhere else in the OECD; Korea, in particular, has made tremendous progress in the last few decades. Even in poorer East Asian countries such as China, basic adult literacy is over 85%, well above the world average, and far above the level in India.

Figure 4. Adult literacy rates



Source: World Development Indicators

However, that is not the whole story. After all, the command economies of Eastern Europe and the Soviet Union also invested heavily in both physical capital and education. But because price and other incentives in those economies were badly distorted, the investments became increasingly less productive over time.

The third element of the East Asian Miracle – common to all the economies – was their success at exporting (Figure 5). All successful Asian economies enthusiastically embraced trade, and especially exports. In parallel, imports also grew extremely rapidly. Some East Asian countries, but not all, encouraged foreign direct investment (FDI); indeed this is one of the major differences between China on one hand and Japan and

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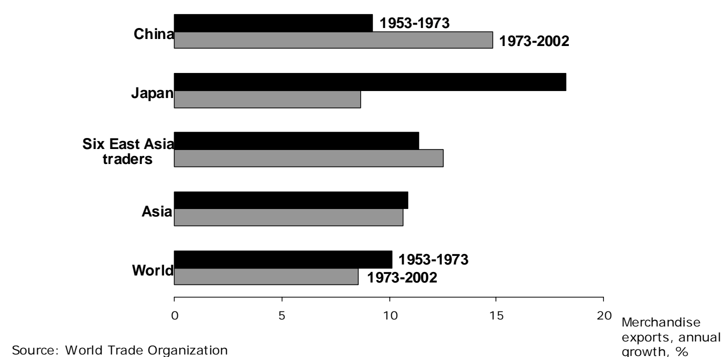
[5] Japan; the Four Tigers (Hong Kong, South Korea, Singapore and Taiwan, China); and Indonesia, Malaysia, and Thailand.

[6] Alice Amsden (1989) emphasized the use of policy to "get prices wrong" in a way that would promote growth. Nonetheless, price distortions in East Asia – particularly for capital goods imports – were generally significantly smaller than in other developing countries.

Korea on the other. And even those countries that discouraged FDI actively encouraged technological progress by seeking the acquisition of foreign expertise through imported technology or licensing to a greater extent than did other developing countries.

These three elements are by now entirely orthodox. But readers of the East Asian Miracle study were more interested in the less orthodox parts of the strategy, particularly the view and the claim that East Asian governments had successfully intervened in markets and had in different ways pursued a successful industrial policy strategy.[7] The non-orthodox elements of policy identified in the East Asian Miracle study can be summarized as follows:

Figure 5. East Asian export growth rates 1953-2002



First, the interventionist strategy was intended to accelerate industrialization and the growth of trade. Among the tactics used in different countries were: exchange rate policies to favor exporters, export incentives, and selective tariff protection; financial repression, slowing financial sector development and consumer lending to provide cheap financing to industry – for exports, and for key industries – and the government; a high level of consultation between bureaucrats and business – both individual companies and industry groupings; and in most cases (but not Indonesia) a very slow opening of the capital account.

Second, governments were not only willing to intervene in the economy but in most of the countries were competent to do so: bureaucrats were of very high caliber, responsive to the needs of business, yet isolated from corruption or undue pressure from special interests.

Third, governments were pragmatic rather than dogmatic – they were willing to abandon initiatives that went wrong, and continued to promote competition between firms even if they were trying to steer the economy as a whole. Therefore, competitive pressures and freedom to fail, two critical elements of the market system, continued despite the industrial policy interventions of the state.

The study concluded that the answer was somewhere in the middle, that indeed, in most East Asian Miracle countries the state did intervene in a variety of ways to

[7] Even in this case there were differences among the eight countries, with for instance Hong Kong not having pursued an active industrial policy.

attempt to improve on market decisions, and that some – but not all – of the attempts were successful. It also concluded that overall the interventions were modest and flexible. These conclusions satisfied neither the proponents of large-scale government intervention, nor market purists.

The debate over what had caused and was continuing to cause the phenomenal growth in East Asia intensified in the following few years. It included a data-intensive discussion of the role of technical progress in Asian growth, with the powerful work by Alwyn Young, originally published in 1992, at the center of the debate. Young argued that growth in most of the East Asian economies was due largely to capital accumulation, and relatively little to technical progress (Young, 1995). Important as this debate was and remains, one has also to be impressed by the ability of the East Asian economies to put such large amounts of saving to productive use, and to maintain supranormal growth rates for so long.

These debates were overtaken by the Asian crisis of 1997-98. The crisis led to a more fundamental questioning of many aspects of East Asian economic policy. With the benefit of more time for thought, the strong recovery from the crisis in most countries, and another decade of research, we can make calmer judgments about the strategies Asian governments used, and the extent to which they were successful.

3 – Rethinking the model after the crisis

Ten years ago the combination of heterodox and neoclassical approaches was widely though not universally seen as a successful development model. Views on that strategy are now more complex,[8] partly in the light of subsequent research, partly because of the traumatic experiences of the crises, and partly because what worked in the past may not work in an increasingly integrated world economy.

We focus first on the neoclassical part of growth – on the roles of factor accumulation and of technical progress. One key issue is how productive capital investment in the miracle economies was. The data suggest that some Asian economies faced an increasing struggle to make their capital investments efficient. In Korea, from the mid 1970s to the mid 1990s, the share of investment in GDP rose from 25 per cent to 40 per cent, while the share of total capital income in GDP fell from 55 per cent to under 40 per cent. More and more investment was producing less and less income. In the first half of the 1990s, incremental capital-output ratios told a similar story, doubling in Hong Kong, Thailand and Korea.[9]

The weakness of financial systems in several of the miracle economies suggests that the loans the banks had been making were not productive, supporting the idea that many of the investments financed by the loans were also not productive – and thus that rates of investment and capital accumulation in those economies were excessive. If the financial system is forced to finance such investments, it will need to be subsidized – for example, through repeated recapitalizations of the banks. One of the conclusions drawn

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[8] See for example, World Bank (2001).

[9] IMF (1998), p.85. As the report noted, an increasing ICOR is not proof of declining capital efficiency, but it is suggestive.

after the Asian crisis was that extremely high rates of investment as a share of GDP, for instance in excess of 40 percent of GDP, are too high to be efficient.

A related key issue, already discussed, is how much of growth was produced by technical progress. The World Bank study of 1993 concluded that a third of growth came from total factor productivity growth. But subsequent work has found that TFP growth has been about half that[10]. In Korea, for example, less than 20 per cent of growth between 1960 and 1994 seems to have come from TFP growth.

These conclusions suggest that the pre-crisis growth rates in some of the miracle economies were not sustainable.[11] But there has not been any questioning of the role of human capital investment in the East Asian economies. Human capital accumulation was seen as essential to East Asian growth not only because better trained, more educated labor is in general more productive, but also because the development and implementation of more advanced technologies requires the inputs of highly trained labor. The leading East Asian governments, including Korea's, have recognized the importance of the role of human capital in growth, and are trying to strengthen technological training and their educational systems. These efforts, coupled with openness to foreign technologies and the best ideas the world has to offer, will stand their economies in very good stead.

As to Asian industrial policy, I believe the World Bank's view over a decade ago remains sensible: that some degree of government involvement can in principle be successful, and that it was successful in practice, too, in some Asian economies by allowing new industries to overcome coordination failures and exploit economies of scale. I also believe the potential for such interventions to go wrong is very high, both because the government may make the wrong decisions, and also because they are conducive to corruption. In most cases the best approach is for a country to create a supportive business environment, including policies and institutions that encourage innovation, investment and exports in general, and to leave allocative investment decisions to the private sector.

In this perspective, the policy of financial repression looked much less attractive than it had before. The financial sector plays a crucial role in the efficient allocation of resources in a market economy. A banking system that has been forced to make policy loans to favored sectors is more likely to be weak than one not subject to such government direction – and the crises showed that the costs of banking crises can be massive, particularly in high-saving countries in which the ratio of financial assets to GDP is very high. This experience confirmed the desirability of having a strong well-regulated banking system, lending on commercial criteria.

Following the crisis, the debate over industrial policy is losing much of its relevance. The truth is that interventionist policies are less and less practical in the modern global economy, especially as countries join the World Trade Organization – but also because the growing complexity of international patterns of specialization makes successful government intervention harder.

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[10] Crafts (1998); Young (1995); and Kim and Lau (1994).

[11] In general, we should expect growth rates to decline as income levels and technologies rise towards those of the advanced industrial economies – the question here is how rapidly economies can reach the technology frontier.

Whatever the arguments over the successes and failures of government activism, what cannot be disputed is that the Asian development strategy has relied on continuing openness and engagement with the world economy. The crisis was a reminder of the challenges that such openness can bring. It is to those challenges that I turn next.

4 – Economic management in the era of globalization[12]

The Asian crisis and the other financial crises of the last ten years led to much reflection on how to manage economies in this era of openness and globalization, and also on how to strengthen the international system and make it less crisis-prone. I will focus here on domestic economic management, and also briefly discuss the potential role of regional economic cooperation.

Globalization or no globalization, domestic macroeconomic management remains of central importance. In many regards, the East Asian economies are excellent examples of the rewards for getting macroeconomic basics right. The difficult experiences of Latin America for the last two decades remind us of the successful East Asian tradition of conservative fiscal policy. A conservative approach to fiscal policy can be buttressed by the institutional framework – for instance, fiscal responsibility laws – and by being transparent with data and about the intentions of the government.

The choice of exchange rate, capital control, and monetary policy regimes is closely interrelated. The crisis experience strongly confirms that pegged exchange rate regimes are vulnerable if the capital account is open – though to be sure, as the Malaysian and Chinese experiences confirm, vulnerability is much greater for an overvalued than for an undervalued exchange rate.

One of the key controversies of recent years has been whether to, and how to, liberalize the capital account. Most emerging market economies already have open capital accounts, and others are moving in that direction. They are right to want to open the capital account, but this is best done when conditions are appropriate. This means in particular that the country can and should open relatively early to foreign direct investment, but should not open to short term capital flows until it has a sound macroeconomic policy and strong financial sector in place, as well as a functioning foreign exchange market and the information base necessary to keep the markets functioning effectively.

As the controls are eased, the exchange rate should be made more flexible – unless the country plans to move to a hard peg, which after Argentina's experience would not be wise. A hard peg can however work if the terminal conditions for the peg – for example, joining EMU – are credible. To say that the exchange rate should become more flexible is not to say that it should necessarily float freely. Most countries will from time to time have reason to intervene in the foreign exchange market. Large foreign exchange reserves are helpful in reassuring the markets and providing the ammunition for intervention if needed. However, let me note two qualifications: first, for most countries, holding reserves is costly; and second, countries are liable to intervene too often, and without clear guiding principles.

Once the exchange rate is flexible, monetary policy needs to provide an alternative nominal anchor for the economy. This is best done through a flexible inflation targeting approach, aimed at keeping inflation down. East Asian economies have generally done well in maintaining low inflation.

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[12] For an in-depth discussion of the global issues, see Fischer, 2003.

Alongside these pillars of macroeconomic rectitude, it is necessary to have a strong financial system with effective supervisory institutions. Banks should be run on commercial principles, with close attention to risk management. Open and transparent securities markets are also very helpful. The benefits of a broad-based financial system, which does not rely entirely on the banks, also became clearer in the aftermath of the Asian crisis: by allowing firms a choice of financing sources, an economy with a broader based financial system is more likely to be resilient to shocks than a purely bank-based system. The more sophisticated and complex the economy, the more important these considerations become.

We have so far been discussing the involvement of emerging market economies with the global financial system. Involvement with the world trading system is far less controversial. The benefits of international trade are beyond serious doubt, and East Asian economies have done a particularly good job of taking advantage of international opportunities. The only question is how open trade should be pursued – through regional trade agreements, or global negotiations in the forum of the World Trade Organization.

Theory tells us that an open global trading system is best, and the WTO is built on that principle. But what if multilateral agreements are difficult to reach? In such circumstances, regional agreements may well be beneficial. The development of a coherent Asian trading system is taking place at breathtaking pace before our eyes. China and Japan are playing the central roles, and all the regional economies are benefiting enormously from the dynamism of China. Only three years ago the most common concern heard when visiting China's neighbors was that China had an absolute advantage in producing everything. No amount of explaining the theory of comparative advantage would change anyone's mind. Now events have persuaded people that the growth of China can benefit and is benefiting all the economies in the region.

This development is transforming the global economy. Already, Asian countries trade twice as much with each other as with North America. Japan already imports more from mainland China than from the United States, and if Taiwan and Hong Kong are added in, greater China is now Japan's largest trading partner[13]. This is not to minimize the role of the United States, which still provides much of the final demand that drives Asian trade – merely to remind ourselves that the picture is changing and will continue to change.

Thus the ongoing creation of free trade agreements in this area – within Asean, for example, or between Asean and China, for example – is likely to be a positive development, so long as global trade agreements do not suffer as a result. In addition, there would be many advantages to negotiating an overall regional agreement rather than a spaghetti bowl of bilateral and sub-regional agreements.

Over the very long run there could be major benefits to working with permanently fixed exchange rates among Asian countries – and even, eventually, globally. But this is a very long run goal indeed, and the lessons of Europe's move to a single currency are that intermediate regimes are crisis-prone.

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[13] 48.9% of Asian trade stayed within the region in 2002. 24.3% was with North America. Source: World Trade Organization.

Meanwhile, we see various attempts at regional monetary cooperation. Swap arrangements, such as those of ASEAN plus 3, are no doubt useful, even if current reserve levels make them less necessary at present, and provided they do not delay necessary adjustments to external shocks. Other forms of financial cooperation in the region, such as the Asian bond fund initiative, can also be useful – within a global context – in the development of stronger financial systems in the region.

It is sometimes said that governments are becoming less relevant in our increasingly globalized world. On the contrary, the responsibilities of governments are as vital as ever, even if global competition circumscribes the scope of some government actions, such as in the taxation of capital. Certainly, the structure of fiscal policy, both on the tax and spending sides – with a preference for moderate broadly-based taxes and expenditure focused on education and health – can make a critical difference to growth and social well-being. Governments continue to have the responsibility to ensure the provision of public goods, many of them in the form of infrastructure. And it is the government that has the responsibility for creating a supportive environment for business and for investment. Finally – and especially since globalization brings with it social change and the risk of occasional crisis – governments should provide a social safety net that takes care of the poorest, while seeking to avoid creating the wrong incentives. The market may achieve miracles, but some of the most important duties fall to government.

5 – A Korean Perspective

Among the major Asian economies, Japan stands out for having long since joined the ranks of the wealthiest industrial countries. So have Singapore and Hong Kong. Korea's per capital income is at about half that level, along with that of Taiwan, China.

If Korea is to raise its living standards to those of the industrialized countries, it will have to approximately double its relative dollar income. The Korean government has indeed set itself the goal of doubling per capita income to $20,000 a head within ten years. This will require a per capita growth rate of about 7 percent per annum. The question is, is this possible?

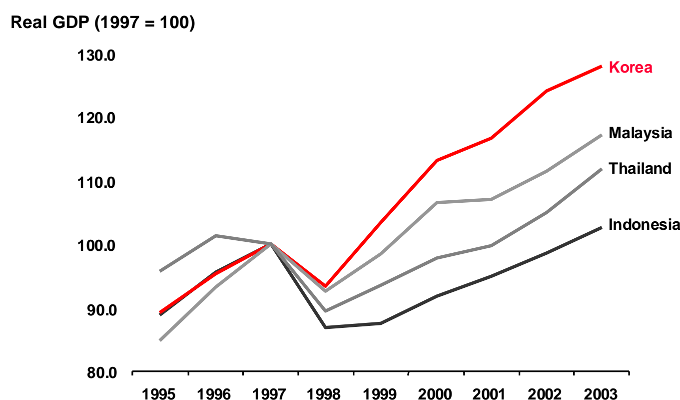
Looking back, the answer has to be yes. In 1950, a doubling of Korean per capita income would still have left it far short of Peru or Namibia; talk of joining the ranks of the world's richest nations would have been inconceivable. South Korea has come so far since then that to travel further seems perfectly possible.

Over the six years 1997-2003 – that is, the period including the Asian crisis – Korean growth per capita averaged a little over 3.5 percent. That is well short of 7 percent, but includes both the crisis and the recent global slowdown. The average for the five years after the crisis is 6 percent. This suggests that 7 percent per capita growth is an extremely ambitious target. Nonetheless, with continued good performance, and with some luck, Korea can achieve an average growth rate of 7 percent for another decade.

History suggests that this is quite possible. Hong Kong's per capita growth rates in the mid to late 1980s, beginning from an equivalent income level, exceeded 7 per cent. Japan's per capita growth rates in the mid to late 1960s, again from a comparable starting point, exceeded 10 per cent.

The years since the crisis have been encouraging, not only because of the growth figures (Figure 6), but even more because of the Korean government's commitment to reform. The IMF's 2003 Article IV report on Korea, published in February 2004, summarizes the progress. In a nutshell, Korea's banking system is more solid and is lending on a more commercial basis – which means more money for the small and medium enterprises that now provide nearly nine tenths of Korea's jobs[14]. Meanwhile the *chaebol* have turned to the capital markets, and in consequence Korea now has the largest bond market in Asia, outside Japan. The stock market has also grown and has more foreign participation than any other Asian country. Corporate governance standards are now much improved, having once been woeful, and corporate balance sheets are also far stronger.

Figure 6. A spectacular recovery



Source: World Development Indicators, 2003; World Economic Outlook April 2004

This is very good news for Korea. But while there has been real progress, much remains to be done. Last year's slowdown highlighted some of the remaining problems. In part, the slowdown could be blamed on a tough export environment and a flare-up of tensions with North Korea. But there was also a credit card crisis, a new accounting scandal involving the SK Group *chaebol*, and industrial unrest – an illustration that further progress needs to be made in the financial system, corporate governance, and with labor market reform.

The credit card boom and bust is an example of the complexities of the regulation of a rapidly-changing financial sector. Tax incentives helped to fuel the boom, which at its peak saw four credit cards for every Korean adult and a six-fold expansion of usage between 1999 and 2002. The risks grew, but the new credit-card companies were ill-equipped to assess them. They tried to cool things down by requiring payment in full each month, but this measure meant little, because customers were shifting debts from one card to another. As the problems grew, and the SK Global scandal made the bond markets extremely nervous, credit card companies faced increasing difficulty getting credit to cover their growing portfolio of impaired assets.

Then the government – in the form of the Korean Development Bank – stepped in to rescue the largest company, LG Card, fearing, perhaps correctly, that a failure of LG Card could throw the entire industry into crisis.

That rescue is not without its costs. The Korean government's attitude, laudably, has been to try to minimize the costs of moral hazard, by emphasizing the exceptional

[14] 86 per cent in 2002. Source: Small and Medium Business Association, reported in IMF (2004b).

nature of the LG Card bailout. It has also told the IMF that it remains committed to the principle that bondholders, not taxpayers, have to bear the risks of investing in the bond market. If and when investors come to believe that, the bond market should operate more efficiently.

Like the bond market, the stock market has developed well over the past few years, and like the bond market, it has room to benefit further from continued reforms. The unfortunate truth is that Korean corporate governance has had a poor reputation. As a result, local firms continue to pay a premium for equity capital, and price-earnings ratios remain below those elsewhere, including among regional competitors such as Taiwan, India and Thailand[15] -- the so-called "Korea discount".

As the markets come to believe that Korean corporate governance has improved substantially, the Korea discount should begin to shrink. But real concerns remain. According to the Korean Fair Trade Commission, there are wide and growing disparities between ownership and control of the ten largest *chaebol*. Since the crisis, the percentage of shares directly owned by controlling families has fallen to less than four per cent, but they have maintained control through systems of cross-shareholdings. This disparity offers clear opportunities for discrimination against minority shareholders, and it is small wonder that the higher the disparity between ownership and control, the higher the discount on the shares.[16]

The government continues to push for governance reform. The recent "Roadmap for Market Reform" is aimed at reducing the disparity between ownership and control, while recent accounting and auditing reforms should intensify market pressure on companies to improve their governance and so earn cheaper capital.

If the Korean economy is to take advantage of the rapid developments both in its crucial high-tech sectors and in its trading partners, Korea will need those improvements in corporate governance and the cost of capital.

The missing piece of the jigsaw seems to be the structure of the labor market. As with financial market reform and improvements in governance, labor market reforms since the crisis have been a key element of recovery; but, as before, there is further to go. Korea currently has two classes of worker: two thirds of employees are regular workers, who enjoy some of the strongest employment protection in the OECD. At the same time, temporary workers, with fewer rights, represent a growing proportion of the workforce.

Some European countries have also turned to this dual approach to add flexibility to a rigid labor market, and the approach has been successful in helping reduce unemployment. It would nonetheless be better to make the overall labor market more flexible. As with other structural problems, the government has recognized the issue and has plans on the table to deal with it – stepping back from individual trade disputes, adding flexibility to employment contracts, and trying to narrow the gap between regular workers and other workers. While these plans remain controversial, it is important that the government is acknowledging the issue.

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[15] Source: Centre for Corporate Competitiveness, Seoul National University, reported in IMF (2004b).
[16] See Black, Jang and Kim (2003).

In discussing the Korean perspective, I have not so far turned to international aspects of economic strategy. That is because I do not think that Korea has or should have a different approach to the international economy than should other Asian or any economies. It should continue to deepen its integration with the global economy, including by becoming more welcoming of foreign direct investment as it has since the Asian crisis. And it should continue to increase the flexibility of the domestic economy in a way that will enable the economy to benefit from the rise of the Chinese economy and the rapidly changing shape of the Asian economy – as it has in the last few years.

6 – The future for the Korean economy

Having listened to me explain that the Asian development model has been called into question, outline the difficulties involved in managing financial and capital market liberalization, and detail the challenges lying ahead of the Korean economy, you might be coming to pessimistic conclusions about Korea's future.

That would not be justified. While Korea does indeed face challenges, so does every other country. And in Korea's case, there is excellent reason to believe that it will meet those challenges – for Koreans have demonstrated an extraordinary capacity to overcome difficulties, most recently during the Asian crisis.

We have to start by acknowledging the incredible record of growth over the past fifty years, which has been matched by very few others. When we also recall the vigor with which Korea bounced back from its severe crisis, it would take a bold forecaster to dismiss that much history and predict stagnation ahead. In addition, the Korean government has displayed a strong commitment to reform and a sophisticated awareness of where reform is needed. Policies have been improving since the crisis and you will recall that for every concern I have been able to list, the government has plans in motion to address it.

Finally, Korea is at the heart of a regional economy that is growing at unprecedented speed. For some time, many saw the growth of the Chinese economy as a threat to Korea, and it is certainly true that some companies and sectors will suffer from the intense competition. But the growing Chinese market is also a fantastic opportunity for Korea. Korean exports expanded by over 20 per cent in 2003, and China is now the country's largest trading partner.

To continue to take advantage, Korean companies will have to be nimble. If governance, access to credit, and labor market flexibility continue to improve, there is little doubt that they will be.

The Korean government hopes to double the average citizen's income within a decade. It is an ambitious target, but if policies and the external economy are right, it is within reach.

Thank you.

Appendix 1. East Asian growth rates in global perspective 1960-2002

	Real GDP growth rate, annual %		
	1960-2002	**1960-1980**	**1980-2002**
MENA	na	na	2.8
SS Africa	3.2	4.4	2.1
High income	3.5	4.5	2.6
World	3.6	4.6	2.7
Latin America	3.8	5.6	2.2
South Asia	4.6	3.7	5.3
East Asia/Pacific	5.3	7.2	3.6

Source: World Development Indicators

Appendix 2. National growth rates 1960-2002

	Real GDP growth rate, annual %		
	1960-2002	**1960-1980**	**1980-2002**
(High income)	3.5	4.5	2.6
Japan	4.8	7.4	2.4
Indonesia	5.5	6.0	5.1
Malaysia	6.6	7.2	6.1
Thailand	6.7	7.5	5.9
Hong Kong, China	7.2	9.5	5.1
China	7.3	4.9	9.5
Korea, Rep.	7.5	7.8	7.1
Singapore	8.0	9.3	6.8

Source: World Development Indicators

Appendix 3. East Asian share of world GDP 1960-2002

	Share of world GDP, %		
	1960	**1980**	**2002**
Japan	10.16	17.03	15.99
China	0.80	0.84	3.44
Other east Asia	1.10	1.68	2.87
Korea	0.42	0.77	1.94

Source: World Development Indicators

Appendix 4. East Asian export growth rates 1953-2002

	Export growth rate, annual %		
	1953-1973	**1973-2002**	**1953-2002**
China	9.2	14.8	12.5
Asia	10.8	10.6	10.7
East Asian traders	11.4	12.5	12.1
Japan	18.3	8.7	12.5
(World)	10.1	8.6	9.2

Source: World Trade Organization

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Appendix – Tables and Charts

Table 1: East Asian growth rates in global perspective, 1960-2002

	Real GDP growth rate, annual %		
	1960-2002	**1960-1980**	**1980-2002**
MENA*	na	na	2.8
SS Africa	3.2	4.4	2.1
High income	3.5	4.5	2.6
World	3.6	4.6	2.7
Latin America	3.8	5.6	2.2
South Asia	4.6	3.7	5.3
East Asia/Pacific	5.3	7.2	3.6

Source*: World Development Indicators*. Real GDP growth, exchange rate weighted. Classifications as in *WDI*, except: High income excludes Korea; East Asia / Pacific is developing East Asia plus Japan, Korea.

*Middle East and North Africa

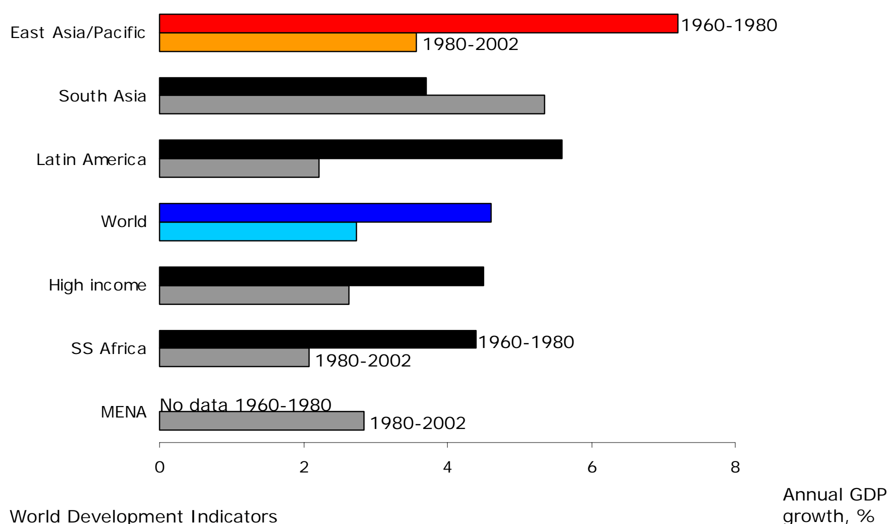


Table 2: National growth rates, East Asia, 1960-2002

	Real GDP growth rate, annual %		
	1960-2002	**1960-1980**	**1980-2002**
(High income average)	3.5	4.5	2.6
Japan	4.8	7.4	2.4
Indonesia	5.5	6.0	5.1
Malaysia	6.6	7.2	6.1
Thailand	6.7	7.5	5.9
Hong Kong, China	7.2	9.5	5.1
China	7.3	4.9	9.5
Korea, Rep.	7.5	7.8	7.1
Singapore	8.0	9.3	6.8

Source*: World Development Indicators.* Real GDP growth at market rates

Figure 2: National growth rates, East Asia, 1960-2002

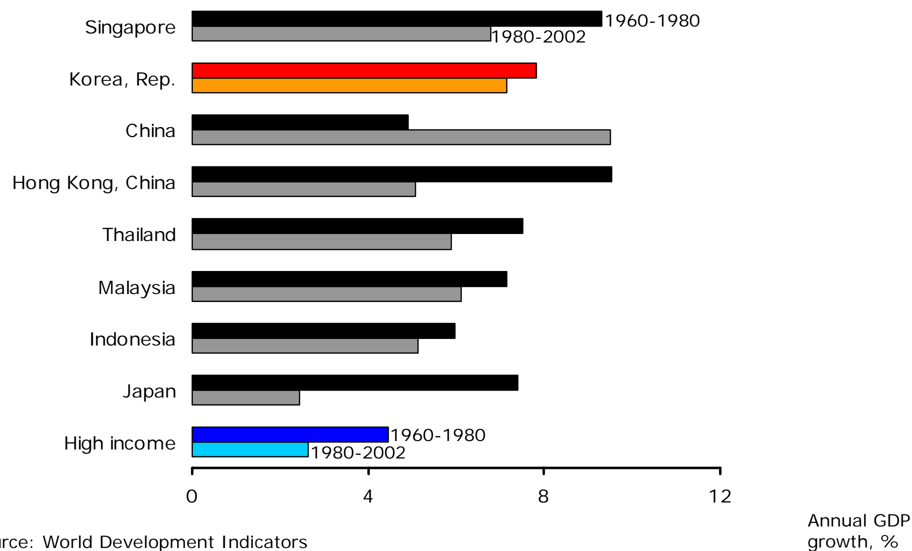


Table 3: East Asian share of world GDP

	Share of world GDP, %		
	1960	**1980**	**2002**
Japan	10.16	17.03	15.99
China	0.80	0.84	3.44
Other east Asia	1.10	1.68	2.87
Korea	0.42	0.77	1.94

Source: *World Development Indicators*. Shares are calculated using market exchange rates.

Figure 3 – East Asian share of world GDP

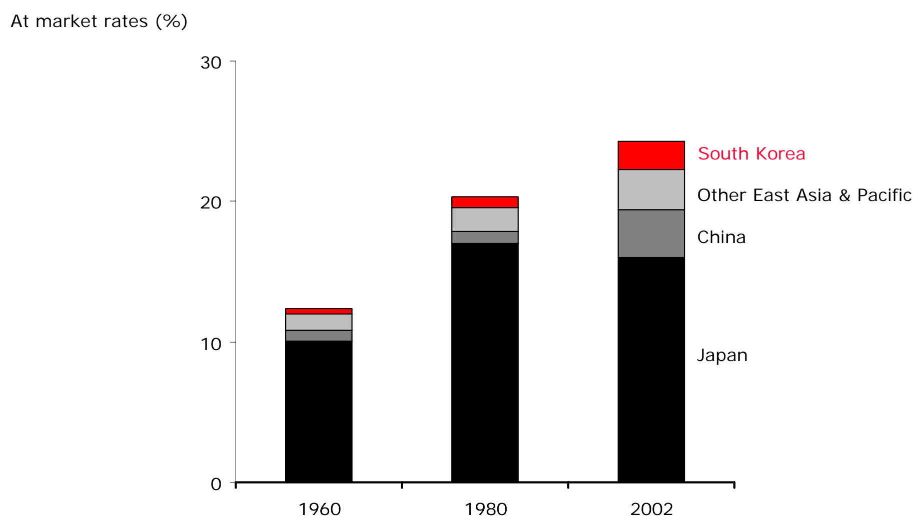
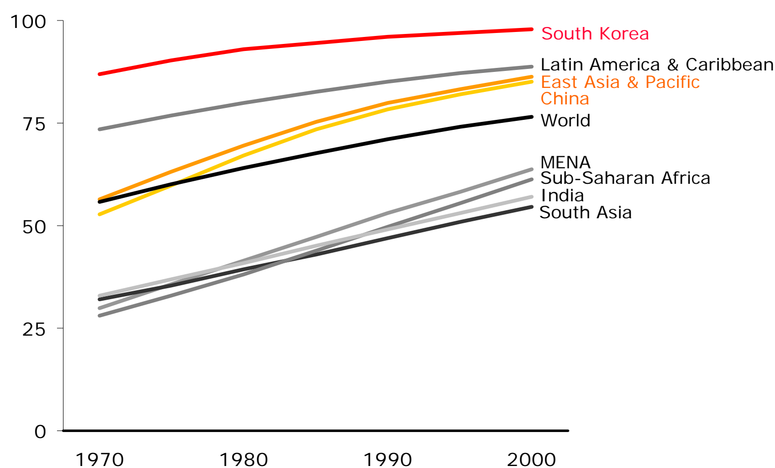


Table 4: Adult literacy rates

	Adult literacy rates (%)			
	1970	**1980**	**1990**	**2000**
China	53	67	78	85
East Asia & Pacific	56	70	80	86
Hong Kong, China	79	85	90	93
Korea, Rep.	87	93	96	98
Singapore	73	83	89	92
Latin America & Caribbean	73	80	85	89
Middle East & North Africa	30	41	53	64
South Asia	32	39	47	55
Sub-Saharan Africa	28	38	50	61
World	56	64	71	77
India	33	41	49	57

Source: *World Development Indicators*

Figure 4 – Literacy rates



Source: World Development Indicators

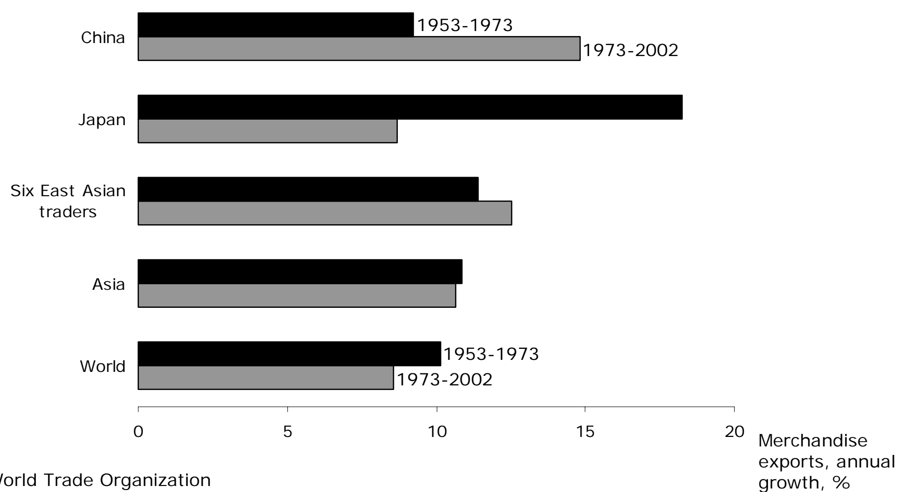
Table 5: East Asian export growth rates, 1953-2002

	Real GDP growth rate, annual %		
	1953-1973	**1973-2002**	**1953-2002**
China	9.2	14.8	12.5
Asia	10.8	10.6	10.7
East Asian traders[17]	11.4	12.5	12.1
Japan	18.3	8.7	12.5
World	10.1	8.6	9.2

Source: World Trade Organization

Figure 5 –East Asian export growth rates 1953-2002.

East Asian export growth rates 1953-2002



[17] Korea, Singapore, Hong Kong, Malaysia, Taiwan and Thailand.

Table 6 – Real GDP growth in selected Asian economies after the crisis

	Real GDP growth (%)								
	1995	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
Indonesia	8.4	7.6	4.7	-13.1	0.8	4.9	3.4	3.7	4.1
Korea	8.9	6.8	5.0	-6.7	10.9	9.3	3.1	6.3	3.1
Malaysia	9.8	10.0	7.3	-7.4	6.1	8.3	0.4	4.2	5.2
Thailand	9.2	5.9	-1.4	-10.5	4.4	4.6	1.9	5.2	6.7

Source: *World Development Indicators*

Figure 6 – A spectacular recovery