



CENTER FOR ASIA PACIFIC POLICY

***The Asian Miracle:
Phase II***

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The Asian Miracle: Phase I Conditions

- **National disorder**
- **Shortage of Capital**
- **Starting/rebuilding very basic industries**
- **Focus on infrastructure/heavy industry**
 - **Seoul-Pusan highway,**
- **Protecting infant industries**
- **Relatively insulated markets—e.g., cars**
- **Cheap labor the principal advantage**
- **Korea-Japan have distinct advantage**

Phase I: Mobilization system

- **Government-imposed order**
 - **Military, dominant parties**
- **Hierarchy in government & business**
- **Government directed capital**
 - **From banks, not capital markets or FDI**
- **Industrial policy; central planning**
- **High volume, low profit**
- **Works well for**
 - **Mobilization for war**
 - **Initiating or rejuvenating economic development**

Crisis of the mobilization system: Political

- **1988 transitions: ROK, ROC**
- **Complex interest groups**
- **Complex values**
 - **Beyond food, shelter, basic consumer goods**
- **Decline of fear**

Crisis of the mobilization system: economic

- **Failure of industrial policy: 5th generation computing**
- **Failure of insulated development: Betamax**
- **Metastasis of favored industries: Japanese infrastructure, Korean steel**
- **Bubble crisis of wasted capital**
 - **Japan, Taiwan 1990**
 - **Thailand, Korea, Indonesia 1997-8**

Asian miracle phase II: conditions

- **Problem of disorder solved in East Asia**
- **Capital abundant & cheap**
- **Infrastructure, heavy industry highly developed**
- **Capital for fast growing industries comes from capital markets, FDI, not banks**
 - **Capital seeks high returns**
 - **China opens to FDI, changes rules of game**
 - **Old-style banks become obsolescent: Japan**
- **Focus on profits rather than just scale**
 - **Market interest rates**
 - **Companies cluster where they can profit**
 - **Entrepreneurs move to where they can make a profit**

Asian miracle phase II: conditions (continued)

- **Emergence of new industries: internet**
- **Far more rapid technological change**
- **Advantage comes from rapid change, better value chain management, branding**
- **Globalization of management**
 - **Chinese/US style rather than Japanese**
- **Globalization of education**
- **Globalization of tastes, markets**
 - **Toyota/Hyundai vs. Cherry**
 - **Betamax crisis**
- **Globalization of production, value chain**
 - **Li & Fung rather than Nippon Steel the**

Phase II characteristics

- **Rapid change of all kinds**
 - **Unpredictability makes industrial policy unworkable**
- **Mobility**
 - **Capital, entrepreneurship, labor, technology, manufacturing site**
- **Best of old companies become stronger**
 - **Toyota, Mercedes, Hyundai, Samsung**
- **But new style companies grow faster, bigger**
 - **Microsoft, Google**
- **Diversity, cosmopolitanism, decentralization:**
 - **US, China, India**



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