



The Asian Miracle Is Alive

by Y.C. Richard Wong, Ph.D.

The Asian financial crisis may have finally put to rest the myth that the region's success has come about as a result of a unique system of capitalism rooted in Asian values and immune to the depressions and other troubles that beset Western economies. Now, however, this claim is being replaced by an equally wrong-sighted perception that the so-called "Asian Miracle" had no substance, that it was a house of cards destined to collapse under the weight of cronyism and corruption.

The fact remains that real per capita incomes in the Asian economies have grown at an average rate of 4 to 6 percent per annum since the 1960s. Even if last year's crisis managed to stop all economic growth for the next five years, these economies would have performed well above the world average for some three decades.

Asia's success has been built not on the discovery of a new form of capitalism, but on a tried-and-true formula, the vital ingredients of which include a hard-working, well-educated, and trained labor force, and a vigorous entrepreneurial class that invests in plants and equipment. Most Asian nations encourage entrepreneurial activity, appreciate the importance of the market economy, and have promoted economic freedom through lowering taxes and by reducing barriers and restrictions in markets for goods and services and in labor and capital. None of these vital ingredients have been fundamentally altered as a consequence of the Asian crisis.

Moreover, if there is anything still remaining of the term "Asian values" that still applies to the population there today, then it is their untainted record of relying on self-help, hard work, and entrepreneurship. Before long, their many positive fundamentals will extricate these economies from their present problems.

A new era of prosperity is possible as these nations rebuild their banking and financial systems. We may even have

reason to hope that some of the flaws in the economic and political systems will be corrected, and the relationship between governments and business conglomerates could be transformed into a more open and transparent system. This would encourage new business activities to flourish for the benefit of all. There is little doubt that any future recovery will require the inflow of capital from abroad, and that will not be forthcoming unless the Asian economies are back in order.

The Asian crisis has once again revealed that currency crises are a result of the compromise between monetary unification (the only true fixed-rate regime) and a freely floating exchange rate. The performance of Hong Kong's currency board system, despite its many minor flaws and hiccups, has presented itself as a viable option for many open economies. There is much to be said for its transparency, its single-minded policy objective, and its necessary implied discipline on domestic macroeconomic policies.

The Asian crisis will no doubt lead to a growing demand for imposing capital controls, transaction taxes, or other market-inhibiting initiatives to limit international flows. This would be highly undesirable and would have serious adverse unintended consequences. In a global system, suppressed markets in one area would be rapidly displaced by others outside the reach of government controls and taxes. Furthermore, risk taking would be curbed, to the detriment of rising living standards.

It is worth noting that the global financial system is not an end in itself, but an institutional structure that has developed in response to and to facilitate the production and distribution of goods and services. There are bound to be incongruities between the institutional requirements of a global financial system, and the prevailing institutions in an emerging market. This is part of the problem some Asian economies faced when they began to partly liberalize their financial systems. They lost sight of the purpose and objectives of liberalization, and became enamored with the ambition of developing an international financial center for their own country.

In the end, the crisis may well be a blessing in disguise for the region because it provides an opportunity for a fundamental review of the way things stand. From an intellectual perspective, it puts to rest the idea that new laws of economic growth have been uncovered by Asia's miracle.

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