To what extent the East Asian model is transferrable to other developing countries

Introduction

In early 19th century, the western countries were said to be the only countries that had achieved significant economic development in the world. The countries had shifted from farming economy to industrialised economy. The rest part of the world was regarded as either underdeveloped or developing as most depended on farming and non-manufacturing sectors as the main economic driving force. However, Japan, an East Asian country, changed the conception during the economic development phase between 1950 and 1970 that was started immediately after the Second World War. The country managed to shift its economic activities to manufacturing thus becoming the first country outside the western region to become industrialised. Later, other East Asian states such as, Korea, Singapore, Hong Kong and Taiwan emulated Japan’s economic strategies and activities thus forming economic East Asian tigers (Park, 2002). During the second phase of economic development that was between1970s and1990s additional three countries from Asia region, southeast that included Malaysia, Thailand, and Indonesia became middle income states (World Bank, 1993; Jomo, 2001; Chang 2006). The three countries were regarded as newly Industrialised economies in Southeast region of Asia, (NIES). The development of Japan to industrialised status coupled to formation of East Asia tigers and a number of countries, which adapted NIES formed the initial development era in the region.Although East Asian models, it would be unrealistic to argue that all the countries depended exclusively on them for their economic developments. The fact was that different countries adapted different ways to steer the economic development strategies in line with East Asia and other models such as NIEs and South East Asia model, (ASEAN). The East Asian economic development models will form the major part of this papers’ discussion based on the World Bank point of view and their success and shortcomings will be evaluated in line with applicability in developing countries.

*Literature review*

A number of studies such as Hughes et al., (1988), Krueger, (1978), and Michaely et al., (1987) documented east Asian states as countries where market mechanisms coupled to government interventions impacted positively to the economic development process that saw them achieve developed countries status. In addition their approach that was argued using neoliberal theory and the success of East Asian’ economy evidenced their applicability in underdeveloped and developing countries in other regions of the world. For example, developing countries in Latin America were seen East Asian neoliberal theory by the respective governments playing important role in shaping of their economy Gereffi, & Wyman, 2014).. The lack of government intervention in market strategies contributed to economic crisis in these regions for many decades in late 19th century. Hence, proper implementation of East Asia models of economic development in developing countries can have positive influence on their economy to the extent of achieving industrialised economy status.

According to Melitz (2003) many empirical and theoretical studies have linked export industrialization as it increases production by increasing nation’s export and reducing their domestic trading thus helping the country to shift to export-led growth (*Ibid*). In addition studies have linked export in East Asia region as the main economic driving force that was strengthened by the market of tradable sector (Rodrik, 2009). The tradable sector played key part in industrialised goods production. The strategy used by East Asian countries to balance between tradable sector and export-led industry helped the region to achieve high growth rate of their economic thus achieving the economic development plan. In addition, in economy where small firms are given incentives and subsidies help them to expand and at the same time contribute to development of the economy. Developed sectors are regulated to prevent them from exploiting the small upcoming firms. Several empirical studies that have been carried out have indicated that the skilled civil servants played an important in the East Asia economic growth through translation of coordination problems and economic challenges to policies that could counter them (Shirley, 2005). In addition, government interventions have been heavily studies in line with the role played by market mechanism in East Asian model of economic development.

However, few studies addressed the issue of incorporating East Asia model in other developing countries while many concentrated on its success and factors that led to its success in the region (Amsden, 1994). According to World Bank (1993) the economic development approach in East Asia region contributed to documentation of major economic development literature and theories in the world. Majority of East Asia states adapted economic development strategies and style similar to those used in Japan as the tool for development. The collective approaches to steer development in the region was coined into a development model that was later known as East Asian Model. The Asian economic development model became one of the historical economic development approaches to the extent of gaining the name ‘East Asia Miracle’.

The model advocated for changes in financial control where state would control the finances and give support for properties and enterprises owned by the state. In addition, the shifting of the country’s economy from import-dependent economy to export-dependent market economy was argued to be one of the best strategies to increase domestic savings from the income earned from exports.

Increased savings would results to increased money in the banks available for lending to investors who would eventually invest them in the states. The increase in investment would result to reduction in unemployment rates and increase in government revenue. The former and the latter were key strategic factors that led economic development in East Asian States.

 However, the model received objection from different scholars studying East Asian Miracle and international financial institutions such as World Bank and international monetary fund, (IMF). Although they acknowledged the fact that the model gained acceptance and was used by significant number of states in East Asia, they fault its interventions efficiency. For example, the World bank argued although the intervention was not harmful to states that adopted it, it was never helpful to a significant level (World Bank, 1993). The International monetary fund protested the model in a meeting in Washington in form of "Washington Consensus". The convection aimed at expanding the model to fit the global economy by formulation policies and principles that would be constituted in it. Some modifications included policies for increasing global economic integration by minimizing international trade barriers such as customs and tariffs. The economic integration and reduced barrier would help to advocate for free trade.

In contrast, different group of scholars argue that the success of the model was as a result of state intervention in both domestic and international market through policies selective industrial policy. Wade (1990) developed governed market theory concept that tried to explain why the model was successful. He postulated there explanations namely:

1. High levels of investment,
2. Increased investment in economy’s key industries,
3. Engaging of domestic industries in international competition.

Wade (1990) argued that the success of the model was achieved from the countries’ ability to maintain rapid and constant development in different sectors like manufacturing, production and private sectors. In addition, the establishment of key economic policies, provision of incentives, positive regulations and increased spreading of risks among key players in the economy favored forward economic developments.

*North and South East Asia models*

 The North and South East Asia models were named after the regions where they were adopted to steer economic development. According to World Bank (1993) the North East Model was based on the states’ interventions and industrial policy while South East counterpart was based on market friendly and openness regime. The world bank criticised North east model applicability in the contemporary economy in that it does not address the current issues in the global market and its unique historical context in the region that are constrained in the new economic regime under world trade organizations, (WTO).

The north East Asia model applicability is refuted based on shortcomings in the orthodoxy theory. The orthodoxy theory argument with static point of views and thus failed to take into account the fact that there many dynamic changes, and also it downplays the socio-political dimensions of the economic development, adopting just a kind of ‘economic determinism’ in their approach.

The counter argument that is given to orthodox theory included the role played by private firms in economic development. The private firms are the contributory factor to development and not any other sector as the theory suggests. The role of private companies or sectors is not fully realised in situations where the private sector is opened and deregulated in underdeveloped market that is coupled to inadequate infrastructures, low productivity, low skilled work force, and poor technologies. In such situation, the performance of private sector is impaired and economic development can only be realised if the respective states make the necessary interventions (Park, 2002). According to world bank, (1993) government interventions states interventions do not impact on the economic development as they neither do good or harm the environment. However, the states intervention and involvement in industrial policy are seen as the most important factor that contributed to economic development of East Asian countries.

The industrial policy was the major government intervention in East Asia that was said to have either encouraged or discouraged economic development in the region. Based on the paper analyses of the interventions will be argued as the virtue of the approach that led to industrialization in the region. There are two Industrial policies, which are argued to have the most impact on East Asia model of economic development. The first policy involves substitution of imports for Industrialization, (ISI). The policy main positive impact to the development of countries marked the era of industrialisation by reinforcing domestic economic development power that was necessary for realisation and development of the second policy, industrial policy. The latter policy involved export as the main factor for industrialisation. It was commonly referred to as Export Oriented industrialization, (EOI) strategy. The success of the two policies formed the fundamental pillar for economic development of states in East Asia region.

Chu, (1997) documented the argument of interventionists in which the industrial policy was argued to be one of the strategies used by nations to promote development through manufacturing sectors. In order to achieve this, the capabilities of the domestic business or firms are strengthened by implementing market friendly policies and structural transformation. The reorganization in developing countries is important for them to achieve economic development and growth since most underdeveloped countries lack necessary government interventions that results in market failures (Chu, 1997).

*Export oriented industrialization, (EOI) or Import-substitution-industrialization, (ISI)*

The ISI argument explains the processes that are necessary for developing countries to achieve growth and economic development. The capability of domestic market and the ability of developing countries to enter and command international market is an important factor that can help developing countries to flourish and achieve their economic goals. The underdeveloped countries fail to achieve their development goals due to market failures that form the major part of revenues for economic development (Amsden, 1992). Consequently, developed countries such as United States achieved their development from working domestic and international markets. Poor productivity incompetence are other factors that hinders economic development in developing countries since international market is highly competitive especially when there are not states’ protection, which calls for interventions such as regulated market prices, subsidies and incentives (ibid).

However, the ISI is criticised by its failure due to government failure to take the necessary interventions. In addition, the implementation cost for these interventions out way the benefits and thus deemed unnecessary. Hence, it would be important to put into consideration the government’s justification for intervention that may involve inevitable failure of microeconomic interventions. The failure of the state’s government has greater harm than the failure of the market as they government is the key player in shaping the market (Chang, 1994).
The state market intervention inevitably cause distortion, and attracts enormous rent seeking activities that allow the economy to fail in most instances Chu (1997). The failure was evidenced by states such as those in Latin America and major part Sub-Saharan Africa, which failed due to government failed market interventions. The two regions has many countries that are still in their developing states unlike other regions where government interventions worked such as United States, Japan, and Britain thus achieving developed status. Another example is comparison between Ghana and South Korea where in 1960s, bothcountries had similar levels of economic growth but comparing them now, which is a period of more than 30 years; South Korea is a giant developed economy while its former counterpart Ghana is in developing state due to failed market government interventions (Rodrik, 1995).

*Success of East Asia region*

 The success of East Asia region was achieved due to their ability to reduce the rent-seeking activities under bureaucrats’ regulation that was efficient and competent. In major times, it is believed that state autonomy is a factor that enable it provide businesses or industries with adequate or full capacity and regulation as a result of insulated bureaucracy for doing it right (Chu, 1997). For example, East Asia region development is attributed to the ability to reduce the rent seeking activities and expand their private sectors by providing additional incentives. In addition, the ability to discipline its market through setting improved performance standards and austere regulations on luxury goods or consumptions promoted high-investments and savings in the region (Amsden, 1993). The increased investments meant that operating capital was available for investors in the banks and thus favoring more investments, employments, and reducing the poverty level that was key in their development. In addition, availability of investment capital allowed the countries to invest in capital-intensive economic development projects that saw the region shift to manufacturing sectors and other industrialized projects experienced in South Korea and other Asian countries, which was the signal for developed era (Chung, 2007).

South Korea and Taiwan are good examples that demonstrate the success of East Asian economic development models. The countries had effective styles of administrations for implementing industrial policy that was important in fostering trade in the region. In addition, the countries’ ability to create dichotomy between the market and the government interventions helped the region to realise developments in mid 19th century.

The relationship between the government and the business industry is also another key factor that should be considered in the success of trade and realization of economic development in the region. The two entities should remain in a dynamic state but not static to ensure that they adapt to the constant changing market environment. When government and business are able to maintain constant communications, they are able to make the required change and adjustments to meet the market demand and conditions. However, poor communication may result to poor formulation of feasible policies or poor implementation that may affect their performance in the market and thus failure to realize their economic development objectives (Chu, 1997).

Industrialization in East Asia was also argued to have resulted for the model of infant industry. From the above argument of the role played by the private sector, it was evident that the government regarded it as the main contributory entity to the economic development and thus gave it the necessary support. It received incentives and other protective measures in order to help it impact positively on the economy. However, the governments in East Asia states realized that the private sector would be incapable of long-term assessment of the economic benefits that were important indicators for making investment decisions in the industries. Hence, it decided to stimulated the development of infant industries that were coming up in the economy. The government stimulated the growth and development of the industries through protective measures and provision of incentives until they were independent and they could continue large scale production with state’s support (Hermes, 1997). The initiative saw development of mass industries that helped the countries in East Asia to realize the economic development goals.

However, the most infant industries products primary goods, which had lower prices compared to industrialized goods. The region was aware that primary goods would in the long run lose their value in the international market and thus causing negative impact of the economy. This led to development of pessimism export argument that led to the countries coming up with structural transformation in their production mechanisms in order to shift to industrialized goods (Ariff, & Hill, 2011). To obtain the structural changes necessary for changes in production strategies, the government play an important role in formulating and implementing policies in connection with the business environment that would enable the country to realise positive economic growth and development. The involvement of the government in the production changes was important since the market mechanism would have taken long for it to be realised. Therefore, the government had to improve education for the infant industries and improve the infrastructure necessary for performance of the companies (Hermes, 1997). In addition, they formulated and implemented policies that enabled mutual relationship between different industries that would favour production of industrialised goods. In the end, the infant industries were able to shift to industrialised goods that were competitive in the international market and thus being able to achieve the economic development goals.

Neoliberal theory tried to interpret the role of government and market in the success of East Asia countries economy (He, 2008). According to neoliberals, the government of East Asian states observed economic success and their limited capabilities thus leaving out the economy to be steered by the well function market. The government stimulated export, implemented market-oriented policies, and emphasised on the need of private entrepreneurship in the market. The investment of the government in public and social infrastructures resulted to development of competitive business environment that produced exports goods that were competitive on quality and prices thus giving them competitive advantage in the international market (Chang, 2006). Hence, the market played an important role in development and success of East Asian Economy.

The criticism on the neo liberal theory argue that when the involvement of the government in economic development environment is too much, it could results in inefficiencies in the market and thus failing to achieve economic development. According to Islam, (1992) increased involvement of government in economic development can result in negative consequences and failures in development goals. In addition, it was argued that the government main role that enhanced economic development in these countries was by reducing the coordination problems that were experienced in economies that were not fully developed. Hence, the criticism refuted direct involvement of government in development of the economy and market mechanisms.

In contrast, dependency theorists argued that the countries in East Asia had unique characteristics and capabilities that enabled them to manage economic development activities and thus it was not feasible for the developing countries to emulate their approaches. The current developing countries experience exploitation from developed countries and most economy are dominated by capitalists system of market. This contrasted the East Asian countries since they did not experience exploitation from western countries and they had an economy that discouraged capitalism. Capitalism economy is dominated by individuals who are concerned by their well-being and thus affects economic development processes in respective countries. For example, in America, the north oppressed the South by obtaining cheap labour from it and exploiting its rich natural resources to accumulate their own wealth thus leaving Latin American countries in south poor and underdeveloped (Love, 2005). However, some evidence refute dependency theorists the argument by arguing that most of the countries in East Asia lacked unique capabilities and poor management and allocation of resources that limit developing countries from emulating the model.

Although East Asia was able to succeed with the implementation of the economic model due to its well-established institutions and competent bureaucracy, it would be impossible for other developing countries to with the same institutions to fit in the model. This is because it is difficult to make investments due to poor future market prediction and poor management of allocate resources. In addition, Asia was able to achieve the economic growth because it was able to minimise the negative effects of the model. In addition, the region was able to shift to export market in anticipation to combat the limitations in the domestic market and to be able to compete with other countries in the international market. The Latin America failure to shift its economy from domestic market to international market in form of export contributed greatly to its failure in achieves economic development similar to Asian countries.

The export-led market dominated many developing countries economy in the mid 19th century and continued to gain acceptance for about three decades. Different economists and scholars argued that it was through export-led economy that developing countries were able to achieve economic development goals. This led to adoption of protectionist policies in the larger part of developing world. The protectionist policies were meant to protect the domestic infant industries that were important in replacing the need of imports thus decreasing the risk for manufactured goods that were manufacture by the domestic industries. According to Lawrence and Weinstein (1999), the protectionism presents a country with increased benefits on domestic production when it is experiencing losses from effective losses that are necessary in cutting down the cost curve compared to when protectionism is ineffective because of rising stagnant offsets. Hence, it was important to protect the infant industries as their maturity would translate to increase in export that would be important in realization of economic growth.

The reason why many countries opted for export led economies or import substitutions was that it helped to raise the savings in the countries that could be used in investments. However, most countries, which were in the developing phase failed to utilize their export potential because they feared that their manufactured goods lacked the quality required to compete with manufactured goods of industries from developed or industrialised countries. This led to problems in most African and Latin American countries since they could not export their manufactured goods. Moreover, trade barriers that developing countries faced from the international market limited them to produce and market most goods domestically in order to minimize imports and bridge the export deficit (Carbaugh, 2008). However, the East Asian countries defied this conception by many developing countries and developed economic model that was export-oriented in the international market, a move that led to its economic development.

The East Asians countries development model involved shift from domestic market to international market. The market shifting strategy helped the region to achieve economic development through export led industry. In the argument of Export led economy, the governments of different states in the East Asia region formulated and implemented policies that were aimed at reducing export tariffs and increasing tariffs on imports. The strategies led to increased export in the international market from the domestic industries. Another factor that led to increase in export-oriented market in the region was its initiative to devalue its currency thus selling its exported goods at cheap competitive price while it earned huge returns. The increased exportation led to increase in savings and investments in these countries that were key in their economic development. Moreover, the complete shift to export-led growth marked the era of industrialized era in East Asia. According to Melitz (2003), export-oriented market has many benefits that are attributed to economic development.

Taiwan is a good example that had a well-balance trade that worked for its economic development strategies in East Asia. Taiwan economy was operated in both free and regulated market commonly known as dualistic economy (Wade, 1990). One part of the economy was allowed to operate in free market where there were few regulations and tax waivers while the other part had regulations and interventions from the government. Small firms were allowed to operate in the free market while developed firms were subjected to regulated market that had government interventions. The government of Taiwan pressurized private businesses to invest in new economic viable industries but when the private firms rebelled, the government established its own businesses, which formed the larger portion of the country’s economy. The government then promoted export led economy by reducing export tariffs and increasing subsidies for exporting business thus resulting in import-substituted economy that saw it achieve major economic growth. The country evidenced the importance of export-led economy in the achievement of industrialization.

*Industrial Policy*

It is argued that Industrial policy took a large part of the causes that the East Asian country falling into the financial crises in 1997, the end of Miracle, thus implies the end of the model itself (Chang, 2006). This earlier argument on industrial policies, ISI and EOI strategies, proved that industrial policies would help to achieve economic development rather than distortions when pre-conditions are satisfied. However, when industrial policy results in the fall of the economy, then the economic model may break down anyhow. When such situations are predicted, it would not be appropriate to recommend the same strategies or Asian economic model for the developing countries. The fall of East Asian countries during the financial crisis that happened 1997, is argued to have emanated from peculiarities of the government interventions in only selected industrial sectors. The arguments resembled the one raised by the World bank in the Washington consensus on the East Asia economic doctrine.

Two mechanisms are pointed to cause the crisis, and both are said to be created in the environment of the Asian model. The first mechanism is moral hazard in industry and banks, which means that because firms put too much faith in the government, i.e. they believed that even if they fail the state would intervene and save them, thus excessive investments given in industry while the banks overly lend money (Kim and Cho, 1999). The second mechanism is crony capitalism; Kruger (2002) defines it as when the state gains too much power to influence the market, the authorities namely bureaucrats receive some favours that have huge economic values. The values are not necessarily outright transfers of wealth like tax deduction or large subsidies, but more commonly provision of economic entitlements to entail ownership of a business or its operation.

She indicates in the paper that the combination of these two mechanism inevitably generate low real rates of return and losses due to the nature of the political economic structure and the authorities. For example, the governments and other states authorities adopted political interventions of the crisis rather than economic interventions by increasing employments in already unproductive sector. In addition, the misallocations of investment capital and failure to close down non-performing enterprises led to reduced profits as the debts increased in most South East countries and Korea (Chang, 2006; Kruger, 2002; Kim & Cho, 1999).

However, this argument conflicts with the earlier argument that the East Asian success is attributed to the bureaucrats’ competency to minimize such corruption and rent-seeking activities. Does this mean those countries anyhow suddenly lost their bureaucrats’ competency to control and minimise such activities after the three decades of the miracle? It is possible, but hard to imagine the long-run stable and strict political structure and competent bureaucracy fall down to corruption and led to the financial crisis. Rather, the strong bonds between private firms, state and banks is the main drive to reinforce the selected industrial sectors and attributed to accomplish many of the export target achievements during the miracle.

Furthermore, Kim and Cho (1999) claims that excessive investments in industry and over-lending by banks can be seen in any other environment, not only in crony capitalism, because when the economy is rocketing all the player can easily become optimistic about the future.

So if it is not the peculiarities of the model to blame for the financial crisis, the assumption arises that it might be not the model itself, but actually not following the model properly caused this crisis considering the past economic achievements by the model.

The success of East Asian model success was also realised from the fact that the region had proper education and political systems in early 1950s that helped it in preparation of the economic growth that happened in between 1950 and 1990. According to interventionists’ argument, the region had high education standards in early 19th century that helped the region to produce highly skilled work force compared to other regions such as sub-Sahara Africa and Latin America (Hermes, 1997). The high skilled labor had positive impacts on the economic growth of East Asian countries. The region experienced increased productivity and high quality output that was competitive in the international market. In addition, the region was able to incorporate western technologies in its production processes at reduced costs due to readily available trained work force. According to Amsden, (1994) East Asia adoption of western technologies marked the era of industrialization in the region. In addition, good education in the labour force was evidenced by quality service offered in the region and the formulation and implementation of government policies and interventions that were critical in realisation of economic development goals.

Several empirical studies that have been carried out have indicated that the skilled civil servants played an important in the East Asia economic growth through translation of coordination problems and economic challenges to policies that could counter them (Shirley, 2005). The economic model in East Asia becomes in applicable to developing countries with respect to the role of civil servants. In developing countries, there is high levels of corruption and most civil servant are corrupted to develop and implement policies the benefit few politicians. In addition, there is high abuse of offices where subsidies may be given on corrupt and feverish basis thus denying economic growth-oriented industries from benefitting from such avenues (Hermes, 1997). However, in East Asia, such situations were limited and some countries like Taiwan and South Korea integrated social responsibility in their education career thus having responsible work force. Moreover, education career that could lead to civil service was regarded as perfect route to executive position in the private sector (Wade, 1991; World Bank, 1993). Hence the region has most responsible work force in the world.

Chang (2006) supports this assumption by claiming that the countries where suffered the most in the financial crisis are the more market-oriented states like Southeast Asian countries and Hong Kong and the countries suffered the least, or lesser extent are the more state-market countries like Northeast Asian countries with the exception of South Korea.

In other words, considering both Southeast and Northeast Asian countries were initially following the model, actually the policy change played a key role to causing the financial crisis that taken by some East Asian countries, namely by Southeast Asia and Korea, dismantling the East Asian model of state interventions such as industrial policy to freeing their market by liberalising the financial and currency market both internally and externally and adopting a policy to take an advantage of increasing International capital movements, which are; International borrowing and lending and foreign direct investment (FDI). Kim and Cho (1999) explained this, ‘the collapse of the Asian model itself as a result of misguided policies of liberalization’ (p.8).

In the mid-1980s, Southeast Asian countries suffered from serious balance of payments problems due to decreasing primary commodity export prices and official capital inflows, and increasing external interest rates. Southeast Asia responded to this by initiating a number of programs aggressively, including generous tax policies that created the region becoming the world most attractive investment place and indeed, it brought a significant amount of FDI, especially from 1987 to 1991, which triggered the economic boom (Hart-Landsberg & Burkett, 1998). Therefore, a number of different scholars and economists suggest that the possibility of the model being emulated by developing countries would mean launching of an economic boom. For the economic boom to be successful, the countries should be able to attract large amount of foreign capital by introduction of current technologies in business and manufacturing industries quicker and easier than in the East Asian model. In addition, the countries should formulate and implement strategies that would enable them to shift from ISI to EOI through government interventions.

However, after the Asian financial crisis in 1997 in the region, this success story of Southeast Asia has been questioned its viability. Actually, economists in highly developed counties seem to be more cautious and a free movement of capital western governments indeed do a lot in restricting the entrance of foreign investors to their own market. The Asian experience on financial crisis its origins and implication cannot be traced to industrial policies, but poorly formed and sequenced financial liberalization that attracted massive and unstable capital inflows into the region (Chang, 2006; Jomo; 2002). This implies that huge inflows of Foreign Development Investment, (FDI) could boost economic activities and bring such economic development, but it inevitably brings such financial crisis due to weak and unstable economy.

Bernard and Ravenhil (1995) points out the high shares of Southeast Asian countries’ manufactured exports produced under the control of foreign-based companies. According to their study, for example in Malaysia, it shows the extremely high contribution and dominance of foreign-based companies in the exports at the end of 1980s; 99% in electronics, over 90% in machinery and electrical appliances, over 80% in rubber products, and 75% in textile and apparel sector are contributed by the foreign-based firms (ibid, p196).

Yoshihara (1988) explains this unique development of Southeast Asian industry that lacks indigenous import substitution as ‘ersatz industrialization’ or ‘ersatz capitalism’. The problems of this type of industrialization led by a massive inflow of FDI are that; capital flights due to the domination of foreign capital, a technological level gaps between national and international based firms, and difficulty of keeping Transnational corporations in the market. FDI creates Ersatz industrialisation, thus not good for economic development.

However, many review the East Asian regionalized class-exploitative relations in markets, because the production is not corresponding to local demand and environment, thus not effective, which is argued as critiques of the flying geese (Hart-Landsberg, 1998). The sophisticate trade theory of comparative advantage, which is the basis of the East Asian regionalized market, is also a static theory owing to the fact the model starts with given endowment, while development should entail changing endowment. The industrial transformation achieved by these countries has been over much lesser time than that taken by the developed countries earlier. Taiwan and Korea have achieved in 15 years what took Japan 25 years and the UK did 50 years (Wade,1990).

In order to understand the flying geese pattern, the wage gap explanation is often used, which claims that economic development will naturally take place in the developing countries as the relative wage level becomes low enough. This model explains that when the gap in the wage level between Taiwan and, for example, ASEAN-3 became wide enough for the production of manufacturing products during the late 1980s to become economically viable in Southeast Asia and non-viable in Taiwan, it occurred naturally. However, how it occur and who will undertake the production seems not clear. The model simply follows the basic neoclassical thesis, which says markets are efficient and will create growth if let alone.

For the wage gap to be the main explanatory variable in the East Asian case, the next developing country to join the flying geese formation should be the one with the lowest wage level, however, it did not happen in reality. When the East Asian countries started their export growth, their wage levels were higher than many other developing countries like South Asia.

Moreover, Bernard and Ravenhill (1995) disagree that other Asian countries would replicate the Japanese model, because globalisation of production networks and the fast pace of technological change mean complex and hierarchical regional networks of production. Japanese dominant position in these regionalised networks of production likely to remain unchanged. The depth of industrialization in Taiwan and Korea is also found to be much less than that of Japan, and their technological dependency on Japan does not seem to be declining (Chang, 2007). Besides, the ASEAN-3 relies much more heavily on foreign technology and multinational corporations, and their chances of catching up with Japan look even ore remote. However, the globalisation theory appears to share some aspects with the flying geese model, such as a pattern of division of labour according to comparative advantage, and each country.

The criticism of the model was also based on why South East Asia could not involve it with the East Asian approach catching-up economic development. Cummings (1984) argues that economic development in East Asia can only be understood within a regional framework, which began with Japanese success and the market expansion in the region.

Unlike East Asia, Southeast Asia recorded increased imports compared to export in the late 19th century. It also recorded high foreign investment compared to domestic investments that were evidenced by their decreased urbanization that led to it recording moderate saving-investment ratio that could not fasten economic development in the region (Radelet, Sachs, & Lee, 1997). This pattern of economic development was different from that East Asia that concentrated in domestic investment and empowerment of infant domestic industries. Another difference that led to lack of compatibility between East Asia and South East economic development was that, while East Asia countries concentrated on manufacturing economy, south East Asia recorded high output of agricultural products and reduced output of manufacturing products. The two regions only shared the same education system with high levels of literacy by 1990. The education was an important aspect in policy-making and production of high skilled labour (*Ibid* p. 20). Therefore, it was hard for south Asia to adopt the East Asia model due to many differences in their economic activities.

*Conclusion*

In the 19th century, western countries were regarded as the only developed countries since they had shifted to manufacturing economy unlike other countries in the rest parts of the world. However, in the mid 19th century after the second world war countries from Asian Region started to shift to manufacturing and export-oriented economies. Japan was the first to achieve economic development outside the western region. The four-Asian tigers marked the eve of economic development for countries in East and South Asia. Their development was argued to be because of ‘East Asian miracle,’ which was later coined to be East Asia economic development model. The model is believed to have contributed to enormous economic growth in the region. The model worked under several factors such as government interventions through industrial policy and import substitution industrialization. In addition, market mechanisms were also argued to have contributed to the success of the model. Several theories such as orthodox theory, interventionists, neoliberal theory, and various studies have argued and criticised the working of the model to both East Asia region and other developing countries. The model though influenced the development in East Asia, variations with the current business environment such as corruption in developing countries, uncertainties in future market mechanisms, poor governance and interventions, limited export-oriented market, and other factors limit its inclusion in the development strategies of the developing countries.

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