Lessons From East Asian NIC's Export Success

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Abstract

The "Four Tigers" of East Asia--South Korea, Taiwan, Hong Kong and Singapore--have all achieved economic miracles during last two decades. This article will review the external and internal conditions conducive to their export success, put into perspective their outward-looking development strategies, and analyze their trade promotion policies. Finally, some suggestions are proposed for developing a new viable export culture in the United States.

Introduction

The so-called four Asian Tigers--South Korea, Taiwan, Hong Kong and Singapore--have emerged as an important force in the global economic arena. Between 1965 and 1985, while even the most progressive industrial economy, Japan, grew 6% per annum, Hong Kong, Korea, Taiwan and Singapore grew 8.5%, 8.7%, 9.2% and 9.5% per annum, respectively. Between 1960 and 1985, their per capita income rose more than fourfold. Meanwhile, their aggregate income grew more than fivefold. During the last two decades, these four newly industrialized countries (NICs) saw the value of their exports grew 15.2% annually in real terms. As a result, their combined share of non-fuel exports of developing countries rose from 5.6% to 33.4% (Omer, 1985; Sachs, 1985; Stokes; 1987)

The East Asian NICs have earned a significant role in shaping the global economy. (1) As recently as 1970, U.S. trade with them made up only 4.5% of total U.S. foreign trade, and the U.S. trade deficit with them was only $125 million. (Stokes, 1987) The NICs now contribute to 11% of U.S. international commerce and their combined bilateral trade surplus vis-a-vis U.S. has grown into tens of billions of dollars. Some of the NICs, like Taiwan, have rapidly built up currency reserves from their current account surpluses. With current central bank reserves in the order of $70 billion, Taiwan has thus accumulated unprecedented levels of liquidity in foreign markets. (U.S. Congress, 1986) These foreign exchange reserves have the potential to substantially affect regional and international capital markets.

Some of the NICs, like Korea, even with large foreign debts have become able to reduce or comfortably service their debts largely from the current account surpluses. Thus, the NICs export success has saved the international banking community from facing otherwise possible defaults in the large loans made to these nations, thus rendering some breathing room to the worldwide debt crisis.

Perhaps the most significant effect of the NICs export success is on global competition and production efficiency. Through their low labor costs and high productivity, coupled with improving quality of their products, the NICs have enhanced recent worldwide trends toward higher manufacturing productivity and efficiency. The United States has seen most of its dominance in global markets eroded in this respect.

The success of East Asia's "Miracle Economies" has helped reinforce the spread of free enterprise and market systems worldwide. Some of the non-market economies, particularly China, are even venturing into albert limited free enterprise ventures. The NICs' performance is also encouraging some of their less developed Asian
counterparts like Malaysia, Indonesia, Thailand, Brunei and the Philippines to adopt more liberalized market systems and model their economies after the image of their more successful neighbors.

Thus, the export success of the NICs has growing implications for the international economy. This achievement has attracted the attention of the developed nations especially because they now have to share their preeminence in worldwide trade with them. We cannot fail to acknowledge the increased importance of these NICs in the global economy and their impact on international competitiveness. It is more important to understand how their exceptional economic growth and success in export trade were achieved, and to define the lessons we can learn from their accomplishments.

How The "Miracle" Was Achieved

Any social "outcome" is determined by interaction between the "state of nature" given to the decision maker and the "strategy" chosen by the decision maker. The "outcome," the NICs economic and export success, can be analyzed from two dimensions--favorable external factors and internal conditions; and judicious choice of development strategies and policies by the governments and business sectors concerned.

Favorable External Factors

The four relatively small economies were favorably influenced by the following external factors while they were striving for economic success:

First, the favorable international economic climate of the 1960's and most of the 1970's helped significantly in stimulating export industries in these NICs, under growing and accommodating global export market conditions.

Second, the NICs had friendly relationships with the United States, the preeminent force in the global economy during the period of their growth. They benefited from participation in exclusive preferential American trade incentives like Generalized System of Preference. This program was launched to foster trade-driven growth in developing markets by extending duty-free treatment to over 3,000 products from de-

veloping economies. Hong Kong, Korea and Taiwan have benefited the most from this program during the last decade.

Third, these NICs have been largely shielded from retaliatory measures of the United States and West Europe, as Japan's lopsided trade surplus problems were bothersome enough to these world economic leaders. Japan has been indeed the prime focus of the Western world's trade worries, leaving the NICs with enough cover to experience remarkable growth in exports.

Finally, in the meantime the general evolution of the global economic situation helped also in fueling the export success of the NICs. The decreasing costs of international transportation and communication, as well as the commercialized transfer of new technologies from the highly developed countries helped boost the NICs export trade to a considerable extent.

Favorable Internal Conditions in the NICs

First, the NICs have developed extremely dynamic business communities, which translated to correspondingly active export communities. The business community in the NICs harbored an overriding desire to succeed in foreign markets in light of the small sizes of their domestic markets. And, in most of the East Asian NICs, the export industry consists of numerous, relatively small firms, capable of adjusting rapidly to changes in patterns of international demand for products and services. This made them adept at responding to new international market niches, which are usually high return markets, at least in the short run.

Secondly, the NICs had large pools of both skilled and unskilled workers, as well as a sizeable educated work force. The NICs also embarked on programs to improve and upgrade the literacy of the population and labor forces, leading to high value-added products and increased sense of well-being among workers. This helped in making their economies very attractive to multinational companies seeking foreign bases with access to a cheap but educated labor pool. These companies produced goods in the NICs for sale in their home countries. This did not only help the export boom in the NICs but also encouraged the growth of a large core of suppliers whose expertise in working with Western-
ers drew more investment into the NICs. Also, there was a considerable transfer of technology and technical expertise in the NICs through this expatriate manufacturing activity, further developing thereby a more skilled, experienced and educated workforce.

Third, there is a unique underlying asset, a main facilitator of the NICs export growth, that is largely unavailable to the Western economies: Highly centralized governmental structures. The East Asian NICs have significantly centralized governmental and economic structures. This enables them to change courses more rapidly, as required to meet the needs of changing market forces. This makes their export industries highly responsive to changes in global market conditions in ways that the more decentralized democratic bureaucracies of the West cannot match. Another facilitator available to the NICs has to do with a combination of tradition, culture and religion. Because the East Asian nations are less secular in orientation, and because their cultures all place family and societal welfare ahead of individual success, they have been able to adopt and sustain unified national policies toward development of the private sector. Such control over the direction of the private sector's efforts is neither practical nor enforceable in most free Western economics.(Reeder, 1987)

Finally, the sustained domestic economic growth enjoyed by the NICs during the last two decades has been the backbone of their successful export industries. The NICs boast some of the highest saving rates in the world. These savings were of prime importance in funding R&D. The ever improving level of economic strength provided the backing for an aggressive and sustained effort to propel their export industries to the forefront of the international market.

Strategies and Policies Adopted by The NICs

Under the above-mentioned favorable external and internal environment, policy makers in the East Asian NICs made deliberate policy choices for their unique export success. (Jaramillo, 1987) They are: (1) adoption of outward-looking development strategy; (2) institution of extensive trade promotion programs; and (3) vigorous search of foreign capital and technology.

Outward-Looking National Development Strategy

In the 1950's and 1960's, strategies debated in newly independent, developing nations about the future course of their economic development came to be dominated by two main schools of thought. The first urged an inward orientation with the focus on import substitution. This was perceived to be the most facile way of achieving economic autonomy and independence. An import substitution strategy is a heavy industrialization scheme characterized by marked government trade protection through high import tariffs to help prop up uncompetitive heavy industry and protect "infant industry." Characteristically, the establishment of this capital intensive heavy industry called for correspondingly heavy government subsidies for capital formation. This import substitution strategy was widely adopted by many developing countries such as India, most of Latin America, Trinidad and Tobago.(2)

The second school of thought urged the adoption of an outward-looking national development strategy based on export-oriented industries. This strategy focused on initially establishing export-oriented light industry in order to exploit the developing countries' comparative advantages in both costs and quality of labor. This strategy requires they should be more aware of international market opportunities and more responsive to international price signals. This strategy was not very popular among some less developed countries (LDCs), since it failed to immediately satisfy the nationalist desires for economic independence and autonomy. It was a strategy that called for the developing countries' domestic economies to react and cater to the whims of the same nations that had colonized them for so long. This strategy therefore increased the risk of economic disruption and sabotage much more than the inward-oriented import substitution development strategy. Nevertheless, this export-oriented strategy was adopted by the East Asian NICs in early 1960's. It has now proven to be the more successful development strategy.

The East Asian NICs chose the export-oriented development strategy for three reasons. First, their limited domestic markets and low per capita income presented real economic obstacles to a complete import substitution strategy. Second, most of the NICs were characterized by local business communities somewhat removed from the center of political power, unlike their counterparts in India and Latin America. Potential
beneficiaries of government protection and subsidization were therefore less influential politically in the NICs. Third, the realities of global geopolitics suggested that ultimately their national securities depended on seeking allies among the West's industrial powers rather than on their own ability to develop extensive domestic defense machineries. This sensitivity to foreign realities, which was an essential element of an export-oriented strategy, served the NICs' diplomatic and strategic needs better than an inward turning policy of import substitution. The communist insurgencies in Korea and Vietnam were reminders that the expansionist agenda of their communist and socialist neighbors was a real threat to them; a threat based on more realism than the fear, if any, of receding into the control of their more distant, former colonial masters.

In short, the NICs focused on creation and establishment of export-oriented industries instead of import substitution industries built in most other LDCs after their independence.

**Vigorous Implementation of Trade Promotion Policy**

However, much more important than simply adopting an export-oriented development strategy was the vigorous implementation of various policies along with the strategy. A large part of the export success is due to their energetic efforts in trade promotion. (Agoston, 1985; Jaramillo, 1987; U.S. Congress, 1986)

In the 1960's, East Asian NICs designed and implemented rather similar trade promotion programs, with marked emphasis on export trade incentives. Basically, export trade promotion programs defined the major objectives of their national export expansion schemes, explained how these objectives could be achieved, and assigned responsibilities within the public sector for undertaking these efforts. The formulation of these programs involved active participation from the local business community. The process also characteristically involved sizeable inputs from various government agencies associated with economic, trade and national development matters. The involvement in the process facilitated coordination among them when the trade promotion programs were being carried out.

Generally, the export trade promotion pack-ages adopted by the East Asian NICs had certain types of policy measures in common. They include the following policies:

**Foreign Exchange Policy:** This was usually considered to be the core of every effective export promotion scheme. Unlike those LDCs who adopted import substitution strategy, the NICs established highly competitive foreign exchange rate while leaning towards keeping their home currencies slightly undervalued. This made their exports more attractive in foreign markets while restricting the range of foreign goods which could be imported profitably into their home countries. Their important goal has been to refrain from the multiple exchange rates, overvalued currencies and unpredictable devaluations which characterized the foreign exchange policies of other LDCs. The NICs helped to stabilize the export industries by preventing the prices of exports from fluctuating radically while keeping these prices competitive in global markets. These measures therefore encouraged investment in export industries by making these investments less risky.

**Tariff Policy:** Because tariff policy modifies the cost of raw materials, it affects the price of exported goods. Thus, new tariff policies were adopted, structured principally for the benefit of the export sector. There were basic tariff reduction and in some cases tariff exemptions on imports of raw materials needed for export production. The NICs were careful to resist the temptation of policies calling for the establishment of high tariff to protect domestic "infant industries." Although the new tariff policies caused decreases in fiscal revenue, the NICs were patient and persistent in their expectations for the long term economic benefits associated with them.

**Fiscal Policy:** This third measure clearly set down mechanisms for such measures as tax restituation, compensation or exemption for the export sector. Both Korea and Taiwan adopted fiscal policies that provided widespread tax incentives for, and remitted indirect taxes on, imported inputs for export production, granted exemption from income taxes on part of export earnings, and established export-processing zones. Korea, in addition, provided a tax allowance for loss on raw materials and a reduction of income tax for domestic suppliers of required
materials for export production. Singapore and Hong Kong implemented similar fiscal policies to help stimulate domestic export industries.

Generally, the NICs were able to utilize their experience in the global markets for exports to develop such novel fiscal policy schemes as a special accelerated depreciation on the fixed capital assets of export industries, the establishment of export industrial zones and export free zones. They also adopted measures providing specialized financial services to exporters through domestic Export-Import banks and various types of direct banking and administrative assistance to exporters wishing to venture into new markets.

Credit Policy: The NICs established financial facilities for both production and export through the commercial banking system. They also utilized a variety of special funds to support export production and financing, and embarked on programs to establish extensive export credit insurance systems and geared their operations toward providing coverage for even the minor export companies. This was a critical step in reducing the riskiness of engaging into the highly volatile global markets for exports.

Investment Policy: The NICs implemented the plan for sizeable investments needed to support the birth and growth of their ambitious export industries, and the associated industrialization of their economies required for producing manufactured goods. They adopted various measures to promote local and/or foreign investment in different production sectors. These included such incentives as the creation of industrial zones with certain facilities provided, tax holidays, and unrestricted repatriation of earnings for foreign investors. Production incentives of various kinds were also implemented to attract foreign manufacturers. Foreign investors were lured by the low costs of manufacturing in the NICs due to the availability of cheap but efficient labor, as well as the established quality control programs to help upgrade and ensure the quality of export products.

Physical Infrastructure Policy: This policy was mostly in the hands of the public sectors in these countries. Adopted were the required measures to develop the structures needed for efficient export transactions. This involved establishing harbors and airports; facilities for land, sea and other air transport; warehouses; distribution centers; and free zones. The NICs' governments directly undertook most of the domestic investment for infrastructure projects. They understood that these were essential to building the domestic base for any successful bid at export expansion.

All of the above-mentioned policies, coupled with aggressive promotion of domestic export industries in foreign countries contributed to success in global export markets.

Technology, Productivity, and Quality of Products

During the last decade, the world economy has been undergoing extensive technology-driven structural changes. The relative importance of various industries and countries is changing more rapidly than in earlier times. U.S. companies were initially threatened by low-cost production in Japan but this has been replaced by even lower costs of production in the NICs. Through encouragement of direct foreign investments and foreign loans, coupled with high domestic saving rates, the NICs have been successfully moving up to industries using higher levels of technology. Although most of the technologies the NICs have been using are those originated in the West and Japan, the NICs have been successful in adapting them to their own advantages. Companies in these NICs are engaged in a never-ending process of moving to higher value-added operations, using even higher levels of technology, producing products of ever better quality at lower cost. These firms are taking full advantage of the deliberate trade promotion policies instituted by their governments as well as the favorable external and internal factors available, as mentioned earlier. At the same time, these companies pay their dues in their national endeavors, by making technological development, innovation and productivity boost a company-wide effort engaging every element, human and physical, of the company. Their thrusts in this endeavor include total participatory management, quality control circles even at the factory floor level as opposed to the Western style quality control, which stops at the engineering level. They learn new technology, innovation and management techniques originating in the West and Japan at even faster speed and improve upon
them and adapt them to be more commercially competitive in the global markets.

Conclusions: Possible American Responses

Globalization of product, service and financial markets, and dynamic changes in relative importance and role of regional and national economies, have caused the importance of the U.S. economy in global markets to decline. The American economy is faced with low rates of productivity increase and manufacturing efficiency, low saving rates, high levels of consumption of foreign products, low rates of capital formation and, most importantly, increasing trade and federal budget deficits. All of these coupled with acutely low rates of expenditures on non-defense R&D spell a protracted, uphill battle for America’s return to global economic preeminence. If the best interest of U.S. foreign policy can be served only by maintenance of high posture of defending the Western Europe, the Pacific area and the Gulf region at the present level--an annual rate of $150 billion, a major contributor to the above-mentioned uphill battle must be U.S. industry, especially her export industry. This calls for a strong and successful export community in the United States. In particular, the U.S. manufacturing export community could use some of the lessons learnt from the success of the East Asian NICs.

The first lesson would be that in trade promotion. The U.S. needs to develop a well-coordinated and aggressive export promotion program. For this, U.S. may need to establish an organization to provide foreign trade services to the business community; an organization made up of government officials as well as representatives of U.S. export community, providing more extensive export services than can be provided by the U.S. Department of Commerce. The thrust of the new organization must be toward encouraging private involvement in the national trade promotion efforts as well as in unifying such efforts to assure long term success and prosperity.

The second lesson is to improve the productivity and efficiency of manufacturing in the U.S. economy. In this context, the United States is lucky, since technology is rapidly reducing the role of labor costs in achieving increased productivity; moreover, technology is an area in which the United States is still a comparative leader. Therefore, in some sectors sensitive to quality and style and in manufacturing where labor costs are a small percentage, U.S. manufacturers may once again be able to compete effectively with production bases in low-cost overseas locations.

Third, the technological leap-frogging has been perfected by the NICs and Japan. It is time for the United States to turn the tide on Japan, Western Europe and the NICs. U.S. manufacturers should be more attuned and receptive to foreign developed technology. Making existing technology work for them could be a major boost to America’s effort to maintain a lead in global markets.

Fourth, as a main facilitator of capital formation and technological progress, personal and public savings play a major role in financing economic growth. If Americans save more, this would provide more funds to fuel growth in domestic industry as well as reduce the amount of U.S. dollars being spent on foreign goods. The higher saving rate will contribute to increased R&D, which will contribute in turn to productivity improvement.

Fifth, the long term prospective is important in business endeavors. The pressure for short term performance notwithstanding, U.S. manufacturers should become more sensitive to the need for long term planning, and its precedence over profits in the short run. This has been a more critical factor handicapping U.S. companies when in competition with foreign companies. It is a concept difficult to engrain in U.S. corporations but one which eventually will spell the difference between success and failure for U.S. industry.

Sixth, to stay competitive in the rapidly changing global markets, U.S. must rely on a system that can respond quickly and efficiently to change. Given the size of the U.S. economy and the large number of separate units that it comprises, this of course does not translate into an easy task. Lessons from the NICs’ recent economic success indicates that the best economic system to keep an economy growing and competitive in a highly dynamic global economy, is a market-driven free enterprise system with appropriate, but restrained, government involvement, invigor-
ating private initiatives. This is particularly true for the United States whose role is that of developing and exploiting ever newer technologies, encouraging innovation in its companies and economy.

Finally, U.S. manufacturers must discard the old notion: Since the U.S. economy is so large that we must produce simply to satisfy the domestic customers, and if there are still some leftovers, let foreigners come and get them for themselves. This attitude worked well for them until early 1960's, but not any longer. U.S. manufacturers must produce goods suitable to foreigners’ taste and preference. They must develop a new viable export culture.

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Endnotes

1 Recently, some have suggested to use NIEs (Newly Industrialized Economies) instead of NICs (Newly Industrialized Countries)
2 For the purpose of this article, reference to Latin America represents the countries of Argentina, Brazil, Chile, Colombia, Mexico, Peru, Uruguay and Venezuela.

References