

Edward K Y Chen Distinguished Lecture Series
Inaugural Lecture

**From the NIEs to the BRICs:
Development Theory Revisited**

by

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The Newly Industrialised Economies (NIEs) Model of Development

NIEs — Hong Kong, South Korea, Singapore, Taiwan

Also called the Four Little Dragons

- Experienced rapid economic growth in the 1960s and 1970s on the basis of non-conventional wisdom

The NIEs Model

1. Small and Resources-scarce
vs Large and Resources-abundant
2. Open-door, Manufactured Export-oriented
vs Protectionism, Import-substitution
3. Confucian Ethics
vs Christianity (Max Weber)
4. Development-oriented Hard State
vs Democracy
5. Positive Non-interventionism (Hong Kong
Consensus) vs Washington Consensus

The Hong Kong Consensus

Philip Haddon-Cave (1980)

Positive Non-interventionism

“Laissez-faire has a passive ring to it which is misleading, and implies that the complex socio-economic and socio-political forces operating within modern societies must be quietly accepted.”

“Positive non-interventionism involves taking the view that, in the **great majority** of circumstances it is futile and damaging to the growth rate of the economy for attempts to be made to frustrate the operation of market forces

It implies that

Laissez-faire \neq Positive Non-intervention

Non-intervention when it is not necessary to intervene

Intervention when it is necessary to intervene

積極性的不干預

Not 積極不干預

Washington Consensus

To minimize the role of government as soon as possible

1. Prudent Macro Policy
Fiscal discipline, tax reform, inflation targeting
2. Financial Liberalization
Including free floating of exchange rate and capital account opening
3. Trade and Investment Liberalization
4. Privatization
5. Deregulation of Prices

The Chen (1988) Hypothesis

The Economic Success of the NIEs is explained by an integrated model with reference to a particular type of development strategy

Development Strategy — Export-orientation on the basis of labour-intensive products and demand-led production

Support by

Political System — Development-oriented Hard State

Political Stability

Consistent Pro-market Policies

Positive Non-interventionism

Cultural Values — Confucianism for High Savings,
Adaptable Entrepreneurs and
Hard-working Labour

Conceited Dragons in Regret ? 亢龍有悔 ?

The Asian Financial Crisis (1997-8) brought the economic miracle of the NIEs to an end (at least temporarily).

Government Failure ?

Market Failure ?

International Failure?

The Emergence of the BRICs

In the early 2000s, a group of large and resources-abundant economies emerged as important players in the global economy.

They are the BRICs:

Brazil, **R**ussia, **I**ndia, **C**hina

(Goldman Sachs, Global Economics Paper No:99, 1 October 2003)

Economic Growth Rates

Constant Prices, %

NIEs	1998	1999	2000	2001	2002	2003	2004	2005	2006
Hong Kong	-5.46	4.00	9.97	0.64	1.84	3.20	8.58	7.52	6.82
South Korea	-6.85	9.49	8.49	3.84	6.97	3.10	4.73	4.20	4.99
Singapore	-1.38	7.20	10.06	-2.40	4.16	3.11	8.80	6.62	7.88
Taiwan	4.55	5.75	5.77	-2.17	4.25	3.43	6.07	4.03	4.62
BRICs									
Brazil	0.04	0.25	4.31	1.31	2.66	1.15	5.71	2.94	3.70
Russia	-5.30	6.40	10.00	5.10	4.70	7.30	7.20	6.40	6.70
India	6.03	6.65	5.29	4.08	4.32	7.28	7.77	9.16	9.20
China	7.80	7.60	8.40	8.30	9.10	10.00	10.10	10.40	10.70

A BRIC Model of Development ?

Difficult to Generalize

1. Large and Resources-abundant

Agricultural produce, minerals, energy, etc.

2. Varied Degree of Openness

Export-orientation and Import-substitution concurrently

3. Varied Cultural Values
4. Development-oriented Hard States
but of Varied Degree and Types
5. Beijing Consensus
vs Washington Consensus

The Beijing Consensus

1. Gradualism in Reform and Liberalization
2. Cautious Approach to Privatization
3. Industry Policy, Government Intervention
4. Undervaluation of Currency through Accumulation of Foreign Exchange Reserves

The Importance of BRICs in the Global Economy

Brazil since 2004, Russia since 1999

India since 1991, China since mid-1980s

Population 2003

Brazil	177 million
Russia	143 million
India	1046 million
China	1288 million
	<hr/>
	2654 million

BRICs

- * Contribution to global growth
 - 2000-2005 28% (unadjusted GDP)
 - 55% (PPP terms)
- * Share of global trade
 - 2000: 7% 2005: 15%
- * Share of world's foreign exchange reserves
 - 2005: 30%

* Share of global FDI Inflows

2000: 5% 2005: 15%

* Share of global FDI Outflows

2000: 0.5% 2005: 3%

* Share of global oil demand

2005: 18%

Economic Size, 2004/2050

PPP, US\$ billion

	GDP 2004 ^a		GDP 2050 ^b	
USA	1	11,750	2	35,165
China	2	7,262	1	44,453
Japan	3	3,745	4	6,673
India	4	3,319	3	27,803
Germany	5	2,362	8	3,603
Britain	6	1,782	7	3,782
France	7	1,737	9	3,148
Italy	8	1,609	10	2,061
Brazil	9	1,492	5	6,074
Russia	10	1,408	6	5,870

a CIA, *Basic Facts*, June 30, 2005

b Goldman Sachs, *Global Economics*, No: 99, October 1, 2003)

Development Theory at Stake ?

What caused the Paradigm Shift from
the NIEs Model to the BRICs Model ?

Old Wine in a New Bottle ?

or

New Wine in a New Bottle ?

(1) Marketization, Liberalization and Globalization

The transformation of many countries from planned to market economies

Trade and financial liberalization

Economic deregulation

Globalization of economic activities

Resulting in:

The creation of many low-cost, relatively efficient producers with access to the world market

Prices of raw industrials and energy rise

Prices of final products fall

Demand for agricultural products rises

Importance of domestic Market (supplementary and complementary to exports) rises

(2) A Modern International Financial Architecture not Built

The international financial structure built after WW2 for the fixed exchange rate system is obsolete — sporadic financial crises

Small, open economies are vulnerable to international capital flows

Large, semi-open (capital account still under control) economies are better protected

(3) A New Era of Technological Change

The Predominance of ICT (Pervasive, incremental and continuous)

The Emergence of Flexible Manufacturing System

Scope (GE) vs Scale (Ford)

Resources and Products

IS and EO

The importance of economic size has increased

(4) Regional and Economic Security

Increasing importance since Asian Financial Crisis (1997-98) and 9-11 (2001)

Geo-politics

Military Strength

Energy Sufficiency

The importance of size and natural resources reserves has increased

Conclusion

Development Theory needs little revision

Recent Development is Old Wine in a New Bottle

1. OPENNESS remains the crucial factor
2. THE ROLE OF GOVERNMENT remains important
Hong Kong Consensus and Beijing Consensus
more than Washington Consensus
3. CULTURAL VALUES are possibly still relevant
The importance of cultural values has to be
related to particular type or strategy of economic
development

Thank you

For the Opportunity Cost
you forgo in attending this lecture