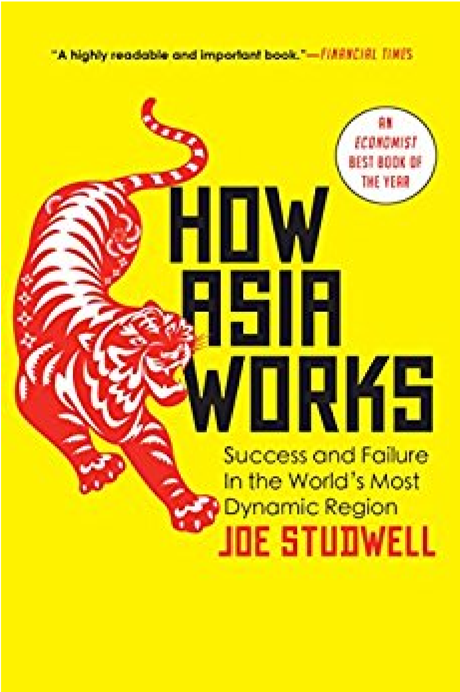
How Asia Works: Success And Failure In The World's Most Dynamic Region



Synopsis

In the 1980s and 1990s many in the West came to believe in the myth of an East-Asian economic miracle. Japan was going to dominate, then China. Countries were called “tigersâ • or “mini-dragons,â • and were seen as not just development prodigies, but as a unified bloc, culturally and economically similar, and inexorably on the rise.Joe Studwell has spent two decades as a reporter in the region, and The Financial Times said he “should be named chief myth-buster for Asian business.â • In How Asia Works, Studwell distills his extensive research into the economies of nine countries—Japan, South Korea, Taiwan, Indonesia, Malaysia, Thailand, the Philippines, Vietnam, and China—into an accessible, readable narrative that debunks Western misconceptions, shows what really happened in Asia and why, and for once makes clear why some countries have boomed while others have languished.Studwellâ ™s in-depth analysis focuses on three main areas: land policy, manufacturing, and finance. Land reform has been essential to the success of Asian economies, giving a kick start to development by utilizing a large workforce and providing capital for growth. With manufacturing, industrial development alone is not sufficient, Studwell argues. Instead, countries need “export discipline,â • a government that forces companies to compete on the global scale. And in finance, effective regulation is essential for fostering, and sustaining growth. To explore all of these subjects, Studwell journeys far and wide, drawing on fascinating examples from a Philippine sugar baronâ ™s stifling of reform to the explosive growth at a Korean steel mill.Thoroughly researched and impressive in scope, How Asia Works is essential reading for anyone interested in the development of these dynamic countries, a region that will shape the future of the world.

Book Information

File Size: 2729 KB

Print Length: 402 pages

Publisher: Grove Press (July 2, 2013)

Publication Date: July 2, 2013

Sold by:Â Digital Services LLC

Language: English

ASIN: B00B3M47VC

Text-to-Speech: Enabled

X-Ray: Not Enabled

Word Wise: Enabled

Lending: Not Enabled

Enhanced Typesetting: Enabled

Best Sellers Rank: #69,295 Paid in Kindle Store (See Top 100 Paid in Kindle Store)   #3 inÂ Kindle Store > Kindle eBooks > Business & Money > Economics > Comparative   #9 inÂ Books > Business & Money > Economics > Comparative   #14 inÂ Kindle Store > Kindle eBooks > Business & Money > International > Economics

Customer Reviews

Author Studwell argues that there are three critical interventions that governments can use to speed up economic development. Used in Japan, South Korea, Taiwan, and now China, they have produced the quickest progressions from poverty to wealth that the world has seen.The first and most overlooked is to maximize output from agriculture. The second is to direct investment and entrepreneurs towards manufacturing exports. Machines can easily be purchased on the world market, and successful east-Asian governments promoted technological upgrading through subsidies conditioned on export performance. (Exporters were almost invariably better businesses than firms that sold only at home.) The third is to focus capital on the fastest possible technology learning and the promise of high long-term profits, not short-term returns and individual consumption. This tends to pit the state against many businessmen and consumers with shorter-term horizons.Thus, economic development is as simple as one, two, three. Unfortunately, wealthy nations and their economic institutions (the World Bank, the International Monetary Fund) have provided contradictory advice to poor states, despite the fact that no significant economy as ever developed successfully via free-trade and deregulation from the beginning - including the U.S. and Great Britain. Positive intervention has been required in agriculture and manufacturing that fostered early accumulation of capital and technological learning.Brazil is the only major economy outside east Asia which has grown more than 7%/year for over 25 years. But it crumbled after the 1982 Latin American debt crisis - currency depreciation, inflation, and years of zero growth.

This book is an exceptionally lucid history of development policy in the major economies of East Asia. There is particular focus on the economies of South Korea, Malaysia, and the Philippines, but Studwell addresses other nations as well.Understandably, development policy is an explosively controversial topic, and readers will be divided by prejudice on this matter. For decades, "the Washington Consensus" (WC) has been pushed onto less developed countries (LDCs) as an unworkable combination of "free trade," currency convertibility, and "stable exchange rates" (1). At the same time, building up a strong farming sector plays a far greater role in the Asian success stories than "liberalization" of FDI.Readers may be astonished to see how much attention Studwell pays to farming policy in the history of Asian development, seeing as how the prominent successes for countries like Japan, South Korea, and China have been in manufacturing. But sustaining the needs of the population and allowing them to save is a paramount step for any metric of economic success. For instance, when countries are developing, a failed agricultural policy (and concomitant food imports) can suck up foreign capital required for capital projects. Als, as in the case of the Philippines, failures to implement land reform can result in a powerful landed aristocracy upon which the national leadership is completely dependent (2).After addressing farm policy, he moves on to the challenge of industrial development. He points out that "liberal" trade policy is incontrovertibly unsuited to industrial development(3), but also that competition and export discipline are crucial ingredients of success.

This book argues among other things that that protectionism and industry policy are important policy tools for countries at an early stage of development, and that Asian governments have adopted this model with varying degrees of success. Heretical as this claim may be to some, in my opinion it is not even worth debating whether or not the most advanced economies achieved success under "Smithian" conditions.With the possible exception of a few, small trading entrepots, there is not a single example of a country that did. There are rich countries that were "Smithian" (like, laissez-faire Haiti -- if you don’t count slaves of course -- in the late 18th Century), but their wealth was unsustainable and they were in no way "advanced" economies.You can find it all in the works of the brilliant Alexander Hamilton. The "American System" of the early 19th Century was the basis of the economic writings of the German Freidrich List and which went on to influence Germany, Japan (in 1872 one of the leading proponents of the American System, E. Pechine Smith, moved to Tokyo and became the leading adviser to the Mikado on Japan’s economic restructuring), and a host of other countries. The three pillars of the American System were infant industry tariffs and subsidies, internal improvements (i.e. infrastructure provided by state and local governments) and a sound system of national finance, with the state playing a leading role.These are the same pillars that supported the growth of every country that has developed rapidly, and the fact that this is even debated in economic circles suggests to me how unreal academic economics has become and how divorced from historical understanding. I agree with the authors that to debate whether or not industrial policy can work is silly. Of course it can.

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