

State Development Planning: Did It Create an Asian Miracle?

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Abstract

East Asian countries recorded large increases in per capita GDP over the last fifty years. This led some observers to refer to the growth as an “East Asian Miracle.” One popular explanation attributes the source of the rapid growth to state led industrial development planning. This paper critically assesses the arguments surrounding state development planning and East Asia’s growth. Whether the state can acquire the knowledge necessary to calculate which industries it should promote and how state development planning can deal with political incentive problems faced by planners are both examined. When we look at the development record of East Asian countries we find that to the extent development planning did exist, it could not calculate which industries would promote development, so it instead promoted industrialization. We also find that what rapid growth in living standards did occur can be better explained by free markets than state planning because, as measured in economic freedom indexes, these countries were some of the most free market in the world.

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ABSTRACT

East Asian countries recorded large increases in per capita GDP over the last fifty years. This led some observers to refer to the growth as an “East Asian Miracle.” One popular explanation attributes the source of the rapid growth to state led industrial development planning. This paper critically assesses the arguments surrounding state development planning and East Asia’s growth. Whether the state can acquire the knowledge necessary to calculate which industries it should promote and how state development planning can deal with political incentive problems faced by planners are both examined. When we look at the development record of East Asian countries we find that to the extent development planning did exist, it could not calculate which industries would promote development, so it instead promoted industrialization. We also find that what rapid growth in living standards did occur can be better explained by free markets than state planning because, as measured in economic freedom indexes, these countries were some of the most free market in the world.

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East Asian countries experienced dramatic economic development since the end of World War II. First Japan, then Taiwan, South Korea, Hong Kong, Singapore, and others, all recorded large and rapid increases in per capita GDP. Many attribute this success to a unique “Asian Model” of economic development (Johnson 1982, Amsden 1989, Wade 1990, Evans 1995, Stiglitz 1996, 2001, Woo-Cumings 1999). A model, which maintains some international market forces, but also involves heavy direction of the economy by state industrial development planning agencies.

The East Asian financial crisis of the late 1990s did not change the views of those who claim East Asia’s success was a result of developmental planning. In fact, Wade (1998, 2000) attributes much of the blame for the crises to departures from the state directed model. “Had the governments not abandoned some basic principles of the East Asian model – above all, the principle of strategic rather than open-ended integration into world financial markets – the economies would probably not have experienced a serious crisis, although they would have grown more slowly” (2000: 107). Stiglitz and Furman (1998) and Stiglitz (1999) are largely in agreement with Wade that rapid financial and capital market liberalization in East Asia combined with other factors to cause the crises.¹ These authors still believe that state industrial planning played a major roll in East Asia’s success prior to the crisis.

¹ Furman and Stiglitz wrote, “We argue that one of the most important developments was the rapid liberalization of financial markets, both domestic and international, without the corresponding development of proper regulation or supervision” (1998: 9). Wade similarly states, “Asian governments are deeply implicated in the crisis for opening the financial system quickly in the 1990s without linking the pace of the opening to the build-up of effective rule-based (rather than relationship-based) governance of financial markets” (2000: 107).

This paper critically examines the standard account of East Asia's success. We question whether a model of state development planning could have created East Asia's miracle development.

Economic development that enhances consumers' standard of living, is not just about industrialization. It is about creating the right industries. If state planning is to lead to higher rates of economic growth, it must promote industries that will enhance consumer welfare more than the industries that would have developed in the absence of state direction. This point was recognized by Adam Smith over 200 years ago when he wrote, "Consumption is the sole end and purpose of all production; and the interest of the producer ought to be attended to, only so far as it may be necessary for promoting that of the consumer" (1776: 715). State development planning confronts the problem of how it can attain the knowledge necessary to identify which industries to promote. Another problem, if these industries and their appropriate size can be calculated, is how to make their promotion over other industries that may be more heavily represented by interest groups in the interest of government officials.²

The first section of this paper reviews what theories of state development planning entail. The second section critically examines the problems that state economic development planning confronts. The experience of the East Asian countries is looked at in the third section. Development and industrialization are compared and whether state planning or a free market environment was more dominant are examined. The final section contains conclusions.

² Again Smith (1776: 717) anticipates this problem writing, "It cannot be very difficult to determine who have been the contrivers of this whole mercantile system; not the consumers, we may believe, whose interest has been entirely neglected; but the producers, whose interest has been so carefully attended to; and among this latter class our merchants and manufacturers have been by far the principal architects."

State Development Planning

Although there is a wide range of economists opinions on the role of government in the economy, most neoclassical models, though they allow for government production of public goods, and correction for externalities, leave far less room for government than active promotion of particular industries for development. The unique feature of models of state development planning is that they seek to promote economic development by using government agencies to identify which industries can best promote growth and allow the agencies to intervene in the market to encourage them.

Johnson's (1982) book on the history of MITI and development in Japan is one early account of state development planning. Amsden's (1989) book on Korea, and Evan's (1995) study on state technology promotion are others. Stiglitz (1996 and 2001) has also attributed some of East Asia's success to industrial development policies. Wade's (1990) book *Governing the Market*, is the most completely developed theory of the East Asian developmental state. In that study Wade not only outlines what "Governing the Market" entails but also claims that it was responsible for creating the East Asian miracles in Taiwan, Korea, Japan and Hong Kong. Although there are variations among the authors, the basic developmental states that they advocate are similar and confront the same problems.

Johnson (1982) identifies the essential features of the Japanese model writing,

The first element of the model is the existence of a small, inexpensive, but elite state bureaucracy staffed by the best managerial talent available in the system... The duties of this bureaucracy would be first to identify and choose the industries to be developed (industrial structure policy); second, to identify and choose the best means of rapidly developing the chosen industries (industrial rationalization policy); and third, to supervise competition in the designated strategic sectors in order to guarantee their economic health and effectiveness (1982: 314-315).

Johnson, reflecting on his own work almost 20 years later, summarizes his position, writing, “The essence of the argument is that credit for the postwar Japanese economic “miracle” should go primarily to conscious and consistent governmental policies dating from at least the 1920s” (1999: 37).³

Amsden’s (1989) work on Korea maintains a similar role for the state in “late industrialization.” She writes, “The first industrial revolution was built on laissez-faire, the second on infant industry protection. In late industrialization the foundation is subsidy – which includes both protection and financial incentives. The allocation of subsidies has rendered the government not merely a banker... but an entrepreneur, using the subsidy to decide what, when and how much to produce” (1989: 143).

Evans (1995) uses a similar model of state development planning to argue that the state can successfully plan and promote development in the information technology sector. Evans writes that although standard economics would predict state involvement in an industry to produce, “economically stagnant, politically stable symbiosis between officials with the capacity to create rents and private actors anxious to take advantage of them” he claims that, state involvement was associated with economic dynamism and political contestation (1995: 17). Evans believes the planning agencies must be both autonomous, so they do not get captured by interest groups, and embedded, so that they have incentives to promote the general interests over their own. His conclusions focus on state promotion of a single industry but he generalizes his result claiming that it is applicable to states promoting development generally.⁴

³ See Lavoie (1985: 194-196) and Henderson (1993) for articles that come to the exact opposite conclusion about MITI’s contribution to Japan’s success.

⁴ “This conclusion is consistent with the impressions of those who have focused at a more general level. There is nothing in the analysis by Amsden and Wade and their ilk to suggest that industrial transformation

Stiglitz also wrote on the importance of industrial policy in East Asian development. Although he does not offer a full theory of how state industrial planning can succeed, he does offer a host of reasons why markets can fail in developing countries and concludes, “Governments in East Asia used industrial policies to affect the allocation of resources in ways that would stimulate economic growth. They took an entrepreneurial role in identifying industries in which research and development would have high payoffs” (1996: 173).⁵ Although Stiglitz thinks that the econometric evidence in support of the view that industrial policy in East Asia was responsible for the growth is inconclusive, “The fact that almost *all* of the economies in the region had industrial policies (with the exception of Hong Kong, which benefited from the industrial policies of its neighbor, mainland China) *suggests* that such policies were an important part of their growth strategies, whether or not the highly imperfect econometric techniques for quantifying such impacts succeeded in verifying such claims” (2001: 519).

Wade’s (1990) “Governed Market” theory, attributes the East Asian success to very high levels of productive investment, more investment in key industries than would have occurred without government intervention, and exposure of industries to international competition in foreign markets. Wade claims that the governments in East Asia used incentives, controls, and mechanisms to spread risk, to enable their bureaucracies to guide the market process of resource allocation to produce different production and investment outcomes than would have occurred in the free market. He

has made state involvement anachronistic – more difficult and politically sensitive perhaps, but still central to the process of seeking a more desirable niche in the global division of labor” (1995: 234).

⁵ Stiglitz (1996) claims that markets could fail to promote optimal growth because of weak and nonexistent markets, technological spillovers, marketing spillovers, returns to scale, coordination failures, and strategic negotiations.

maintains that these different patterns of production and investment led to higher rates of growth than would have otherwise been achieved.⁶

Governments in East Asia have guided the market by redistributing agricultural land; controlling the financial system and making private financial capital subordinate to industrial capital; maintaining stability in some macro variables such as the exchange rate, interest rate, and price level; modulating the impact of foreign competition in the domestic economy and prioritizing the use of foreign exchange; promoting exports; promoting technology acquisition from multinational companies and building a national technology system; and promoting and assisting particular industries (Wade 1990: 27-28).

Wade's main focus in describing the governed market approach to state led development in East Asia is on the promotion of particular key industries. "Sectorial policies lead the market when the government takes initiatives about what products or technologies should be encouraged, and puts public resources or public influence behind these initiatives" (Wade 1990: 28). He elaborates on the governed market theory by writing, "A pilot agency or economic general staff is one of the core features. The pilot agency decides which industries ought to exist and which industries are no longer needed in order to promote the industrial structure which enhances the nation's international competitiveness, obtains a consensus for its plans from the private sector, acts as a gatekeeper for contacts with foreign markets and investors, and provides positive government supports for private economic initiative" (1990:195). Wade attributes the East Asian success to the state development planners' ability to lead the market.

⁶ Wade's theory is the most fully developed theory from the above mentioned authors and is elaborated here in greater length to provide a fuller understanding of what state development planning in East Asia entails.

Although many economists have focused on “getting the prices right” as the panacea for economic growth, Wade’s Governed Market model focuses on capital accumulation as the key. He does not view capital as a homogenous category like many neoclassical models. Wade thinks that the right capital needs to be accumulated and that the government needs to direct its accumulation.

The GM theory, on the other hand, emphasizes capital accumulation as the principal general force for growth, and interprets superior East Asian performance as the result of a level and composition of investment different from what the FM [Free Market] or SM [Stimulated Market] policies would have produced, and different, too, from what the “interventionist” economic policies pursued by many other LDCs would have produced. Government policies deliberately got some prices “wrong,” so as to change the signals to which decentralized market agents responded, and also used nonprice means to alter the behavior of market agents. The resulting high level of investment generated fast turnover of machinery, and hence fast transfer of newer technology into actual production (Wade 1990: 29).

If capital accumulation is the key to growth, the unique problem that Wade identifies is that capital is heterogeneous. What capital should be accumulated to produce the greatest increases in well being? That is the central question that development economists who advocate state development planning must answer. Wade and other advocates of state development planning believe that government development planning bureaus, such as MITI in Japan, can better answer the question than a free market entrepreneurial process. The next section examines the problems state planners face in picking the right industries and capital structure to promote growth. While we draw examples mainly from Wade’s “Governed Market” theory, the problems are not unique to his model and are equally applicable to the other authors mentioned above who advocate industrial planning policies to promote development.

Problems Confronting State Planning

The profit and loss system that is informed by market prices serves as a guide to direct which industries should expand and which should contract in a market economy. Advocates of state development planning must answer how the agencies are going to have knowledge that is superior to the unhampered market and once they have it, how it will remain in the planners interests to promote only those industries that best promote growth. The first problem will be referred to as the knowledge or calculation problem, while the second will be referred to as the public choice incentive problem. Although advocates of East Asian state development planning address the second incentive problem, they fundamentally misconstrues the nature of the knowledge problem.

The Knowledge Problem

A fully comprehensively planned rational economy is impossible. Mises (1920, 1949) showed that without private property in the means of production, there could not be prices for the means of production. Without prices, there are no relative scarcity indicators, and rational economic calculation is impossible. Hayek (1935, 1940) also stressed the role of the market process in generating the knowledge necessary to have an efficiently functioning economy. Hayek stressed the tacit and inarticulate knowledge that individuals possess that cannot be communicated to the central planners. With decentralized individual planning in the market this information is used by actors while only passing on relevant information to others through their actions that generate market prices (1945). Hayek shows how the market itself is the “discovery procedure” that finds new patterns of economic production that best satisfy consumer wants (1978).

Wade and other advocates of state development planning do not advocate fully socialized planning of the economy. The Governed Market theory of state led development specifically leaves some room for functioning market prices, both in consumer and producer goods markets. Wade even says that planners must look at promoted industries' success and profitability in international markets to see if the investments were justified. The problem for state industrial planning is that although the market cannot be replaced with complete central planning, because the market generates the information needed for an efficiently functioning economy, even just interfering and distorting the price signals by selectively promoting individual industries undermines the very process by which the necessary information is generated.⁷ The state planning bureaus prevent the market discovery process from operating by fixing the process to the advantage of the particular industries the government wants to support. Lavoie (1985) summarizes the problem by saying

The same lack of knowledge on the part of any single person or organization which makes it impossible for comprehensive planning to replace the market also makes it irrational for a noncomprehensive planning agency to try merely to "guide" the market. If the guiding agency is less knowledgeable than the system it is trying to guide – and even worse, if its actions necessarily result in further undesired consequences in the working of that system – then what is going on is not planning at all but, rather, blind interference by some agents with the plans of others (1985: 95).

In the competitive process the push and pull of resources that results from the bidding of market producers and consumers reveals which inputs are most urgently

⁷ Advocates of developmental planning miss the link between the informational argument against socialism and how it bears on interventionist planning. They actually get the argument backwards. Vartiainen (1999) favorably cites Stiglitz's, *Whither Socialism?* (1994) and writes, "While a deeper understanding of incentive mechanisms and information economics has discredited the feasibility of comprehensive central planning and public ownership as viable economic strategies, the emphasis of the most interesting modern economics has also shifted in a way that makes the interventionist case more appealing than it used to be" (1999: 205).

desired in which industries. The prices that result from this process reveal the subjective valuations of millions of consumers and producers from their individual and specific knowledge. Resources are bid into an industry because that is where they are most strongly desired. Someone else's subjective valuation did not cause them to bid higher in order to get the resources. When the state actively plans development it forces resources to particular industries. Whether it does this by taxing some and transferring to others or rigging interventions so that market decisions direct resources to the favored industry it is based on coercive interference. The decision-makers in the government planning bureau have no method to evaluate the opportunity cost of what the resources would have been used for in another industry. The opportunity cost is the subjective loss suffered by the person who would have got resources if the government had not interfered with the market process. Since the planning bureau has no way of evaluating this loss it is unable to tell if by promoting one industry, the loss in output from other industries that it necessarily caused, is greater or less than the benefit that was produced. The planning agency has no way to know if it is promoting development or retarding it.

The governed market theory of state development planning attempts to deal with the knowledge problem by collapsing it into an engineering problem; focusing on only the best and brightest planners; denying that there are correct industries to promote; or by use of the price mechanism to later validate government planners' decisions. None of these methods adequately addresses the central problem.

Wade characterizes how state development interventions will be evaluated by writing, "Almost certainly some of Taiwan's industries and some of its exports would not have been initially profitable without state encouragement. That they were profitable

after the event reflects the use of the price mechanism to validate investment decisions taken on grounds other than current efficiency” (1990:302). “Current economic efficiency” is precisely the benchmark that these investments must be evaluated against though. Just because a project is eventually profitable, that was not profitable when it was undertaken and subsidized by the government, does not indicate that it should have been undertaken *when it was*. For example, an electric toaster industry in the late 19th century US could have been subsidized and created by state interventions. It would not have been profitable until at least the 1930s when more homes had electricity. Would the state have been correct for subsidizing the industry for over thirty years? Surely even Wade would answer no. There is some relevant time frame, prior to profitability, that an industry should be created, but not too long before. The state bureaus are unable to answer how long, because they cannot evaluate the opportunity cost of resources they divert.

The market can determine how far ahead a project should be undertaken. Wade often accuses the market of short sightedness writing things like, “Lumpy and long-term investment projects were undertaken which would probably not have been undertaken in an economy with free trade and capital movements, because they would not have been consistent with short-term profit maximization” (1990:334)⁸. Businesses do not focus on only short-term profit maximization though. Long-term projects are undertaken all the time that will not be profitable for years, but they are undertaken because the expected

⁸ Similarly, Johnson (1999: 59) characterizes American private business managers as “short-term profit maximizers.” Stiglitz (1996) takes a different angle on the problem, granting longer time horizons to managers but instead claiming capital market imperfection prevents them from sustaining losses in the short run in order to gain higher profits later (159). He does not say how government is able to identify which of these projects should be funded though.

future value of those profits more than offset the temporary losses.⁹ Entrepreneurs discount the future profits to account for this by doing net present value calculations. Adjustments are also made for the uncertainty that the future project might not be successful because of changed circumstances.

That these factors cause individuals in the market not to undertake projects that the government could create through development subsidies is not cause for worry. Time preference is a universal feature of human action and the fact that it makes us value things less that will only be profitable farther in the future does not decrease our level of well being. When the government forces projects to be undertaken that would not have been done in the market because of time preference, it makes society worse off by bidding away resources from projects that could have satisfied more immediate desires.

A government subsidized industry that eventually becomes profitable does not prove that the subsidy was a success. Planners would need to know the time preference rates of consumers whose wants were not satisfied and the opportunity cost of the resources taken from other projects to subsidize the favored industry to make this claim. This data does not exist outside the very process that the subsidies subverted. There is no way to evaluate whether an industry subsidy added value to society.

The most fundamental error in the governed market's approach to solving the knowledge problem is its conceiving of it as a "technical" or "engineering" problem.

⁹ The charge that businesses are "short-term" profit maximizers is particularly odd since Wade and others offer no evidence or argument to prove the charge and it is so at odds with standard economic theory. Throughout standard economics literature businesses are thought of as long-term profit maximizing. Examples abound; from short-run shut down conditions to why private ownership is good in natural resource economics. If it were in fact true that businesses were short-term maximizers hardly any businesses would be started at all, since most make losses for at least some time when they are first started. In fact, short-term maximizing at the expense of long-run optimality is usually attributed to the political process where self-interested government officials have only temporary control of the government to extract resources. And this is precisely the solution Wade offers to counter the unproved assertion that business are short-term maximizers.

Wade wrote, “Investment choice has been influenced by essentially engineering concepts of take-off, linkages, gaps, substitutions, and incremental extensions - conceived in the first instance in physical rather than value terms. This reflects the importance of engineers in the planning process” (1990: 188). But it is “value terms” that creates the knowledge problem.

Mises (1949) showed that technological knowledge that can be provided by engineers only serves as a method of choosing production methods if either each factor of production is absolutely specific or if all factors were all perfectly substitutable for each other. If either of these conditions held, once consumer desires were known, the production problem would become an engineering one. In the real world neither of these conditions are true.

Lavoie (1985) illustrates the problem by showing that since wood is nonspecific (it could be used for building houses or making paper) how could we choose the combination of uses that would best satisfy the demands for reading and shelter? “This is not an issue about which the engineer has any special expertise. It is not a question to which quantitative measurement of any physical dimension is relevant. It is a question of the relative value of wood in alternative uses” (1985: 53). Focusing on engineering concepts and technical feasibility misses the economic question of how to employ means to achieve ends such that no other more urgently felt want goes unsatisfied. To focus state development programs on engineering concepts, does not avoid the economic problem, it ignores it. To promote real increases in standards of living the economic problem must be solved.

Advocates of development planning sometimes deny there is a knowledge problem that needs to be solved. Wade asserts that the “correct” industries that correspond to a country’s comparative advantage are not just out there to be found, but can be made. He writes, “ ‘Picking Winners’ implies that the potentially competitive industries are out there waiting to be discovered, as though the problem is to find those that most closely correspond with the economy’s given comparative advantage. The governments of Taiwan, Korea, and Japan have not so much picked winners as made them” (1990:334).¹⁰ Of course if a state provides a large enough subsidy, an industry can be created that would not otherwise exist. Path dependencies and positive externalities develop within the industry that may later allow it to survive without subsidy. Because the industry can later survive does not mean that development was promoted though. There is some other industry that better corresponds to the country’s comparative advantage that would have developed in absence of the subsidy. Real resources are used that could have better satisfied consumer wants in other industries. Krugman makes the point clear, writing, “You can’t promote all domestic industries; by subsidizing one, you help it bid capital and labor away from others. So a strategic trade policy on behalf of some industries is in effect a strategic policy against others” (Krugman 1994: 242). Winners must be picked, and that implies the state also must pick losers. There are costs imposed by all industrial policy decisions. The knowledge that is required to decide

¹⁰ Stiglitz similarly says, “The criticism of industrial policies as misguided attempts to pick winners ignores the broader range of government actions, such as its role in spearheading the expansion of certain manufacturing sectors. “Picking winners” seems to imply culling from a fixed pool of applicants to find those with the highest long-run social returns. East Asian government have instead performed an entrepreneurial role” (1996: 162). Surely though even in this entrepreneurial role, when one industry is expanded due to government “spearheading” there is an opportunity cost of what the resources would have otherwise gone to. This in no way moves the governments away from the need to “pick winners.”

which industries should be promoted is not available to the planners; it can only be acquired through the market process.

The governed market theory attempts to rely on “smart” people to overcome the problems planning faces. Wade writes that governing the market, “requires that the agencies be able to recruit from amongst the more gifted members of their generation” (1990: 195). And that,

The government’s use of nondiscretionary levers for guiding the behavior of most private domestic firms, and its restriction of discretionary techniques to a small number of specific parameters, means that it saves scarce administrative talent. By so doing, it allows the decisions about which products to pick, what tax incentives and credit concessions to offer, and what export ratios to insist upon to be concentrated in the hands of a small number of able people who have the resources and skills to exercise foresight in a way which the ordinary businessman could not afford to cultivate (1990:193-194).¹¹

Even if the planners are the most brilliant people in the country and they only focus on a few key areas, they are still unable to make the necessary calculations to determine which industries should be promoted. The problem is not that someone is not smart enough, but that the relevant information is not given to any one mind. The knowledge is dispersed over all of the individuals in society and is only produced via the market process. Any attempt to go beyond the market’s process simply does not have the relevant information available in order to calculate. Lavoie summarizes the problem by writing,

To propose that the planning agency guide and accelerate market forces is to presume that the investment-guiding agency can anticipate future developments better than the market can; it is to assume that the agency’s individual intelligence exceeds the social intelligence of the competitive

¹¹ Johnson (1982: 314) also says that a feature of the bureaucracy must be that it is, “staffed by the best managerial talent available in the system.” Evans (1995:12) writing on the internal organization of development states says, “highly selective meritocratic recruitment” is used.

process. How will the investment-guiding agency know exactly which up-and-coming firms to direct funding toward? (1985: 186).

The outcome of the market process is the only way to answer the economic question of which industries should be promoted, regardless of how intelligent the planners might be.

There is evidence of planning bureaus' failures in East Asia to have the knowledge to pick winners. Major examples include MITI's attempts to prevent Sony from acquiring manufacturing rights from Western Electric for semiconductor manufacture in the 1950s (Henderson: 1993); MITI's attempts to prevent auto manufacturers from entering the export market and then attempting to force ten auto firms to merge into Nissan and Toyota (Lavoie 1985: 195); the subsidized Korean ship building industry is the second largest in the world, but still needs periodic government bailouts to stay in business (Choi 1994: 241).

Henderson (1993) writes,

Between 1953 and 1955 MITI did persuade the government's Japanese Development Bank to lend money to four industries—electric power, ships, coal, and steel. Some 83 percent of JDB financing over that period went to those four industries. But even with hindsight, what has not been established is whether those were good investments.

The calculation and knowledge problem outlined in this section is consistent with Henderson's observation but it also implies that we can never determine that they were good investments for theoretical reasons. We can point to evidence of failures in calculation, because firms demonstrate they should exist as structured by succeeding in the free market despite discouragement by the government or when firms continually subsidized by the government fail to become privately profitable. In both cases there is feedback from the market indicating a knowledge failure on the part of the planners. Successful planning however can

not be established by ever observing that a subsidized firm eventually becomes privately profitable. There is no market feedback mechanism in place to show that the gain in the subsidized industry is greater than the opportunity cost of the industry that would have developed in the subsidy's absence. How agencies acquire the knowledge to plan must be established on theoretical grounds. Although observing failures in development planning illustrate the knowledge problem, of the industries that are apparent "successes" there is no way to establish which of them should have been created so they are not ever proof of planning's success.

The lessons from the socialist calculation debate show that the market process is necessary in order to generate the relevant knowledge for economic calculation. Attempts to guide this market through selective state development planning suffer from the same knowledge problem that socialist planners do. It is impossible to gain the knowledge necessary to direct the economy, before the market process produces it. All attempts to direct the market through planning, such as the Governed Market theory, must fail because they cannot acquire the necessary knowledge and can only hamper the markets actual process of coordination.

Public Choice Incentive Problem

Why would state development planners only subsidize industries that best promote growth even if they could figure out which industries they were? Buchanan and Tullock (1962) advanced the idea that politicians should be modeled as rational self-interested individuals who respond to incentives. Olson (1965) further showed that the logic of interest group pressure causes these self-interested politicians to concentrate

benefits in the hands of a few while dispersing costs over the general population. Why would state development planning bureaus promote growth, a general interest, while ignoring political incentives that encourage them to concentrate benefits on the most politically beneficial industries?¹²

Wade (1990) attributes East Asia's success in overcoming the incentive problem to the fact that East Asian states are relatively "hard." He writes,

A second kind of government failure is the failure to carry through government policies because of the fragility or abuse of public power. The shortest answer to why this type of failure is limited in East Asia is that East Asian states are relatively hard. The position of a state in relation to its society can be thought of as varying along a continuum from decentralized and constrained by social groups, to centralized and relatively insulated from society – from 'soft' to 'hard.' Soft states do little more than register the demands of social groups or at most resist private demands. While they have the capacity to produce effects in the economy, they lack the capacity to control the direction of those effects in line with intentions. Hard states are able not only to resist private demands but actively to shape the economy and society. They are able to exert more control over the direction of the effects of their interventions. In these terms the United States is a soft state; Taiwan and Korea are hard states (1990: 337).¹³

Wade attributes the creation of hard states to five factors, massive social dislocation occurring within the past 50 years; the existence of serious military threat; support from the international state system for a concentration of social control in the hands of the state; the existence of a social grouping with people sufficiently independent of existing bases of social control and skillful enough to execute the grand designs of

¹² This is a problem that most advocates of state development planning recognize. Johnson (1999:48) writes, "The real objection is not to its [state planning] use as an alternative to or displacement of market forces but that it is more commonly used to protect vested interests than to achieve national development." Johnson asserts that states can structure incentives in a way that will solve the problem and cites Japan as proof.

¹³ Evans (1995) deals with the interest group problem slightly differently than Wade. He focuses on "embedded autonomy." The bureaucracies must be "embedded in a concrete set of social ties that binds the state to society and provides institutionalized channels for the continual negotiation and renegotiation of goals and policies" (1995: 12). But similar to Wade (1990), they must also be autonomous so that they are not captured by interest groups. "Either side of the combination by itself would not work" (1995:12).

state leaders; skillful leaders whose ideology favors strong state control (1990: 339).

Some of these factors were present in many of the East Asian countries.

In particular, the large social dislocation was present in most states. This dislocation breaks up organized interest groups and allows the state to focus on promoting more encompassing interests (Olson 1982). Through Japanese occupation and then allied victory, World War II caused this type of reorganization of interests in most of the East Asian countries. Dislocation may have helped East Asian countries to overcome both general forms of rent seeking behavior and also those associated with state development planning. Wade focuses on the formation of encompassing interests saying,

By constructing corporatist political arrangements before interest groups began to gain or regain strength, they could channel and restrain demands placed upon the state as those demands grew. One great advantage of corporatist arrangements is that the demands emanate from relatively 'encompassing' organizations, whose memberships make up a sizable portion of the whole society. They are therefore constrained in the extent to which they use their power to urge measures which benefit their members at the expense of national income and productivity (1990: 339).

Wade summarizes his view on why East Asian countries were able to deal with the incentive problem by writing, "In short, initial social disruption, threats from other states, poor natural resource endowment, and the social basis for an independent bureaucracy all strengthened the governments' hand and helped to maintain the edge of their commitment to economic development" (1990: 341).

Favorable conditions present in East Asia for a period of time may have minimized rent seeking, but it does not mean rent seeking was entirely eliminated or that favorable conditions will exist perpetually. In some East Asian countries these interest group problems have been becoming more evident in recent years. Although Naka (1994, 2002), attributes much of Japan's success to lack of narrow interest groups in post

war years, during the 1990s recession repeated fiscal stimulus packages have focused on the construction industry, one of the ruling liberal democratic parties closest supporters (Powell 2002).

There is also evidence of rent seeking in Korea. As much as 10% of all foreign loans were kept by President Park's government for personal and political uses (Choi 1994: 240). Choi also found that the pricing of foreign capital goods was between 20% and 100% higher in many public projects than the norm, and the difference was kicked back to key figures in the ruling party (1994: 240-241). There is also evidence that owners of big business bribed government officials to get access to government rationed credit that was priced well below black market rates and that while there was high inflation during the 1960s and 1970s government forced citizens to buy long-term bonds while giving low or 0% interest rates loans to favored businessmen (Choi 1994: 241, 250). Choi summarized the rent seeking activity in Korea writing "It is not that South Koreans avoided rent seeking, but that the dominant group monopolized it, claiming the lion's share of the gains from economic growth" (1994: 249). Although monopolized rent seeking may lead to a longer time horizon for rulers and better promote development than decentralized rent seeking, Korea illustrates that even relatively "hard" states are not immune from rent seeking inefficiencies when they engage in industrial development planning.

The fact that for a period of time, favorable conditions may have minimized incentive problems facing state development planning agencies, does not mean that the problem was entirely eliminated and it certainly does not mean that meaningful development was actually promoted by state planning agencies. We have seen that state

planning bureaus are unable to overcome the knowledge problem.¹⁴ This should make us skeptical that state development planning was responsible for the East Asian development miracle.

Evidence from East Asia

East Asia countries have experienced dramatic increases in their standard of living. Figure 1 shows large improvements in levels of per capita income over the past 25 years. Wade (1990) and others documented that some state development planning occurred in Taiwan, Korea, and Japan. Stiglitz is correct when he writes, “The controversy surrounds two questions – the counterfactual and the aggregative *quantitative* significance of these interventions” (2001: 518). We must determine to what extent the planning actually interfered with market forces – the quantitative, and to what extent these East Asian countries developed because of state planning – the counterfactual.

To the extent that state development planning existed, we have shown that it cannot utilize the knowledge that the free market can in solving the economic problem of promoting growth that satisfies consumers’ subjective wants. The technical knowledge generated by engineering problems is useless for solving the economic problem. Technical knowledge can be used to promote industrialization: the simple creation of factories, and products, though they will not correspond to satisfaction of consumers’ most urgent wants. We now will examine the extent to which industrialization or

¹⁴ The fact that the knowledge problem can not be overcome actually leads to the interest group problems. If decisions can not be based on economic calculation, they must be based on something and political calculations are readily possible and in the interests of the decision-makers. Boettke (2001) states the problem by saying, “Since the economic knowledge necessary to plan the economy rationally will not be available to planners, these decision-makers will be forced to rely on the forms of information that are readily available, which in this context comes in the form of incentives to exercise political power” (p.52).

development occurred in East Asia, and whether free unhampered markets were more prevalent than state planning.

Industrialization or Development

Real economic development consists of the ability to satisfy greater levels of consumers' subjective wants. Unfortunately there is no single and objective way that consumer subjective want satisfaction can be measured. Although a number of imperfect proxies exist, some are better than others, but all must be looked at as a group to get the best picture of whether consumers' standard of living is improving.

Wade's (1990) data indicating the success of industrial policy in East Asian countries focuses on industry output data instead of measures of consumer welfare. Wade (1990), following Johnson (1982), writes "The top priority of state action, consistently maintained, is economic development, defined for policy purposes in terms of growth, productivity, and competitiveness rather than in terms of welfare" (p. 25). This type of data does not actually measure success in solving the *economic* problem. It indicates how well the state has solved particular *technical* problems, such as how much steel was produced, without regard for the opportunity cost in consumer welfare.¹⁵

Measures of consumers' standard of living in East Asia have improved over the last fifty years. They also indicate that other measures, less focused on consumer welfare, may overstate the amount of development East Asia achieved.¹⁶

¹⁵ When commenting on the Mercantile system, Adam Smith could have just as aptly been speaking of the advocates of state development planning when he wrote, "the interest of the consumer is almost constantly sacrificed to that of the producer; and it seems to consider production, and not consumption, as the ultimate end and object of all industry and commerce" (1776: 715).

¹⁶ In a review of his 1982 book, Johnson (1999) mentions one reviewer was concerned "That MITI's policies have strengthened the abstract entity called Japan but have not done much to enrich the lives of Japanese consumers and city dwellers. The Japanese people's standard of living did not change anywhere near as much as the change in the Japanese gross national product" (1999: 50). Johnson must agree with the observation since he offers no evidence or argument to refute the comment.

Japan's GDP per capita statistics are one example of how development can be overstated. Many of the industrial policies in East Asia have placed tariffs on imports, raising the price of consumer goods in their home country in order to promote the development of businesses. Although tariffs do encourage business growth, they limit the well being of the average consumer in the society. Once income levels are adjusted for purchasing power differences, caused in part by the industrial policies themselves, consumers' standard of living can be much lower. In Japan's case, GDP per capita was \$37,522 in 2000 but once the figure is adjusted for purchasing power it falls to \$25,280 (World Bank 2003). Figures that fail to adjust for purchasing power parity in Japan overstate the level of consumer well being by more than 40%.¹⁷

Another way to measure consumer welfare is to look at what people own. Assuming Asians have similar tastes and preferences for goods as consumers in the US, we would expect the difference in ownership rates of goods to be approximately proportional to the difference in GDP per capita. World Bank data shows that ownership rates for televisions, radios, and automobiles, are lower in some East Asian countries than is predicted by the difference in their GDP compared to the US. While Japan's GDP per capita is reported as 140.6% of the US GDP per capita in 2000, Japanese citizens only owned 45.1% of the number of radios per person and 84.9% of the number of televisions per person (World Bank 2003). Table 1 reports similar findings for other East Asian countries over the past 20 years. Although there are good reasons for lower automobile ownership rates in some East Asian countries, such as small island nations like Hong Kong, why television and radio ownership rates are lower is less obvious. This type of

¹⁷ Similarly in South Korea Choi (1994) notes that "South Koreans had been forced to pay exorbitant prices for shoddy products in protected consumer goods markets dominated by government-sanctioned monopolies and oligopolies" (p. 251).

data indicates that some of the “development” in these countries may not translate into increases in consumer well being.

Industrial planning can solve the technical problem of increasing output, but not the economic problem, of only increasing output where consumers most urgently want it without leaving other more urgent wants left unsatisfied. We should expect industrial planning to drive a wedge between measured increases in output, and actual consumers’ standard of living.¹⁸ There is some evidence indicating this happened in East Asia. This is not to say a dramatic increase in well being has not occurred. Much evidence suggests it has. This only indicates that the industrial planning that was present has decreased consumers’ standard of living.

Economic Freedom or Planning

There is little doubt that East Asian countries standard of living have increased despite the difficulty of measuring consumer subjective want satisfaction. The question is: how pervasive was government planning in these economies. The emphasis on the knowledge problem above would be hard to justify if planning was both present and pervasive in all of the East Asian countries that grew. Alternatively if we find that while some state planning existed East Asia countries relied more on markets, and were more free economically, with stronger private property rights, than other slower growing areas of the world, we can explain East Asia’s growth *despite* the existence of some state planning.

¹⁸ Nutter (1962) finds evidence of this when examining growth rates in the Soviet Union. He found that the planning in the USSR systematically favored industrialization over consumption and leisure creating a heavy cost in terms of both resources expended and human suffering (p. 292).

Wade correctly points out that, “The key question is what has determined the level and composition of investment in these countries. There are plenty of facts about Taiwan, Korea, and Japan which better fit the neoclassical FM and SM theories than the political economy GM theory.” But he further writes, “But it is clear both that less economic liberalization occurred in the 1960s and 1970s than neoclassical accounts suggest, and that much government intervention has gone beyond the limits of ‘good’ neoclassical interventions. Government resources and influence have prompted investments to be undertaken which would not have been undertaken in strictly FM or SM conditions” (1990: 342). Wade assumes that since the government effected the level and composition of investment, that it was the cause of the growth. We need to determine if while the governments were doing some things to affect investment, they also left more room for the market to operate than governments in other industrialized nations. If that is the case, then the East Asia miracle occurred *in spite of government industrial planning*, not because of it. Wade dismisses the argument that the countries grew in spite of the planning, writing,

The balance of presumption must be that economic liberalization matters less in an explanation of East Asian success than neoclassical accounts suggest, and that actual performance was better than it would have been with FM or SM policies alone. ... But we should reject the unargued assertion that “without MITI Japan would have grown at 15 percent per annum” instead of only 10 percent; or that for Korea, “success has been achieved despite intervention.” It is less plausible to say that the three countries with arguably the best development performance on record would have had still better performance had their governments intervened less, than to say that interventions made with the clear intention of accelerating development and formulated by a coherent organization did indeed have the intended effect. Those who deny this are claiming extraordinary ability to forecast historically unprecedented performance (1990: 342-343).¹⁹

¹⁹ Even Stiglitz (2001: 518) at least leaves room that it is possible that the East Asian countries could have grown faster without the planning that occurred, though he does not think it is very probable.

Wade can make this claim only because he fails to consider that these Asian countries might have had industrial planning simultaneously with still freer economies than other countries in the world. If the only thing different in East Asian countries compared to the rest of the world was state industrial planning, then his claim would be on more solid ground. But if many things were different in East Asia than the rest of the world, it is not at all implausible to claim that East Asian countries grew in spite of the planning and that the other factors drove the growth.

Wade admits the importance of “massive social dislocation” in making state industrial planning work and that it occurred in East Asian countries because of first Japanese, and then Allied occupation after WWII. Although this may make planning less susceptible to interest group politics, dislocation by itself can increase growth by limiting harmful rent seeking and interest group politics. Olson (1982) attributes growth in both Asian and European countries affected by WWII to this.

There are also regional growth trends that can be caused by external forces. East Asian economies experienced increased demand for their products through US foreign policy. US wars in first Korea and then Vietnam, along with Cold War containment policies increased growth rates in some East Asian countries.

Social dislocation and regional demand affected most East Asian countries, not just the three, Japan, Taiwan, and Korea, that are generally claimed as successes in state development planning. Figure 2 shows that the growth rate for the East Asian region in general was higher than both the OECD, and world rates in all but 7 years between 1960 and 2000. To some extent the growth experienced in Wade’s three examples of state

development planning success can be attributed to general trends characteristic of the larger region.

Hong Kong is particularly troubling for those who claim state development planning caused East Asian growth. Hong Kong is typically held up as an example of a textbook free market capitalist economy. Wade writes, “The Hong Kong case does not support the proposition that because Hong Kong did as well as the others without industrial policies, the industrial policies of the others could not have made much difference” (1990: 343). Wade dedicates exactly two and a half pages to prove that Hong Kong is not a free market economy. He writes,

It is true that the formal institutions of government perform mainly custodial functions and that Hong Kong has no controls over imports, foreign exchange, foreign investment, and wages and prices. Tax revenues to GNP are very low, at 13.7 percent in 1977, compared to Taiwan’s 24.2 percent. But to conclude from this that Hong Kong is close to a free market economy is misleading (1990: 331-332).

The one paragraph of evidence supporting this case mentions revenue raised through government granted leases, the control of the housing market through a large amount of public housing, and immigration control manipulation. This makes Hong Kong less than a perfect capitalist country. It does not mean that Hong Kong is far from a totally free market economy, or more close to a state planning run society than it is a capitalist one. In fact, Hong Kong has been ranked the most economically free country in the world from 1970 to present by the Fraser Institute’s *Economic Freedom of the World Annual Report*.²⁰

Wade also attempts to deal with Hong Kong by disputing its level of development compared to the other East Asian countries. He writes,

²⁰ Hong Kong has also ranked the most free country in the world by the Heritage Foundation and Wall Street Journal’s *Index of Economic Freedom* since the index was created in 1995.

A third argument questions whether Hong Kong has done as well as the other more dirigiste countries. Its investment ratio has been well below the others', its rate of industrial restructuring over the 1970s and 1980s has been much slower, and its export composition has remained stuck at the relatively low end, with labor-intensive and low-technology goods continuing to make up by far the largest share. Most exports are still textiles, toys, consumer electronics, or watches and clocks. From the mid-1970s to the mid-1980s its rate of growth of export value-added has been slower than in Korea, Taiwan, or Singapore (1990:332-333).

Although these statistics may be accurate, they are irrelevant for whether Hong Kong has a high standard of living or not because they do not focus on consumer well being. In broader measures that focus more on consumer welfare, such as GDP per capita adjusted by purchasing power parity, Hong Kong is equal or superior to other East Asian countries.

Although one cannot accurately claim that Hong Kong did not grow, or that it was not an example of a free market economy, that does not prove that the development in other East Asian countries did not occur because of state planning. After all, Hong Kong is a small nation and that other regional effects may have influenced its growth.

The most troubling fact for theories that claim East Asian development occurred because of state development planning is that the very economies that are supposed to be examples of state planning, happen to be some of the most free market economies in the world.

Wade (1990) specifically says that to look at only government as a percent of GDP to determine the level of government activity in the economy is not enough. Just because a country may have a low percent of GDP consumed, its regulations could be severely affecting market outcomes. The *Economic Freedom of the World* annual report covers five major areas of the economy; size of government: expenditures, taxes and

enterprises; legal structure and security of property rights; sound money; freedom to trade with foreigners; and regulation of credit, labor and business. These five major areas are made up of 21 components and 37 distinct pieces of data. This broad index, although an imperfect measure, is the best overall measure of government interference and direction of the economy available. Wade's (1990) evidence that East Asian countries were cases of state led development focuses on the ways the governments interfered with their economies. Equally important evidence from all of these economies is what their governments did not interfere with. Looking at the *Economic Freedom of the World* report allows us to compare whether, on balance, the overall industrial structures in these countries were more influenced by free markets or state interference.

Wade's own examples of countries where state development planning was responsible for growth rank very high in economic freedom. In 1970, Japan was ranked the 7th most free country in the world, Taiwan was the 16th freest, and even Korea was in the top 20%, ranking 31st. Other high growth East Asian countries such as Hong Kong and Singapore, have also ranked near the top of the index from its beginning in 1970 to present (See Table 2).

Many studies have shown that increases in well being and growth rates are correlated with higher levels of economic freedom and property rights. Studies by Scully (1988 and 1992), Barro (1991), Barro and Sala-I-Martin (1995), Knack and Keefer (1995), Knack (1996), Keefer and Knack (1997) all show that measures of well defined property rights, public policies that do not attenuate property rights, and the rule of law, tend to generate economic growth. Gwartney, Holcombe, and Lawson (1998) found a strong and persistent negative relationship between government expenditures and growth

of GDP for both OECD countries and a larger set of 60 nations around the world. They estimate that a 10 percent increase in government expenditures as a share of GDP results in approximately a 1 percentage point reduction in GDP growth. Norton used the Fraser and Heritage indexes of economic freedom and found that strong property rights tend to reduce the deprivation of the world's poorest people. Grubel (1998) also used the Fraser Institute's index of economic freedom to find that economic freedom is associated with superior performance in income levels, income growth, unemployment rates and human development. Powell (2002) found that income, growth, life expectancy and human development are all associated with economic freedom using either the Fraser or Heritage indexes of economic freedom.

These general results hold when we look at the subset of East Asian countries over the last thirty years. While East Asia experienced a high level of growth in general, the countries that were most free generally achieved higher rates of growth. Figure 2 plots the economic freedom and growth rates achieved by nine East Asian countries for three different decades.²¹ Each data point in the chart is a country's average growth rate for one decade, and average freedom score for the decade.²² Although there are some outlying points, the chart illustrates that the general relationship between economic freedom and growth rates held for the subset of East Asian countries from 1970 through 2000. In East Asian countries generally, and even in those countries that are claimed as industrial planning successes, high levels of economic freedom have been present.

²¹ The countries that were plotted had both World Bank growth rates and economic freedom index scores available. The countries are Japan, Korea, Hong Kong, Singapore, Indonesia, Malaysia, Thailand, Philippines, Papua New Guinea and Fiji.

²² The points were plotted for decade averages to smooth out some of the variations that occur in business cycles. We are interested in the institutional environment and long term growth. Each country has 3 points plotted on the chart, one for their 1970s avg, one for the 80s and one for the 90s (except Papua New Guinea which has two data points because of missing data for the 70s).

There is no tension between the two main points in this section of the paper. The first point is that the existence of state development planning in East Asia promoted industrialization, not growth. The second point is that East Asian countries grew not because of state development planning but because they were some of the most free market countries in the world. The East Asian countries are not perfect capitalist countries with no government interventions; they do not score perfect on the economic freedom indexes. Part of the reason they do not score perfect is that they have intervened in their economies with development planning and related measures, this is what caused the industrialization that may overstate levels of well being. Other than these interventions, the East Asian countries are very economically free. This is what has allowed them to grow faster than other regions of the world resulting in real consumer satisfying economic development.

Conclusion

State development planning cannot promote real economic growth. Although most advocates of development planning recognize the incentive and interest group problems that state planning confronts, and offer reasons why these problems were largely overcome in East Asia, they fundamentally do not understand the knowledge problem that industrial development planning confronts. The same calculation problem that Mises and Hayek outlined in the socialist calculation debate, applies to more limited attempts at planning the market process. The knowledge necessary for solving the economic problem of how to satisfy the most urgently felt wants without leaving any more urgent want unsatisfied, requires the price knowledge that the market generates. Any attempt to 'guide' the market operates without this knowledge, and is blindly

directing others to the planners' own arbitrary ends, not to a path of higher development. The technical types of knowledge Wade (1990) addresses are simply not adequate to solve the economic problem confronting development planners.

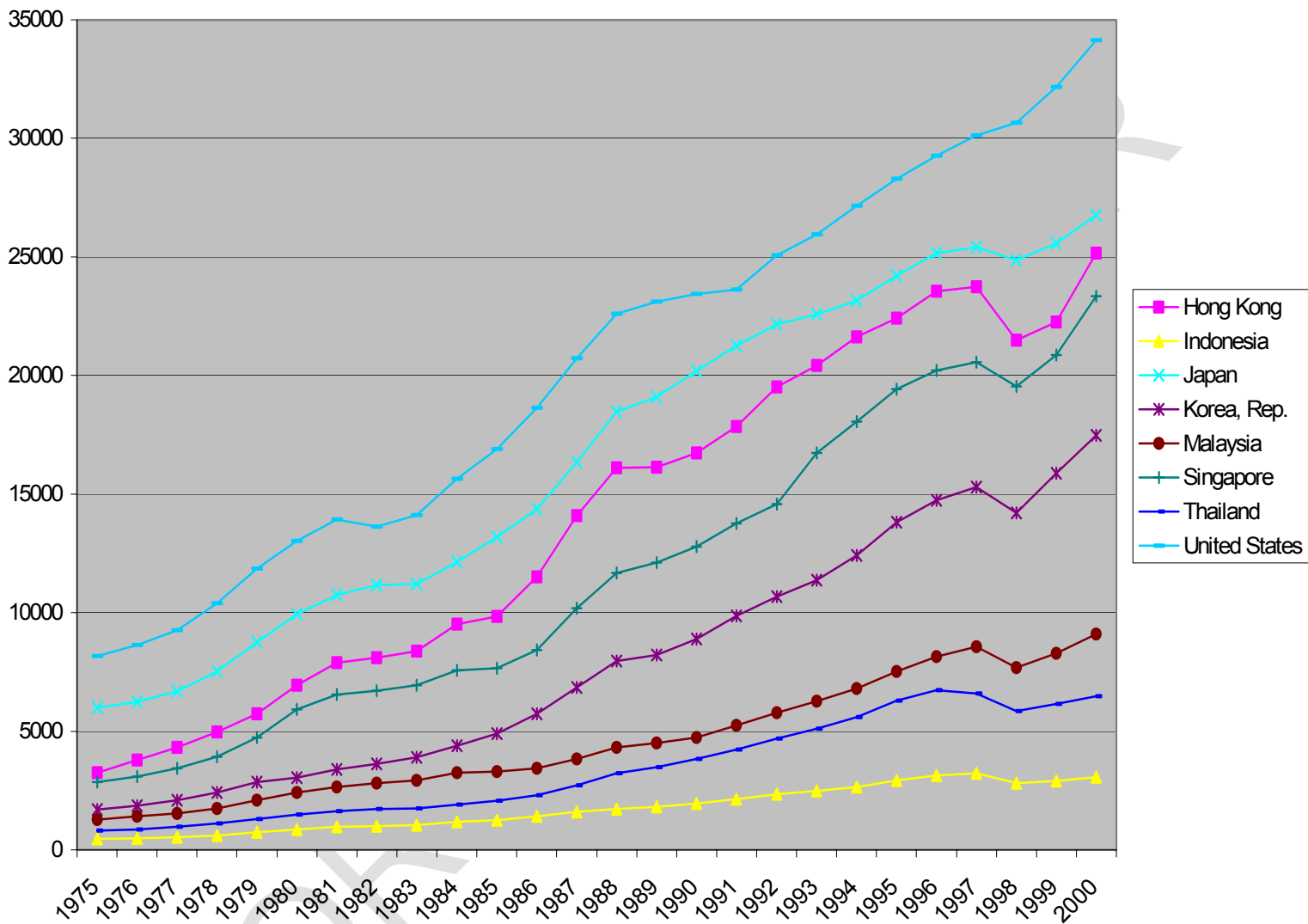
East Asia's experience is consistent with the view that state development planning cannot promote real consumer satisfying growth better than the market. Although some state development planning did exist in East Asian countries, it was not responsible for the growth that occurred. To the extent that governments did interfere with the market's process, it promoted industrialization, not consumer satisfying development. Although Wade (1990) points to various increases in measures such as exports, steel production, or automobile production, measures that focus on consumer well being show that growth might be over stated. While real GDP per capita increased greatly, once we adjust for purchasing power, or consumer goods ownership, standards of living are lower.

The most important data that authors who attribute East Asia's success to developmental planning overlook is that although some state industrial planning did exist in East Asian countries, on balance, when these countries were growing, they were some of the most free market countries in the world. Hong Kong and Singapore are consistently ranked the top two freest countries in the world, and in 1970, when Japan and Taiwan were growing quickly, they were ranked 7th and 16th. Even Korea ranked in the top 20% of freest countries in the world. Although state development planning did exist in these countries, overall broader measures of the market's relative sphere of influence in these countries compared to the State's, show that they were far more market orientated than slower growing areas of the world.

To the extent that the development of the East Asian countries was a miracle, it was because the free market was the driving force. Some external factors, such as lower initial GDP, and social dislocation to break up entrenched interests, certainly have had additional positive effects. The knowledge problem indicates that state development planning can not promote growth. The evidence from East Asia is not inconsistent with the view that development is promoted through free markets and not state industrial development planning.

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Figure 1
Per Capita GDP (PPP)



Source: World Bank *World Development Indicators*, 2003

Table 1
GDP and Consumer Goods Ownership
as a Percent of U.S. Rates

	1980			
	GDP	Radio	TV	Cars
Hong Kong	53.8%	25.3%	39.3%	7.6%
Japan	134.7%	33.9%	95.7%	37.8%
Korea	18.6%	47.2%	29.4%	1.2%
Singapore	52.4%	18.6%	55.3%	12.2%

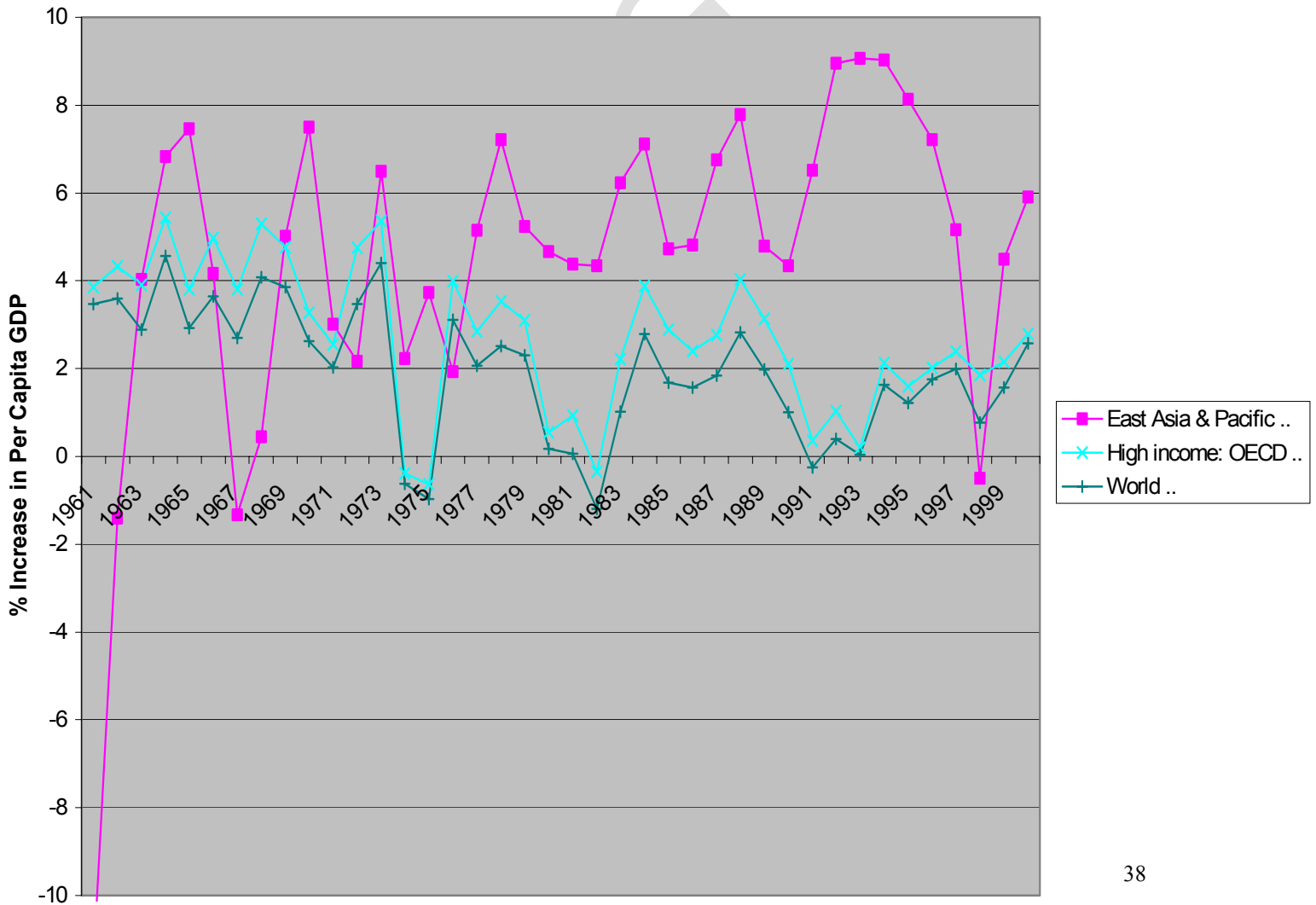
	1990			
	GDP	Radio	TV	Cars
Hong Kong	72.0%	31.4%	36.5%	7.3%
Japan	152.8%	42.4%	79.1%	49.4%
Korea	30.5%	47.7%	27.1%	8.4%
Singapore	67.4%	27.5%	44.0%	15.6%

	2000		
	GDP	Radio	TV
Hong Kong	77.5%	32.3%	57.8%
Japan	140.6%	45.1%	84.9%
Korea	41.5%	48.8%	42.7%
Singapore	89.4%	31.7%	35.6%

Source: World Bank *World Development Indicators*, 2003

Figure 2

Regional Yearly Growth Rates



Source: World Bank *World Development Indicators*, 2003.

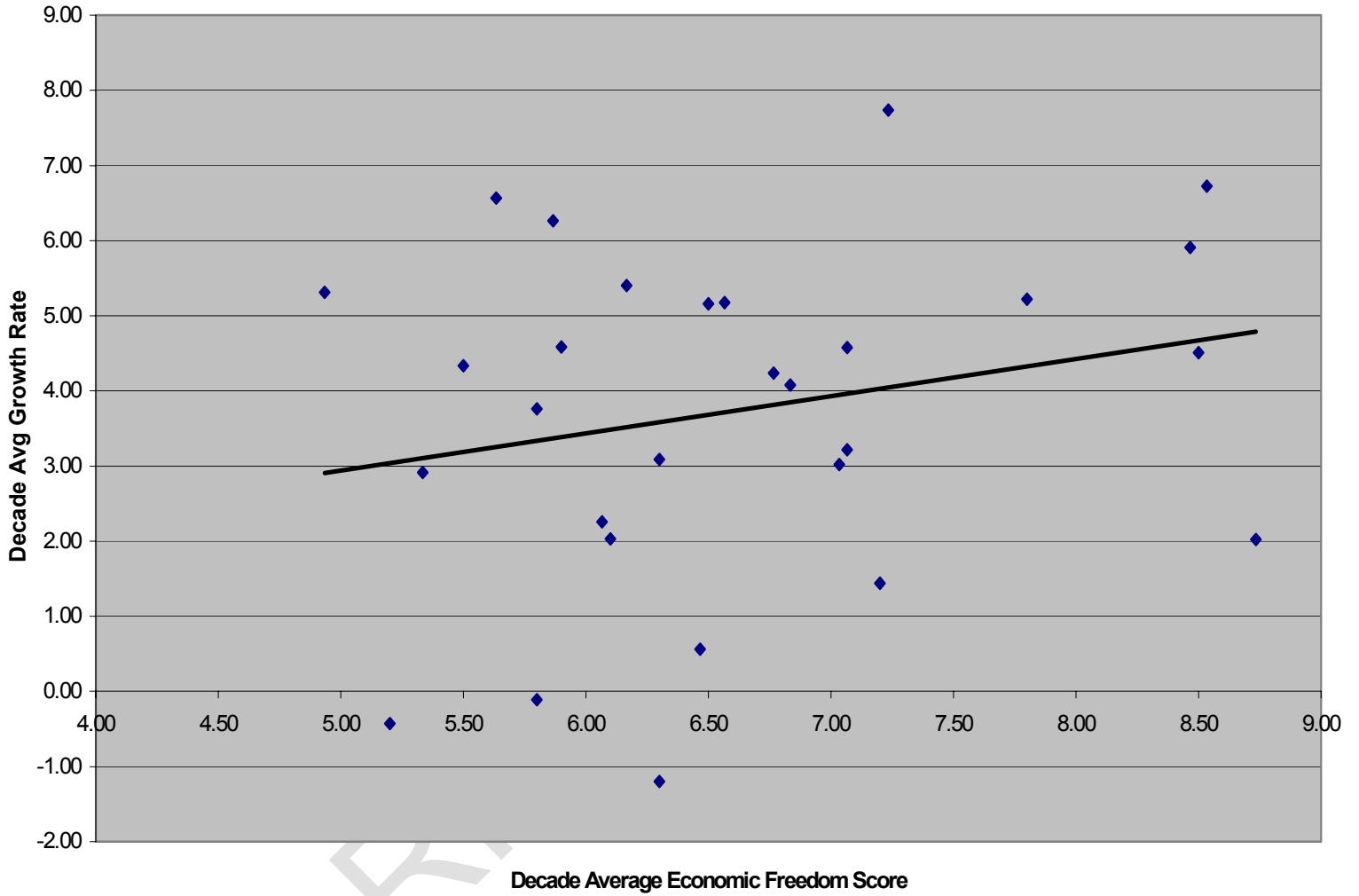
Table 2
Fraser Economic Freedom Index Score and Ranking

	1970	1975	1980	1985	1990	1995	2000
Hong Kong	8.4 (1)	8.5 (1)	8.7 (1)	8.4 (1)	8.3 (1)	9.1 (1)	8.8 (1)
Indonesia	4.8 (43)	5.0 (48)	5.0 (66)	6.0 (29)	6.4 (30)	6.5 (41)	6.0 (77)
Japan	7.2 (7)	6.4 (14)	6.9 (10)	7.0 (13)	7.3 (7)	7.0 (29)	7.3 (24)
Korea, Rep.	5.9 (31)	5.3 (41)	5.7 (37)	5.8 (38)	6.1 (38)	6.4 (43)	7.0 (38)
Malaysia	6.5 (18)	6.3 (15)	6.9 (10)	7.0 (13)	7.2 (10)	7.3 (18)	6.7 (51)
Singapore	7.2 (7)	7.1 (7)	7.4 (5)	7.8 (3)	8.2 (2)	8.7 (2)	8.6 (2)
Taiwan	6.6 (16)	5.6 (29)	6.4 (17)	6.7 (17)	6.9 (16)	7.1 (25)	7.2 (30)
Thailand	6.1 (27)	5.7 (26)	5.9 (26)	6.0 (29)	6.6 (23)	7.1 (25)	6.6 (56)

Source: *Economic Freedom of the World 2002 Annual Report*

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Figure 3
East Asian Economic Freedom and Growth



Sources: Fraser *Economic Freedom of the World 2002*, World Bank *World Development Indicators*

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