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The APEC meeting in Santiago de Chile, November 2004.

Development and Economic Performance of South Korea, Taiwan, Mexico and Chile

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In late November 2004, the 21 economic leaders of the Asia-Pacific Economic Cooperation (APEC) met in Santiago, Chile, under the motto "One Community, Our Future." The very full agenda included issues such as the evaluation of free trade agreements, trade liberalization and facilitation policies and investment. The leaders also analyzed the experiences of exporting companies headed up by women and the problems of small and medium-sized companies.

The discussion about the evolution and perspectives of the region's economies has been a permanent item on the APEC agenda. In this article, I will examine some long-term economic performance indicators for South Korea, Taiwan, Chile and Mexico for the years 1995 to 2001.

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TABLE 1
MEXICO'S ECONOMIC PERFORMANCE 2001-2002

	2001	2002
Nominal GDP (billions of U.S. dollars)	623.9	637.2
Percentage change		
Real GDP	-0.2	0.9
Consumption	2.2	0.9
Private consumption	2.7	1.2
Government consumption	-1.2	-1.3
Investment	-5.8	-1.3
Private investment	-4.4	-2.8
Government investment	-13	7.3
Exports of goods and services	-3.6	1.4
Imports of goods and services	-1.5	1.6
Percentage of GDP		
Trade balance	-1.6	-1.3
Balance of the current account	-2.9	-2.2
Balance of the capital account	3.9	3.2
Socio-economic indicators		
Per capita income (in dollars)	6,170	6,220
Unemployment rate (percentage)	2.5	2.7
Inflation rate	6.3	4.6
Short-term interest rate	11.3	7.1
Population (in millions)	101	102.4

Source: APEC Economy Report (Mexico, 2003) at http://www.apec.org/content/apec/member_economies/economy_reports/mexico.html

A comparison of these four countries' macroeconomic performance refers us to the debate about the benefits and deficiencies of development strategies adopted by the Asia-Pacific and Latin American economies.

The countries I have selected are outstanding members of APEC, and at one time have been considered examples of development. South Korea and Taiwan represent successful experiences of an alternative development strategy to the one inspired in the Washington Consensus.[1] I have included Mexico and Chile because they have also been considered paradigmatic neoliberal-model-based experiences.[2]

First I will summarize some background information about APEC and then I will present preliminary results showing that the "Asian model" performance has been superior in terms of growth, control of inflation, interest rates, foreign trade and income distribution.

1. SOME FUNDAMENTAL TRAITS OF APEC: HETEROGENEOUS ECONOMIES AND CONSENSUS

One of the most frequently mentioned characteristics of the Asia-Pacific Economic Cooperation Forum is its ability to bring together nations with diverse and even contrasting levels of economic, political and social development in a common space for cooperation.

A second trait is that its agreements and recommendations in economic, technological, cultural and trade matters are decided by consensus and the voluntary compliance by its 21 member countries.

Despite its heterogeneity, APEC has managed to establish collaborative and exchange links between some of the great powers like Japan, the United States and Canada, and countries of medium levels of development like Mexico and Chile. Naturally, if we go back to the forum's origins, we will have to emphasize the indispensable contribution of the first generation of New Industrialized Countries (NICs) like South Korea, Taiwan, Hong Kong (China) and Singapore. On the level of the Asia-Pacific region, the scenario would be incomplete if we did not mention the role of the new driving force in the world economy, the People's Republic of China.

The heterogeneity of the member countries' economies is a unique characteristic of APEC. Over the last 50 years, growth of the central and peripheral nations has been severely differentiated as has that among the latter. As we shall see, this differentiation in development levels has shown up in the economic dynamism and performance of the Latin American countries *vis-à-vis* those of the Asia-Pacific rim.

2. From the first generation of NICs to the Chinese locomotive

As far back as the 1970s, the "first generation" Asian economies captured the imagination of scholars of economic development and governmental institutions. In just two decades, the economies of South Korea, Taiwan, Singapore and Hong Kong (China) made enormous strides in industrialization and job creation and, significantly, achieved a progressively equitable distribution of income. Sustained growth and progressive distribution of income were an unprecedented combination in developing countries, particularly in Latin America.

Table 2
South Korea's Economic Performance 2001-2002

	2001	2002
Nominal GDP (billions of U.S. dollars)	480.6	547
Percentage change		
Real GDP	3.1	6.3
Consumption	4.2	6.2
Private consumption	4.7	6.8
Government consumption	1.3	2.9
Investment	-2.4	4.3
Exports of goods and services	0.7	14.9
Imports of goods and services	-3	16.4
Percentage of GDP		
Trade balance	3.2	3
Balance of the current account	1.9	1.3
Balance of the capital account	-0.8	0.3
Socio-economic indicators		
Per capita income (in dollars)	10,160	11,490
Unemployment rate (percentage)	3.8	3.1
Inflation rate	2.5	1.7
Short-term interest rate	5.32	4.81
Population (in millions)	47.3	47.6

Source: APEC Economy Report (Mexico, 2003) at http://www.apec.org/content/apec/member_economies/economy_reports/mexico.html

Thus, the advances of the Asia-Pacific region economies were so clear that the World Bank, always skeptical and hostile to unorthodox experiences in economic policy, had to recognize that, in an environment of macroeconomic stability, the "high-yield Asian economies" had achieved the three essential prerequisites for growth: high capital accumulation, efficient assignation of productive resources and rapid technological advancement.[3]

The "Asian miracle" can be explained by the fact that the South Korean, Singapore, Taiwan and Hong Kong governments successfully implemented combinations of public policies oriented to bolstering the market with similar forms of state direction of the economy.

These were certainly strategies that successfully joined market mechanisms to state intervention. A theoretical formulation about this combination has even been dubbed "governing the market."[4]

In the 1980s, specialists came to think that the Asia-Pacific countries' economic policies pointed to the creation of an "Asian model," and therefore a paradigm that could be replicated in developing economies, especially in Latin America.[5] This debate took another direction after the financial crisis of 1997-1998. Everything pointed to the end of the Asian *belle époque* and the theoreticians of neoliberalism seemed to congratulate themselves for the financial collapse of the region's economies, which only Taiwan and, to a certain extent, Hong Kong were able to escape.[6]

3. RECOVERY OF GROWTH AFTER THE 1997-1998 FINANCIAL CRISIS

Despite the seriousness of the 1997-1998 financial and productive crisis, since 1999, once again these countries' quite rapid recovery was surprising. While it is true that they would be hard put to achieve the high growth rates of the 1970s and 1980s, the recovery of South Korea and Taiwan suggests that the dispute between the Asian strategies and the orthodox policies inspired in the Washington Consensus has still not concluded.

> The "Asian miracle" can be explained by the fact that governments implemented public policies oriented to bolstering the market and state direction of the economy.

Based on a comparative analysis, I will present an evaluation of the four countries' economic performance and argue why I think the Asian strategies are superior to those based on the Washington Consensus.

a) *Rapid economic recovery of the Asian economies and stagnation in Mexico*

Output growth is important because of its positive effects on employment and income. For that reason, economic performance is summarized in gross domestic product (GDP) growth rates. At least, it is one of the most representative indicators of an economy's performance.

The period under review, 1995 to 2001, includes the Mexican and South Korean financial crises of 1995 and 1997-1998, respectively. In 1995, Mexico faced a severe drop in production and a 6.2 percent negative GDP growth while Chile grew 10.6 percent, South Korea, 6.9 percent and Taiwan, 6.42 percent (see graph 1).

At the time, the rapid recovery of the Mexican economy in 1995 and the South Korean economy in 1998 were noteworthy, with 5.2 percent and 10.9 percent GDP growth rates, respectively. However, neither economy could sustain that rhythm and they began to decline. The Mexican economy performed more unfavorably and could not consolidate lasting growth. After a rapid, high recovery in 1996 and 1997, Mexico began a decline that went into negative growth rates, like -0.3 percent in 2001, or the low, nearly stagnant GDP growth rate of 1.7 percent in 2002. In 2004, the Mexican economy grew 4 percent but there is no assurance that this belated recovery can be sustained. At the same time, in 1999, Chile regressed to a -1.1 percent rate.

By contrast, in 1999, South Korea bounced back with a 10.9 percent growth rate, and Taiwan with 5.42 percent.

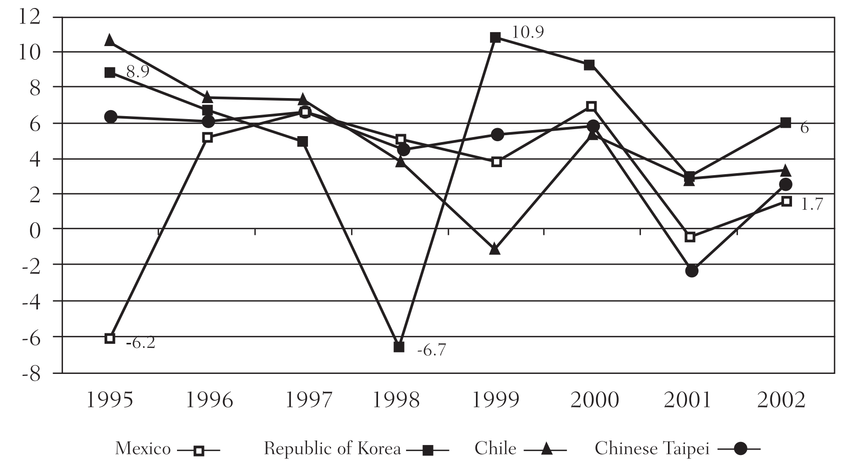
At the end of 2001, South Korea was still in the lead with 6 percent, with Chile at 3.3 percent, Taiwan at 2.55 percent and Mexico at 1.7 percent.[7]

b) *Trends in foreign trade and services: surplus in the Asian economies and deficits for Mexico*

The dynamism of exports is a significant factor in the expansion or contraction of GDP in economies oriented toward international markets like these four countries. South Korea, Taiwan, Chile and Mexico are highly sensitive to the demand generated over the last five years in the United States, the European Union and China. In the period we are looking at, the four nation's exports have dropped, particularly

Graph 1

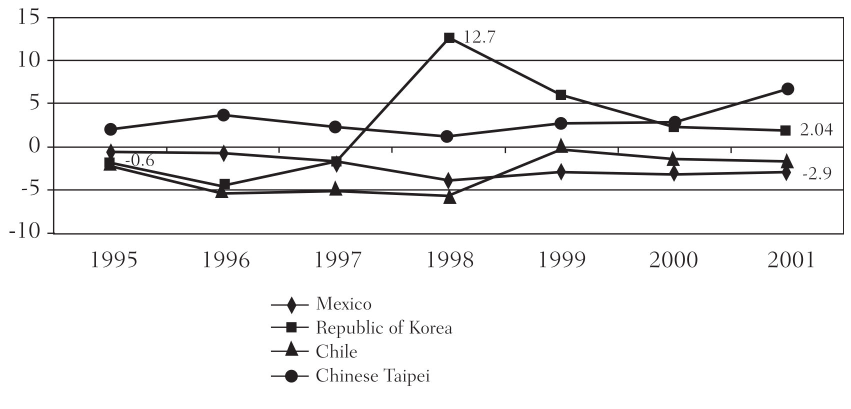
Change in Real gdp: Mexico, the Republic of Korea, Chile and Chinese Taipei (percent)



Source: Designed using data from INEGI, Banco de México and Mexico's Finance Ministry; the Bank of Korea, National Statistical Office, Ministry of Finance and Economy; APEC, Economy Report Chile; APEC, Economy Report Chinese Taipei.

Graph 2

Balance of the Current Account for Mexico, the Republic of Korea, Chile and Chinese Taipei (1995-2001)



Source: Designed using data from INEGI, Banco de México and Mexico's Finance Ministry; the Bank of Korea, National Statistical Office, Ministry of Finance and Economy; APEC, Economy Report Chile; APEC, Economy Report Chinese Taipei.

since 2001, although they did experience a modest recovery in 2002 and 2004 thanks to the reactivation of the U.S. economy and China's dynamism, which makes for a high demand for raw materials and intermediate and finished goods.

The performance of the external sector marked by the trade balance and the current account is especially important for economies oriented to international markets. For example, a negative net result in the current account emphasizes the importance of net foreign capital inputs for financing the deficit in the balance of trade and services. This is the case of Mexico since the beginning of the period under review.

Upon examination, the current account exhibits an important change in all these economies. Taiwan consistently maintained a surplus from 1995 to 2001, while South Korea achieved a surplus from 1998 on, a sum that has reached the equivalent of 12.7 percent of GDP, but that dropped to 2.04 percent in 2001, compared to 6.71 percent for Taiwan. The Mexican economy, for its part, consistently showed a deficit, which reached a -3.8 percent of GDP in 1998 and closed 2001 with -2.9 percent. Chile's case is similar with -5.7 percent in 1998 and -1.6 percent in 2001 (see graph 2).

South Korea's and Taiwan's positive results suggest that both economies dealt appropriately with the 1997-1998 Asian crisis. In 2001, Taiwan's economy produced a 6.71 percent of GDP surplus and South Korea, 2.04 percent, while Chile's produced a deficit equal to 1.6 percent of GDP and Mexico a deficit equivalent to -2.9 percent of GDP.

With regard to foreign capital flows, I should point out that from 1995 to 2001, only the Mexican economy had a surplus, although with a moderate tendency to drop. Thus, Mexico achieved a surplus in the capital account equivalent to 5.4 percent of GDP in 1995 and 3.9 percent in 2001. Meanwhile, Chile, which in 1997 achieved a capital surplus equivalent to 9.8 percent of its GDP, began a downward trend that reached -1.1 percent of GDP in

1999. During the following years, the Chilean economy again registered a surplus equivalent to 1.6 percent of GDP, a figure, however, still far below the 9.8 percent of 1997 and the 4.5 percent of 1998.[8]

c) *Tendency for interest rates to drop and stabilize*

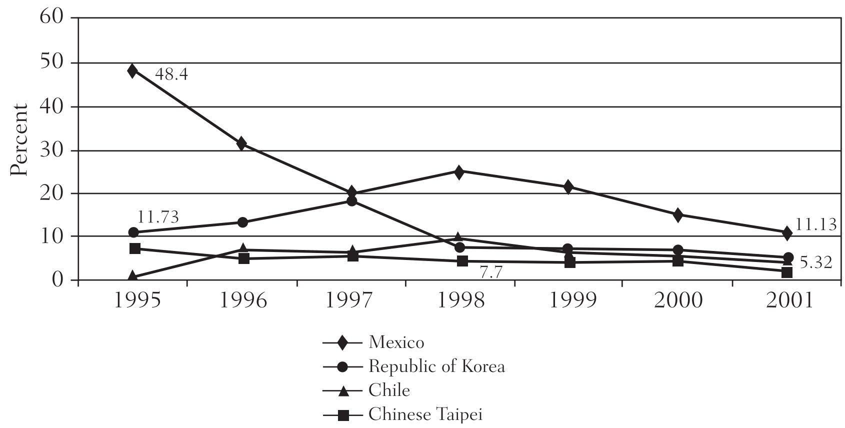
When looking at this variable, it is a good idea to remember that lowering prices and interest rates is a fundamental objective of the orthodox model; in fact, these goals are treated as ends in themselves. Monetarist orthodoxy continually emphasizes the benefits of achieving real interest rates that stimulate internal savings as a basic condition of the investment and growth process. Herein lies the importance of interest rate performance, which has an impact on investment decisions and internal and external savings.

In the period under examination, interest rates have consistently dropped except in 1998, when rates rose 24.8 percent and 9.6 percent in Mexico and Chile respectively. These figures contrast with South Korea's 7.7 percent and Taiwan's 4.66 percent. Lower interest rates in South Korea, Taiwan and Chile makes them more competitive and attractive for investment because of lower financing costs which are linked to a drop in the inflation rate.

This trend was confirmed by 2001 interest rates. In South Korea they reached 5.32 percent, in Taiwan, 2.13 percent and in Chile, 4.5 percent, noticeably lower than Mexico's 11.3 percent, not to mention the fact that this figure is for 28-day deposits, which is much lower than the interest rate for bank loans (see graph 3).

GRAPH 3

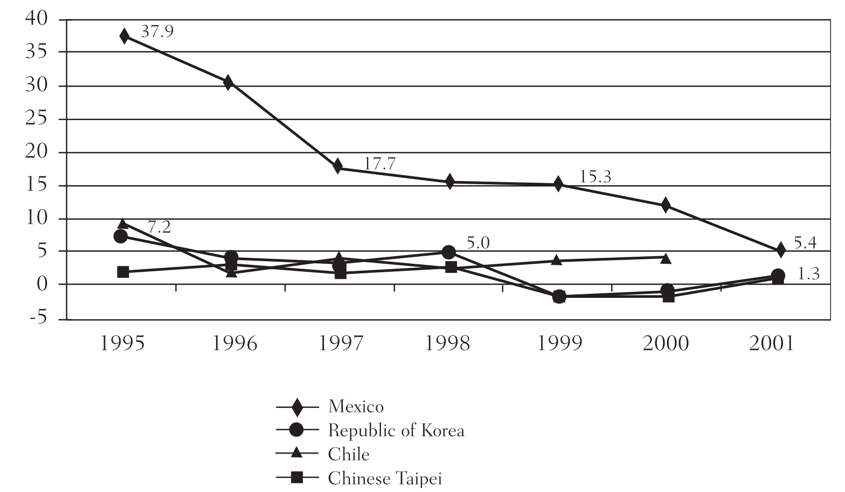
INTEREST RATES ON SHORT-TERM DEPOSITS FOR MEXICO, THE REPUBLIC OF KOREA, CHILE AND CHINESE TAIPEI (1995-2001)



Source: Designed using data from INEGI, Banco de México and Mexico's Finance Ministry; the Bank of Korea, National Statistical Office, Ministry of Finance and Economy; APEC, Economy Report Chile; APEC, Economy Report Chinese Taipei.

GRAPH 4

INFLATION RATES FOR MEXICO, THE REPUBLIC OF KOREA, CHILE AND CHINESE TAIPEI (1995-2001)



Source: Designed using data from INEGI, Banco de México and Mexico's Finance Ministry; the Bank of Korea, National Statistical Office, Ministry of Finance and Economy; APEC, Economy Report Chile; APEC, Economy Report Chinese Taipei.

In short, the figures show once again that South Korea and Taiwan were more effective in lowering and stabilizing interest rates, particularly in Taiwan's case with 2.13 percent. This difference in the cost of money is a variable of utmost importance in economic reactivation, sustaining investment and the growth of the Asian economies.

d) *Tendency to declining and stabilization of prices*

Price performance in the four economies indicates a clear decline throughout the period. In fact, inflation control is the only trend the four economies share. However, without disregarding the progress in price stabilization in Mexico, the economies of South Korea, Taiwan and Chile maintain a considerable advantage of several points, above all if we consider that in 2004, Mexico's inflation was 5.19 percent (see table 1).[9]

In 1995, Chile, South Korea and Taiwan had 10 percent, 6 percent and 2 percent inflation respectively. These rates are significantly lower than Mexico's rate of 37.9 percent. In any case, we should underline the results of the fight against inflation in Mexico that put price increases at 5.4 percent at the end of the period under examination in 2001 (see graph 4).

The greater effectiveness of South Korea's and Taiwan's anti-inflation policies is shown by the fact that in 2000 and 2001, they both had negative price growth levels. Mexico registered 5.4 percent in 2001 and a similar figure in 2004.

A summary of the trends in the four economies suggests that South Korea and Taiwan exhibited more satisfactory macroeconomic performance in terms of the three fundamental indicators: GDP growth, exports and relations with international markets. They also performed better with regard to price stabilization and interest rates.

Vis-à-vis trade in goods and services —the performance of the external sector— Taiwan and South Korea showed more satisfactory results in their trade balances and the current account (see table 2).

The performance of the external sector marked by the trade balance and the current account is especially important for economies oriented to international markets.

I should also point out that an examination of the indicators suggests that South Korea and Taiwan perform more satisfactorily than Chile and Mexico because they showed an institutional capability that made it possible to have a relatively superior response in the context of the global economy. During the 1995-2001 period, the economies of South Korea, Taiwan and Chile were relatively more dynamic than Mexico's, particularly in recovering from their financial crises.

Certainly, Mexico and Chile showed favorable results in their capital account, which allows them to finance the deficits in their current account. This characteristic of the neoliberal model shows the greater dependence of these economies on the inflows of foreign capital as mechanisms for financing the deficit in foreign accounts, but financial dependence on highly volatile, speculative markets cannot be the best road to development and prosperity for developing countries.

NOTES

[1] The Washington Consensus was the term coined in 1989 by U.S. economist John Williamson to identify the policies delineated by the International Monetary Fund, the Interamerican Development Bank and the World Bank designed to liberalize the region's economy after the so-called "lost decade" of the 1980s. In this scheme of things, the state should limit itself to *laissez faire* policies and let the laws of the market take care of the rest, including social justice. The Washington Consensus established 10 points outlining the economic policy reforms that "Latin America should face up to": fiscal discipline, reducing public spending, tax reform, financial liberalization, indexing exchange rates, promoting foreign direct investment, privatizations, liberalizing trade, deregulation and protecting property rights. [Editor's Note.]

[2] From the early 1990s, the Mexican economy has been presented as an example of the correct, successful implementation of free trade, financial deregulation and privatization doctrines. Liberalism's defenders say that Mexico confirms the relative success of the policies derived from the Washington Consensus. See Alejandro Álvarez, "Estados Unidos y México: ¿modelos clave en la resolución de la crisis asiática?" *Comercio Exterior* (Mexico City), February 1999.

[3] World Bank, *The East Asian Miracle: Economic Growth and Public Policy* (Oxford: Oxford University Press, 1993).

[4] Robert Wade, *El mercado dirigido* (Mexico City: FCE, 2001).

[5] Carlos Gómez and Rubén Piñeiro, "La estrategia comercial de Corea del Sur: una retrospectiva," *Comercio Exterior* (Mexico City), December 1996.

[6] Actually, without negating the unfavorable repercussions of the 1997-1998 crisis, the Asian countries' progress over the last 20 years in matters of employment, income, education and health was so large that it can hardly be denied. Levels of well-being in South Korea, Taiwan, Hong Kong, etc., remain four times greater than a generation ago. In Malaysia, Indonesia and Thailand, per capita income increased fourfold between 1965 and 1996, while in South Korea, income increased seven-fold. See Robert Wade, op. cit.

[7] Central Bank figures quoted in *El Financiero* (Mexico City), January 17, 2004.

[8] Enrique Pino, "Corrientes de capital internacional y financiamiento en las economías de Asia Pacífico y América Latina," Gregorio Vidal, comp., *México y la economía mundial. Análisis y perspectivas* (Mexico City: Economics Department, UAM-I, 2001).

[9] Central Bank figures quoted in *El Financiero* (Mexico City), January 17, 2004.

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