Chapter 19: Technological Advances and Economics in the Global Age: 19-4b Asian Transformation
Book Title: The Earth and Its Peoples: A Global History 7th Edition Update, AP® Edition
Printed By: James Harper (carter_mcquaid@roundrockisd.org)

19-4b Asian Transformation

Although Japan has few mineral resources and is dependent on oil imports, the Japanese economy weathered the oil price shocks of the 1970s much better than did the economies of Europe and the United States. In fact, Japan experienced a faster rate of economic growth in the 1970s and 1980s than did any other major developed economy, growing at about 10 percent a year and becoming the world's second largest economy. Average income in Japan also increased rapidly, briefly overtaking that of the United States in the 1980s.

AP® Exam Tip

Explain how governments had a strong role in economic life following World War II.

There were major differences between the Japanese and U.S. industrial models. During the American occupation, Japanese industrial conglomerates known as *zaibatsu* were broken up. Although ownership of major industries became less concentrated, business leaders created new industrial alliances to control competition and facilitate the allocation of resources. During the period of dramatic growth there were six major **keiretsu** (Alliances of corporations and banks that dominate the Japanese economy. (*p.* 576)) (**kay-REHT-soo**), each of which included a major bank as well as firms in industry, commerce, and construction tied together in an interlocking ownership structure. There were also minor keiretsu dominated by major industrial corporations, like Toyota.

Tariffs and import regulations inhibiting foreign competition were crucial to the early stages of development of Japan's major industries. These restrictions and Japanese success at exporting manufactured goods through the 1980s produced huge trade surpluses with other nations. Although the United States and the European Community engaged in tough negotiations to try to force open the Japanese market, these efforts had only limited success, and by 1990 Japan's trade surplus with the rest of the world was double that of 1985.

Many experts assumed that Japan's competitive advantages would propel it past the United States as the world's preeminent industrial economy, but during the 1990s Japan entered what would become a more than two-decade-long crisis that dramatically slowed the growth of both GDP and average income. In the thirty months between January 1990 and July 1992, Japanese stocks and real estate markets lost $2.5 trillion in market value, while the national economy's growth rate fell from 3.1 percent a year to 0.2 percent.

Before the crisis, Japanese real estate and stock markets had become highly overvalued as the nation's huge trade imbalances with the United States and other trading partners flooded the economy with cash and fueled dangerous financial speculation. As the crisis deepened and prices collapsed, the close relationships between industry, government, and banks proved to be a liability, as these powerful institutions acted to prop up inefficient companies and support unsustainable market values. By the end of the 1990s Japan's GDP had suffered a loss greater than that suffered by the United States in the Great Depression, leaving the nation with a crushing debt burden. Despite government efforts to promote recovery with deficit spending, public works projects, and low interest rates, Japan's economy has grown very slowly to the present. In 2010 it lost its position as the world's second largest economy to China.

AP® Exam Tip

Understand the growth of export-oriented economies in East Asia in this time period. Compare these economies with East Asian economies in earlier time periods.

Other Asian states imitated the Japanese model of development in the 1970s and 1980s. These nations protected new industries from foreign competition while encouraging close alliances among industries and banks. The largest and most successful of them, the Republic of Korea, commonly called South Korea, used a combination of inexpensive labor, strong technical education, and substantial domestic capital reserves to support a massive industrialization effort. Success in heavy industries such as steel and shipbuilding as well as in consumer industries such as automobiles and consumer electronics soon made it a global economic power.

The small nations of Taiwan and Singapore, along with Hong Kong, a British colony until 1997 when it returned to Chinese control, also became industrial and financial powerhouses. As a result of their rapid development, these three economies along with South Korea were called the **Asian Tigers** (Collective name for South Korea, Taiwan, Hong Kong, and Singapore—nations that became economic powers in the 1970s and 1980s. (*p.* 576)) . While Taiwan suffered a number of political reverses, including the loss of its United Nations seat to the People's Republic of China in 1971 and the withdrawal of diplomatic recognition by the United States, it achieved remarkable economic progress, based in large part on investment in the economy of the People's Republic of China. Hong Kong and Singapore—long-time British colonies with extremely limited natural resources—also enjoyed rapid economic development. Both were historically important Asian ports and commercial centers that later developed successful manufacturing, banking, and commercial sectors.

These **newly industrialized economies (NIEs)** (Rapidly growing, new industrial nations of the late twentieth century, including the Asian Tigers. (*p.* 577)) shared many characteristics that help explain their rapid industrialization. All had disciplined and hard-working labor forces, and all invested heavily in education. For example, as early as 1980 South Korea had as many engineering graduates as the advanced industrial nations of Germany, Britain, and Sweden combined. All had very high rates of personal saving, about 35 percent of GDP, that was used to fund new technologies, and all emphasized outward-looking export strategies. And, like Japan, all benefited from government sponsorship and protection from foreign competition during development. Despite this momentum, the region was deeply shaken by a financial crisis that began in 1997. Like the recession that afflicted Japan in 1990, a combination of bad loans, weak banks, and the international effects of currency speculation led to a deep regional crisis that was stabilized only by the efforts of the United States, Japan, and international institutions like the International Monetary Fund.

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