Effects of economy liberalization in terms of trade with the West on Asian production patterns

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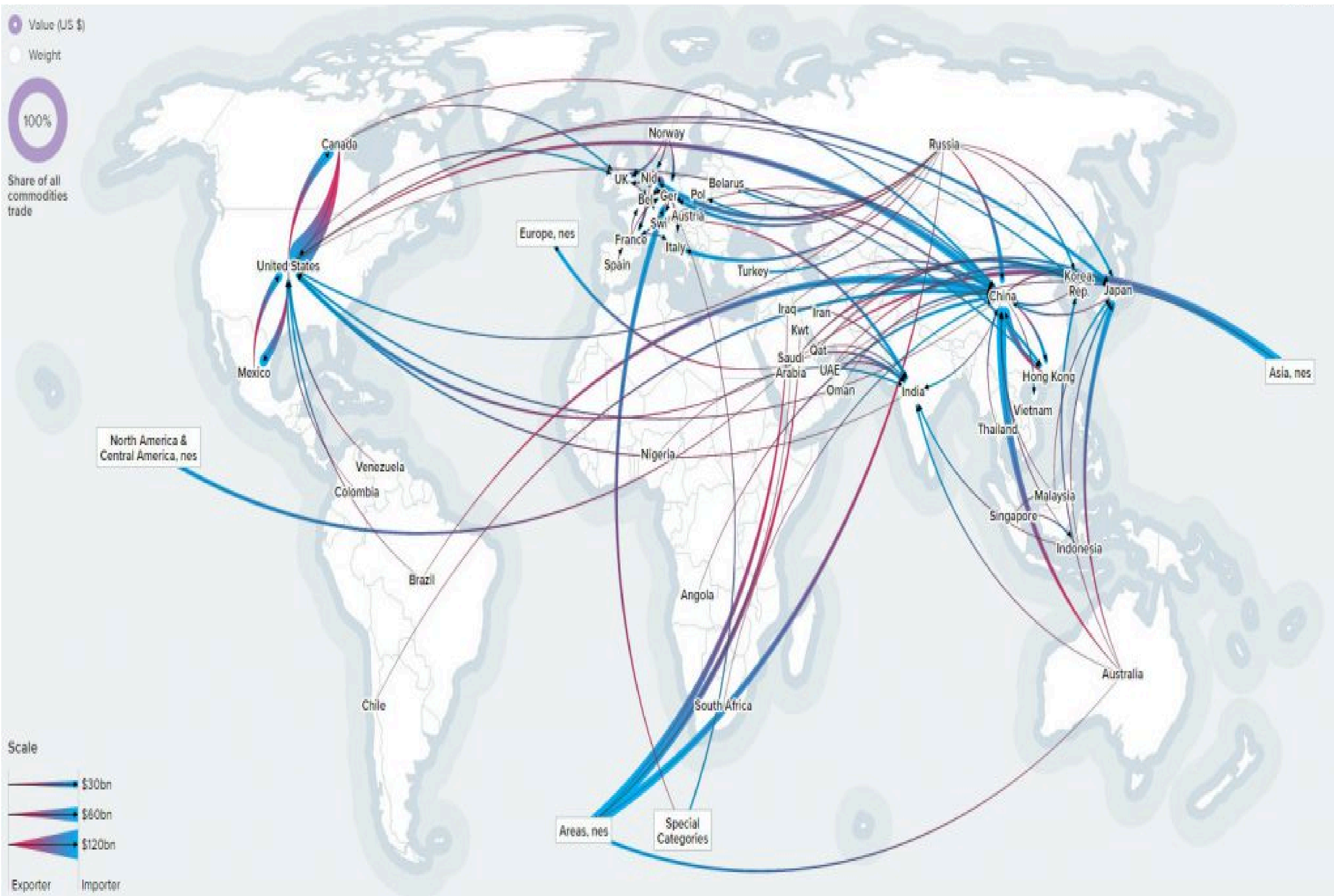

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Introduction

Economic liberalisation is the process of reducing government controls and regulations on economic activities. Along with this, in context to Asian economies , most of which gained independence in the early to mid-20th century, liberalization also implied a more aggressive export and import strategy.

There seemed to be a universal consensus when planners of most South Asian and South East Asian countries started discussing how they would like to structure their nation's markets during its early years. Most government realized that exposing their country's producers and consumers to the forces of the global free market would destroy any potential for domestic growth. After all, a good portion of Asian economies were still shaking off the dust left behind by their colonial pasts.

In order to keep domestic markets competent and motivated, these economies adopted inward looking trade strategies. That is, they would produce all that they could within their borders. Alongside this, imports were heavily taxed, tariffs were put up and in some cases international trade was completely forbidden.

With this in mind, we take a look at three Asian economies, from the three major geo-cultural sections of Asia- China, India and the Philippines.

We dissect the performance of all three nations prior to economic liberalization and the consequences to income and production after their markets were opened to the global market.

China

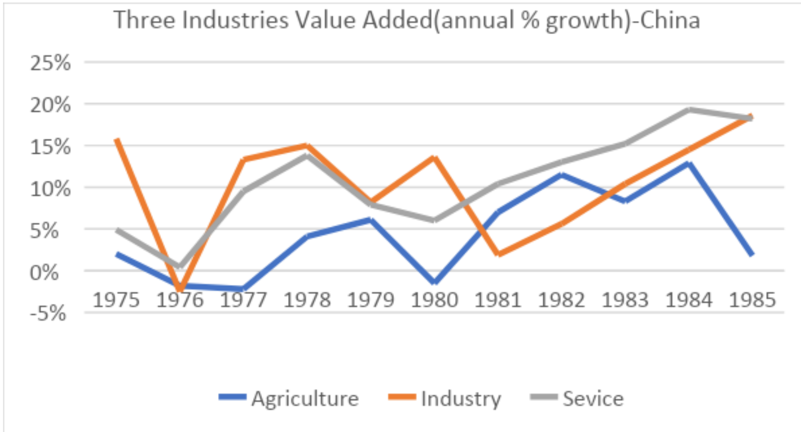
China experienced a 30-year period of complete isolation after the founding of the People's Republic in 1949. Despite this China maintained moderate to high growth through the late 1900s, in sharp contrast to most of the rest of the under-developed economies. China adopted a planned economic system and imitated the industrial model of the former Soviet Union, which quickly built Chinese industrial base and accumulated certain material resources. The price of goods and the distribution of resources were centrally controlled by the government. People used monthly ration coupons for food and cloth to purchase daily necessities, in order to maximize their use in the case of shortage.

However, it appears that Chinese industrial value added fluctuated significantly and the overall growth rate was uncompetitive (figure 1).After 1945, the United States led the development of trade liberalization in the West, accelerating the process of globalization. Furthermore, the potential of the world market was continuously exploited and more and more countries saw the opportunities inside, albeit with risks.

(figure 1)

Therefore, China decided to carry out Reform and Opening Up in 1978, aimed at liberating and developing the productive forces, in which it transformed into market economy. Since then, China has gradually opened up from coastal cities to inland areas and built four special economic zones, increasing its participation in world markets. From the political perspective, China established diplomatic relations with several countries, resumed its legal seat in international currencies and joined the World Trade Organization in 2001. This series of measures not only strengthened China's influence in the world market but also reflected the inclusiveness of Western trade liberalization.

In addition to the transformation of the economic system, China has achieved its indutiral restructuring (figure 2). Particularly, the output value of the tertiary industry has steadily increased and China has shifted its development focus from heavy industry to economic construction. Under the free competition in the market, state-owned enterprises separated government from enterprises and burst into new vitality. Many foreign-funded enterprises and joint ventures have settled in China, the import and export trade has been increasing and the exchange of commodities has become more abundant, resulting in a substantial increase in the people's happiness index.



(figure 2)

On the contrary, trade liberalization also carries great risks for developing countries. Since many soes are no longer protected from trade,lacking advanced technology and management expertise, they were being squeezed out by the other firms. Sales of domestic goods also faced substantial headwinds. Especially the products related with traditional culture were not ready to face the great cultural shock.

India

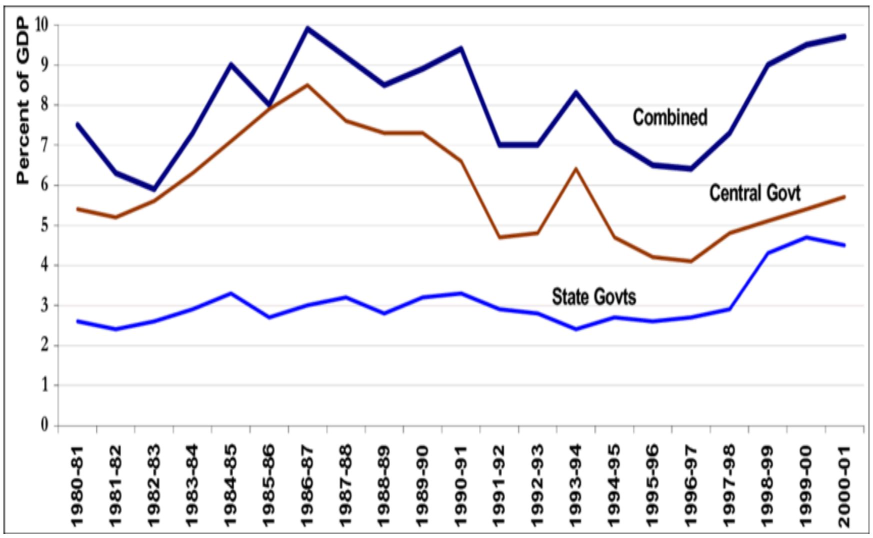
India, while comparable to China in terms of population, had a considerably low GDP throughout the 20th century. The average GDP growth rate was 6% through the late 1900s but droppe doff towards the end. Sporadic steps towards reducing state control and raising external openness started in the 1970s.

However more immediate and decisive liberalization only occurred in 1991. This was in part due to pressure from international financial institutions. There was an immediate effort at stabilization and this was followed by the implementation of a package of reforms.

The Indian rupee was devalued in order to boost exports. This was a direct response to the Balance of Payments crisis that the Indian government was bleeding from. Alongside this most tariffs and import duties were removed.

Using 1991 as the reference year, before and after comparisons suggest that the effects of the reforms had mixed reviews. The economy did open to foreign trade, with export and import greatly increasing as a portion of GDP, to 11 and 14 percent respectively. These numbers are greatly comparable to China's proportions of GDP. Despite this, the trade deficit rose in the 1990s.

In terms of foreign perspectives of India, the outreach was not very impressive. FDI cumulated through the 90s was $15 billion which was not much compared to their most comparable economy, China. The FDI consisted of MnAs that did not add any technological improvements that could aide in India’s production. There was an increasingly high budget deficit following the liberalization reforms. High interest payments on government debt and lower tariffs did not provide any relief for fiscal spending either.

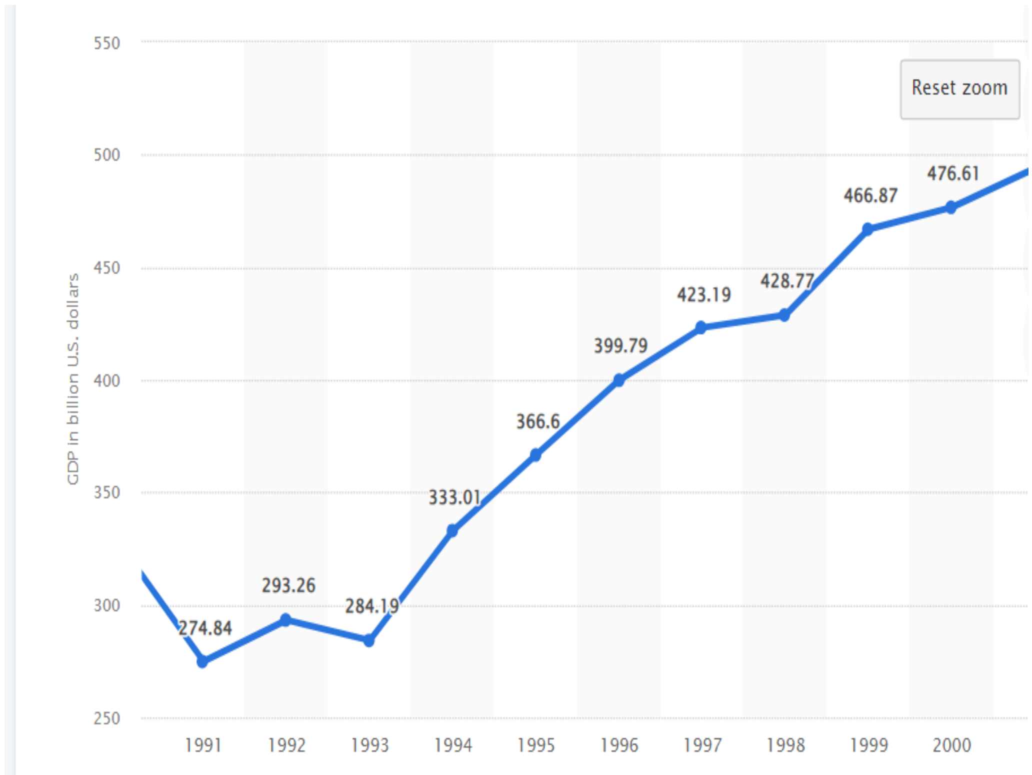


Now we talk about the crux of the paper; the consumption and production patterns of the country post liberalization.

Choosing to follow wage rates, especially real wage rates, as a reliable index for consumption in India, we find that the real wage index increased notably during 1978–1985. However, in 1991, the real wage index declined to that of pre 1970 levels, which is a sad commentary on the workings of the Indian economy. In the early 1990s, the movement towards a fair wage seemed a distant dream; workers were not even able to retain their real wages at the 1975. Overall, in the pre-reform period, the real wage index fluctuated. However, with the advent of the economic reforms in 1991, there has been a consistent increase in the real wages of Indian workers. For instance, the daily average wage rate of causal wage labourers increased significantly in real terms during the period 1993–2000, at a rate of about 3.5% per year. Earnings increased at a positive rate of about 2.5% annually.

Now looking at production on the other hand, we can use GDP as a solid indicator to whether or not production improved after letting foreign producers into the domestic market.

Below we see the GDP of India during the 1990s.

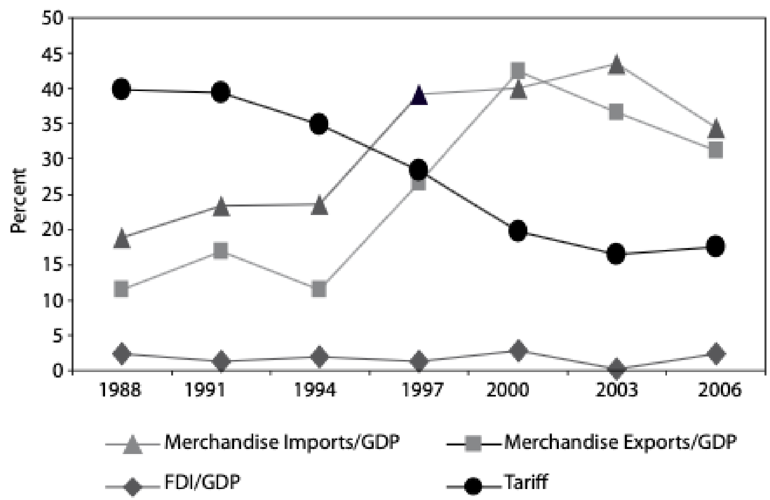


The reforms led to the removal of industrial licensing, reduction of import tariffs, **deregulation** of various sectors, and increased participation of the private sector. This resulted in a significant turnaround in economic performance. India witnessed an average **GDP growth rate of 7.4% in the years 1991-2014**, compared to 5.8% in the pre-reform period. This growth transformed India's economic landscape, lifting millions out of poverty and creating new opportunities. The high growth rate proves that India was able to capitalize on its production capabilities post liberalization despite the fiscal deficits and low FDIs received by producers.

The Philippines

In the early 1980s, the Philippines faced economic turmoil marked by rural poverty, high unemployment, and a mounting debt crisis. Responding to both internal and external pressures, the government-initiated trade liberalization measures to bolster domestic industries' global competitiveness. Despite these efforts, economic growth remained stagnant, with income inequality persisting. Moreover, restructuring tariffs skewed towards industry led to increased agricultural imports and lowered domestic prices, hindering local production.

Figure 1:



Sources: Trade, FDI, and GDP data from World Bank World Development Indicators. Tariff rates are based on authors' computations.

Trade liberalization has brought many benefits and drawbacks to the Philippines.

The country was finally able to project itself into the global economic scenario after years of isolations caused by the Authoritarian rule of Ferdinand Marcos in the 1970s, as the figure shows.

This caused an obvious expansion of the country exports, mainly in the textiles and the electrical machinery sector and a spurt in the mean living standard rates, which have been consistently growing from the 1990's.

However, since its liberalization, Philippine economy has been characterized by a regular pattern of boom-and-bust growth cycle like many Asian developing countries, with the unemployment rate that mimics the economy performance. This obviously translates in a not so stable economy, that is still very dependent on the foreign demand to support itself.

Moreover, studies have shown that Trade Liberalization in the Philippines had a big impact in reducing poverty rates, especially during the 1990's, when the most policies were implemented, but worsened income inequality.

This phenomenon was a caused both by the boom-and-burst cycle and by the focus of the development policies on specific regions and sectors.

For example, it is shown that the Metro Manila region “attracts” the most capital while almost none is directed to the rural regions.

This isn't a matter of 'favoritism'—it's rather a reflection of the transition from an agricultural economy, which once supported the nation during protectionist eras, to an industrial one. As a matter of fact, ever since the liberalization, the country has focused its investments and policies on the textiles and the electronic sector.

However, in the rural regions many people are still employed in the agricultural sector, which explains the divergence in welfare levels.

In the final analysis, it is possible to affirm that even though economic liberalization allows countries to enhance economic growth and, in turn, their development, it is fundamental to share policies and initiatives between regions and sectors by leveraging their resources.

If this does not happen, even if the economy grows in the short term, the country’s differences will be enhanced in the long term, resulting in conflicts and factors that will, eventually, bring the economy into a recession.

CONCLUSION

We close this article by pointing out two underlying observations. The first is that when examining consumption trends across an entire economy, it can be challenging to determine which factors are most influential. The second is that production within an established economy is likely to increase over time. However, the extent and direction of these production shifts can be analyzed, and the reasons behind them can be identified.

In our study, we found that all three economies experienced growth in both production and consumption following the implementation of liberalization policies. Yet, this growth has come with drawbacks such as increased instability, uneven regional development, and inadequate infrastructure. It’s clear that a variety of internal and external factors shape the trajectory of a nation's economic growth. This article has explored some of these elements, shedding light on the broader impacts of policy shifts on stakeholders within the three economies.

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