

# Troubled Two Asian Tigers, Korea and Taiwan: Why Cannot They Cross over the Threshold of Advanced Economies?

O. Yul Kwon<sup>1,2+</sup>

<sup>1</sup>Griffith Business School, Griffith University, Brisbane, Qld, Australia

<sup>2</sup>Beedie School of Business, Simon Fraser University, Vancouver, Canada

**Abstract.** This paper attempts to investigate from a cultural perspective the unpropitious prospects of the Korean and Taiwanese economies in joining the rank of advanced economies. Culture affects social capital which in turn affects transaction costs and finally economic development. Twelve cultural indicators related to social capital are compared among Singapore, Hong Kong, Korea and Taiwan. It is found that Korea and Taiwan fall significantly and consistently behind Singapore and Hong Kong. Therefore, to cross the threshold of advanced economy status, Korea and Taiwan may have to upgrade their culture towards that of Singapore and Hong Kong.

**Keywords:** Four Asian Tigers, Culture, Social Capital, Transaction Cost, Economic Development

## 1. Introduction

The four Asian tigers, including Singapore, Hong Kong, South Korea (Korea hereafter) and Taiwan, are noted for achieving sustained high growth rates and fast industrialisation between the 1960s to 1990s. Over the 1960s and 1970s, the four tigers recorded an annual growth rate of almost ten percent (Dowling and Valenzuela 2004). They all maintained remarkably high growth over the ensuing two decades until the end of the 20<sup>th</sup> century (IMF 2012). In spite of a high expectation that all four tigers would maintain their rapid growth and soon join the rank of advanced economies, they have entered a low growth phase from the dawn of the 21<sup>st</sup> century. If an OECD average of GDP per capita on a Purchasing Power Parity basis is used as a threshold for advanced economies, Singapore and Hong Kong achieved advanced economy status in 2009, while Korea and Taiwan did not (IMF 2012). This paper explores the ways for Korea and Taiwan to achieve their aspiration of crossing the threshold of advanced economy status.

Controversy has occurred on the determinants of the four tiger's economic miracles in the early 1990s. Krugman (1994) argues that economic growth of the Asian tigers is accounted for only by expansion of labour and capital inputs with no productivity growth, and thus such growth out of perspiration cannot maintain over the long-run. Repudiating this, Hsieh (1999) argues that productivity growth has played an important role for economic success of the tigers. Recently, Kwon and Kang (2011) argue that human capital is a core factor for rapid growth.

While commentators on economic success of the four tigers have emphasised capital and labour inputs and productivity, little attention has been paid on cultural effects on economic development. Economic development is a complex phenomenon influenced not only by capital, labour, technology, but also by formal and informal (culture) institutions (North 1990). Culture affects economic development through three inter-related channels. First, it has important bearings on the economy through its effects on individual behaviours such as diligence, frugality, education perception. Second, culture is an underpinning factor for formal institutions (rules and laws) and their performances. Third, culture affects inter-personal relations as it underlies ethics, honesty and integrity. Culture has become more important for economic development with globalization. Information on culture is widely disseminated, and cultural outcomes are increasingly measured and compared across countries by global organisations. Hence, countries with unproductive culture will be punished in the form of losing investments and firms. Recognizing the complementarity of the

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<sup>+</sup> Corresponding author.

*E-mail address:* y.kwon@griffith.edu.au.

multiple factors for economic development, this paper explores the role of culture as one of the important development factors for the Asian tigers.

## **2. Literature Review**

Conventional economists had shied away from analysing culture in economic development. It was then Max Weber (1950) who had at first considered different cultural influences on economic development. Weber argued that the Protestant work ethic was the basis of western economic development, and that the absence of this ethic in Asia was the reason for the region's lower level of development. Swift and unprecedented economic development in East Asia during the 1970s and 1980s has inclined scholars to argue that Confucian culture, shared by East Asian countries, is the key to East Asian economic success (Tu 1988). They point to specific characteristics of Confucian culture, including emphasis on education, diligence, frugality and discipline as factors for economic development. However, the Confucian model focuses cultural influences mainly on individuals' behaviours, and it cannot explain recent sluggishness of the four tigers' economies, as their Confucian behavioural characteristics have remained more or less unchanged. In addition, individual behaviours that are major explanatory variables for the Confucian model have not been measured and compared across countries by international organisations. This paper therefore explores cultural effects on inter-personal relations and performance of formal institutions. This is done by introducing the concept of transaction costs between culture and economic development.

Transaction costs arise through the processes of negotiation between economic agents, valuation of goods and services to be exchanged, and enforcement of contracts (North 1990). Transaction costs affect the economy as part of economic costs. Culture affects social trust and institutional performance – social capital - which in turn affect the level of transaction costs. Harrison (1985) argues that culture shapes the radius of trust and identification among people and the rigour of a society's system of ethics, thereby affecting social trust and implementation of rules and laws. This new approach with the concepts of transaction cost is employed in investigating the role of culture in future economic developments of Korea and Taiwan.

## **3. Cultural Effects on Social Trust**

Cultural effects on social trust can be measured in a variety of ways. Part of social trust may be measured by society's view of firms. The International Institute for Management Development (IMD) and the World Economic Forum (WEF) measure, respectively, 'ethical practices' and 'ethical behaviour' of firms through surveys. Since these measures present subjective perceptions of people surveyed, they are unstable over time. Thus, average values over time would provide better information. As shown in Table 1, Singapore scored most highly for 'society's view of firms on ethical practices' over the 2001-2009 period with 7.4. Hong Kong scored 6.7, followed by Korea and Taiwan with scores of 5.5 and 6.3 respectively. Relative average values of 'society's view of firms on ethical behaviour' by the WEF are quite consistent with the counterparts of the IMD. Not only would the low level of trust in firms raise transaction costs, but it would also lower the level of work ethics.

Another facet of social trust is public trust of politicians. The WEF measures 'public trust of politicians', as shown in Table 1. Again, Singapore scored the highest point, followed by Hong Kong, Taiwan and Korea with substantially differences among them. The lack of public trust of politicians would raise not only public administration costs but also political instability. Another indicator for social trust would be the level of 'social cohesion' which is measured by the IMD. Again, Singapore recorded the highest score, followed by Hong Kong, Korea and Taiwan (Table 1). These measurements of social trust by the IMD and WEF indicate that culture through its effect on social trust would have contributed more to economic development of Singapore and Hong Kong than to Korea and Taiwan.

To take advantage of economic benefits from globalisation, not only should citizens embrace international systems and standards, but they should also expand the radius of trust and identification beyond the national boundary. These would be reflected in 'attitudes toward globalisation' and 'national culture', both of which are measured by the IMD. As shown in Table 1, both Singapore and Hong Kong scored 8.0 each on average for attitude toward globalisation, while Korea and Taiwan recorded scores of 6.6 and 7.4 respectively. People's attitudes toward globalisation are not remarkably different among the four countries.

However, national cultures are quite different among them, indicating substantial differences in their attitudes toward foreign culture. Hong Kong scored the highest point of 8.4, followed by Singapore with a score of 8.1. Korea's and Taiwan's scores were 5.4 and 7.6 respectively. This tells that mindsets of Koreans in particular remain quite closed to foreigners and their culture, indicating that xenophobia is still prevalent in Korea. The xenophobic attitude reduces the radius of trust and identification and raises transaction costs in international commercial dealings.

Table 1: Social indicators of the four tigers (average over the 2001-2009 period)

	Singapore	Hong Kong	Korea	Taiwan
Society's view of firms: ethical practice (IMD), score: 1-10	7.4	6.7	5.5	6.3
Society's view of firms: ethical behavior (WEF), score: 1-7	6.2	5.5	4.6	5.0
Public trust of politicians (WEF)	6.4	4.8	2.8	3.2
Social cohesion (IMD)	8.9	6.6	5.6	4.7
Attitudes toward globalisation (IMD)	8.0	8.0	6.6	7.4
National culture (IMD)	8.1	8.4	5.4	7.6
Corruption Perception Index (TI)	9.3	8.2	4.9	5.8
Justice fairly administered (IMD)	8.1	7.9	5.0	5.1
Image abroad (IMD)	8.7	8.2	6.2	6.6

Sources: International Institute for Management Development (IMD), the World Economic Forum (WEF), Transparency International (IT).

#### 4. Cultural Effects on Institutional Performance

Formal institutions such as rules and laws are codifications of morality and ethics, much of which are grounded in culture.<sup>1</sup> Not only is culture an underpinning factor for formal institutions, but it also affects civic consciousness of law obedience, much of which is also grounded in culture. The extents of civic compliance with institutions are measured across countries by global organisations. The Corruption Perception Index by Transparency International (IT) may reflect the rigor of ethics and law observance. As shown in Table 1, Singapore scored an average of 9.3 over the 2001-2009 period, followed by Hong Kong with a score of 8.2, while Korea and Taiwan were far behind with scores of 4.9 and 5.8 respectively. This indicates that relatively high perceptions of corruption prevail in Korea and Taiwan. A high corruption level also leads the public to perceive that justice is not fairly implemented. This is shown in a measurement of 'justice fairly administered' by the IMD. Again Singapore and Hong Kong recorded markedly higher scores of 8.1 and 7.9 respectively than Korea and Taiwan with their respective scores of 5.0 and 5.1.

Another set of cultural effects on institutional performance are measured by Kaufmann et al (2012) in the name of the Worldwide Governance Indicators (WGIs). The WGIs measure perceptions of the quality of cross-country public governance. Kaufmann et al (2008) identify six inter-related fundamental dimensions of public governance. Three of them are relevant to the present study, including:

- Political stability and absence of violence: the likelihood that the government will be destabilized by unconstitutional or violent means, including terrorism;
- Rule of law: perception of the likelihood of crime and violence, society's compliance with rules, the enforcement quality of laws and contracts by the judiciary; and
- Control of corruption: the level of corruption by exercises of public power for private gain.

The measured score of each indicator ranges between -2.5 to 2.5, with higher scores corresponding to better governance. As these measures are subjective perception data and fluctuate over time, average values over the 1996-2011 period are used.

Singapore scored the highest average value of 1.11 over the 1996-2011 period for 'political stability and absence of violence', followed by Hong Kong with a score of 0.92 (Table 2). The scores of these two countries are well higher than the corresponding scores for Korea and Taiwan with 0.30 and 0.66 respectively. This indicates that there is a lack of social trust in politicians in Korea and Taiwan, as shown above, and also a lack of civic consciousness as reflected in violent mass actions and protests.

The 'rule of law' indicator directly reflects institutional implementation. Again, Singapore and Hong Kong recorded markedly higher scores than Korea and Taiwan (Table 2). The scores of Singapore and Hong Kong are, respectively, 1.56 and 1.37, as compared to 0.89 and 0.87, respectively, for Korea and Taiwan. For

<sup>1</sup> In this respect, Obama (2006) said, "Our law is by definition a codification of morality".

the ‘control of corruption’ indicators, the scores of the four countries are further markedly different. Singapore scored 2.24, followed by Hong Kong with a score of 1.78, while Korea and Taiwan scored 0.41 and 0.68 respectively. This result is quite consistent with the Corruption Perception Indexes by Transparency International, as shown in Table 1.

Finally, a nation’s image will be created in the mindsets of foreigners through numerous facets of the nation, including its economic, political and social characteristics and features. Certainly, a country’s rating for all the social indicators, as discussed above, would have important bearings on the nation’s image abroad. A nation’s image abroad, once created, would play an important role for foreigners in considering investment and business opportunities. Nations’ ‘image abroad’ is measured by the IMD, as shown in Table 1. Singapore scored 8.7, followed by Hong Kong with a score of 8.2. Korea and Taiwan fell behind Singapore and Hong Kong, with their respective scores of 6.2 and 6.6.

Table 2: Worldwide governance indicators (an annual average over 1996-2011)

	Singapore	Hong Kong	Korea	Taiwan
Political stability and absence of violence	1.11	0.92	0.30	0.66
Rule of law	1.56	1.37	0.89	0.87
Control of corruption	2.24	1.78	0.41	0.68

## 5. Conclusion

This paper explores the role of culture as one of the important development factors for Korea and Taiwan in achieving their aspiration of crossing the threshold of advanced economy status. In doing so, this paper has investigated cultural effects on social trust and institutional performance, which in turn affects transaction costs. For all those 12 indicators that measure relevant cultural effects, Korea and Taiwan fall significantly and consistently behind Singapore and Hong Kong. Therefore, to cross the threshold of advanced economy status, Korea and Taiwan may have to upgrade their culture towards those of Singapore and Hong Kong or other advanced countries.

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