

Economics in Asia

All Economic Systems seek to answer the three basic economic questions

1) What to produce?

2) How to produce?

3) For whom to produce?



Command Economies

Basic economic questions answered by the government (central authority)



How do command economies answer the basic economic questions?

- 1) What to produce? Whatever the government says to produce
- 2) How to produce? However the government tells you to produce
- 3) For whom to produce? For whomever the government tells you to produce (ideally the entire society)

Advantages to command economy

Because the government has total control over production and its factors, these economies can change rapidly. Whatever is needed most will be produced.

There is no uncertainty (people are told when and how to work)

Free education, health care, and other public services

Disadvantages of command economies

Economy designed to meet *needs* not *wants*

No incentive to work hard...people don't often lose their jobs, so they do the bare minimum to get by

Large bureaucracy means slow decision making, raises cost of production, lacks flexibility

No reward for initiative slows progress

Traditional Economies

Basic economic questions answered by what has been done in the past. Traditions are maintained. Ritual, Habit, and Custom



Traditional economies

Individual roles and choices are defined by the customs of elders and ancestors

These economies are usually based in societies of hunter/gatherers

Sharing is a big part of these economies

How do traditional economies answer the three basic questions?

- 1) What to produce? Whatever ritual, habit or custom dictates
- 2) How to produce? However ritual, habit or custom dictate
- 3) For whom to produce? For whomever ritual, habit or custom dictate

Advantages of traditional economy

There is little or no uncertainty...everyone knows what role to play.

Life is generally stable, predictable, and continuous

Disadvantages of Traditional economies

Tend to discourage new ideas and new ways of doing things

Lack of progress lowers standard of living

Market Economies

Basic economic questions answered by consumers



How do market economies answer the three basic questions?

- 1) What to produce? Whatever people need and want
- 2) How to produce? However companies decide to produce their product
- 3) For whom to produce? For whomever wants to purchase their product

Advantages of Market Economies

Adjusts to change based on consumer wants

High degree of individual freedom

Low levels of government interference

Because individuals (with money) make the decisions, everyone (with money) has a voice in the way the economy runs

Wide variety of available goods & services

Many choices=high degree of consumer satisfaction

Disadvantages of Market Economies

Poverty: only those with money can participate

Market does not provide for people's basic needs. Governments must attempt to do this (think Katrina). High degree of uncertainty people lose jobs, businesses fail

Greed based system puts profit before people

Economic Systems



**Pure
Command**

**Pure
Market**

China

What to produce?

40 % of the Chinese economy is still based in state-run industries

60% of the economy is based on the private sector in where producers and consumers make production decisions

China

How to produce?

The many inefficiencies found in the state-run industries, particularly in the area of agriculture, limit China's growth.

In the private market, the speed of economic growth has caused Chinese officials to have increasing difficulty monitoring consumer safety and environmental pollution.

China

For whom to produce?

China requires food production to meet self-sufficiency level for the nation and only the surplus may be exported. In reality, there is not enough proper storage of food to meet the self-sufficiency requirement.

China exports a large amount of manufactured goods. However, the expanding middle class in China is seen as a growth market for both Chinese and foreign companies.

Economic Systems

China



Pure

Command

Pure

Market

Place on the continuum: China is slightly on the market side of center on the continuum.

India

What to produce?

Since 1991, India has slowly allowed the markets to open up to private sector domestic and foreign businesses.

The majority of the population relies on subsistence agriculture as a means of survival.

There is a lot of bureaucracy and corruption involved in setting up and operating business.

India

How to produce?

India is increasing its oversight of intellectual and private property rights, but legal challenges are fraught with bureaucracy.

India has an increasingly educated workforce particularly in areas of engineering and computer science.

India

For whom to produce?

Food production is largely for domestic consumers with many citizens producing food mainly for their own family consumption.

The software and business process outsourcing industries are rapidly expanding export markets for private Indian companies.

Economic Systems

India



Pure
Command

Pure
Market

Place on the continuum: India would be more to the market side of the continuum than China.

Japan

What to produce?

Japan's economy is primarily market driven with supply and demand determining what will be produced.

The few industries that are highly government-controlled, such as agriculture, have much lower productivity rates than those industries controlled by market forces.

Japan

How to produce?

Private businesses determine their own production processes in most of the economy.



Japan

For whom to produce?

Japan's population enjoys a high standard of living and creates a strong domestic market for goods and services.

The efficiency of Japan's production and its reputation for quality products/services has made it a major exporter.

Economic Systems



Place on the continuum: Out of all four countries in this element, Japan would be the closest to the market side of the continuum.

North Korea

What to produce?

Although there have been some small market reforms recently, the majority of legal economic activities are centrally controlled by the government.

Due to natural disaster and inefficient government-run industries, North Korea is a major recipient of food and basic service aid from Non-Governmental Organizations (NGO) and foreign nations. The U.S. provides the people of North Korea with a large amount of aid.

Like in many highly centralized economies, there is a large underground economy that runs on a more market based system.

North Korea

How to produce?

Production decisions and methods are primarily determined by the government.



North Korea

For whom to produce?

Approximately one fourth of all domestic output is devoted to maintaining the military. This severely limits the amount of goods and services that make it to the rest of the people of North Korea.

North Korea produces natural resources

Economic Systems



Place on the continuum: North Korea would be much more to the command side of the continuum than any of the other nations discussed. One of the most command economies in the world today.

Economic Systems



Place on the continuum: Out of all four countries in this element, Japan would be the closest to the market side of the continuum.

Why do countries have mixed economies?

A. Each part of a country has different types of money.

B. A country's economy has both national and state elements.

C. Each part of a country has a different economy.

D. A country's economy has both command and market elements.

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The North Korean government determines:
What to produce
How to produce
For whom to produce

According to the information above, North Korea's economy is MOST LIKE which economic system?

- A. Traditional
- B. Market
- C. Command
- D. Bartering

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Specialization

Specialization encourages trade and can be a positive factor in a country's economy.

Specialization occurs when one country can produce a good or service at a lower opportunity cost than another country.

What are the potential problems of over-specialization, such as one-crop economies and lack of diversification? How can this impact a region's economy?

Trade Barriers

Tariff – a duty levied by a government on imported or exported goods; a list of fees fares, or other prices charged by a business.

Quota – a maximum number or quantity that is permitted or needed

Embargos – a government order restricting or prohibiting commerce, especially trade in a given commodity or with a particular nation

Why would a specific trade barrier be used and how would that trade barrier affect each country involved?

Currency Exchange

Currency exchange – the act of exchanging money from one currency to another

Example: dollar to a euro

Exchange rates provide a procedure for determining the value of one country's currency in terms of another country's currency. Without a system for exchanging currencies, it would be very difficult to conduct international trade.

Jiang wants to sell his products manufactured in his country to consumers in several other Asian countries. This will involve him in international trade. What needs to be in place so Jiang can accurately determine the price of his products in these other nations?

- A. A common Asian currency.
- B. An embargo on the countries he trades with.
- C. A system for exchanging currencies between countries.
- D. A treaty with each country setting the price for his products.

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In order to protect a nation's car manufacturing industry from foreign car producers, the government charges the importer a fee for each imported car. This is an example of what kind of trade barrier?

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- B. Tariff
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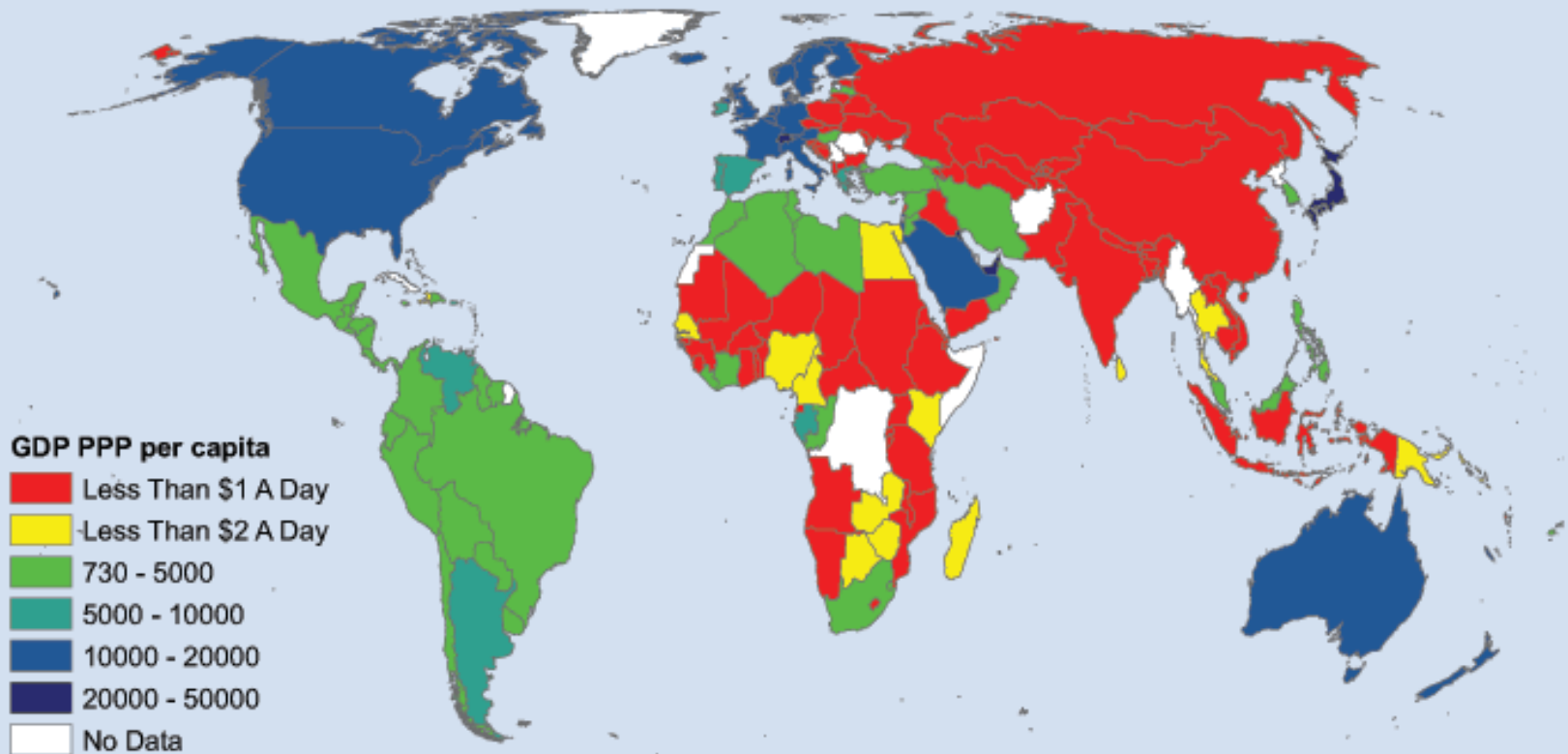
Human Capital

Human capital – education and training of workers whether formal or on-the-job

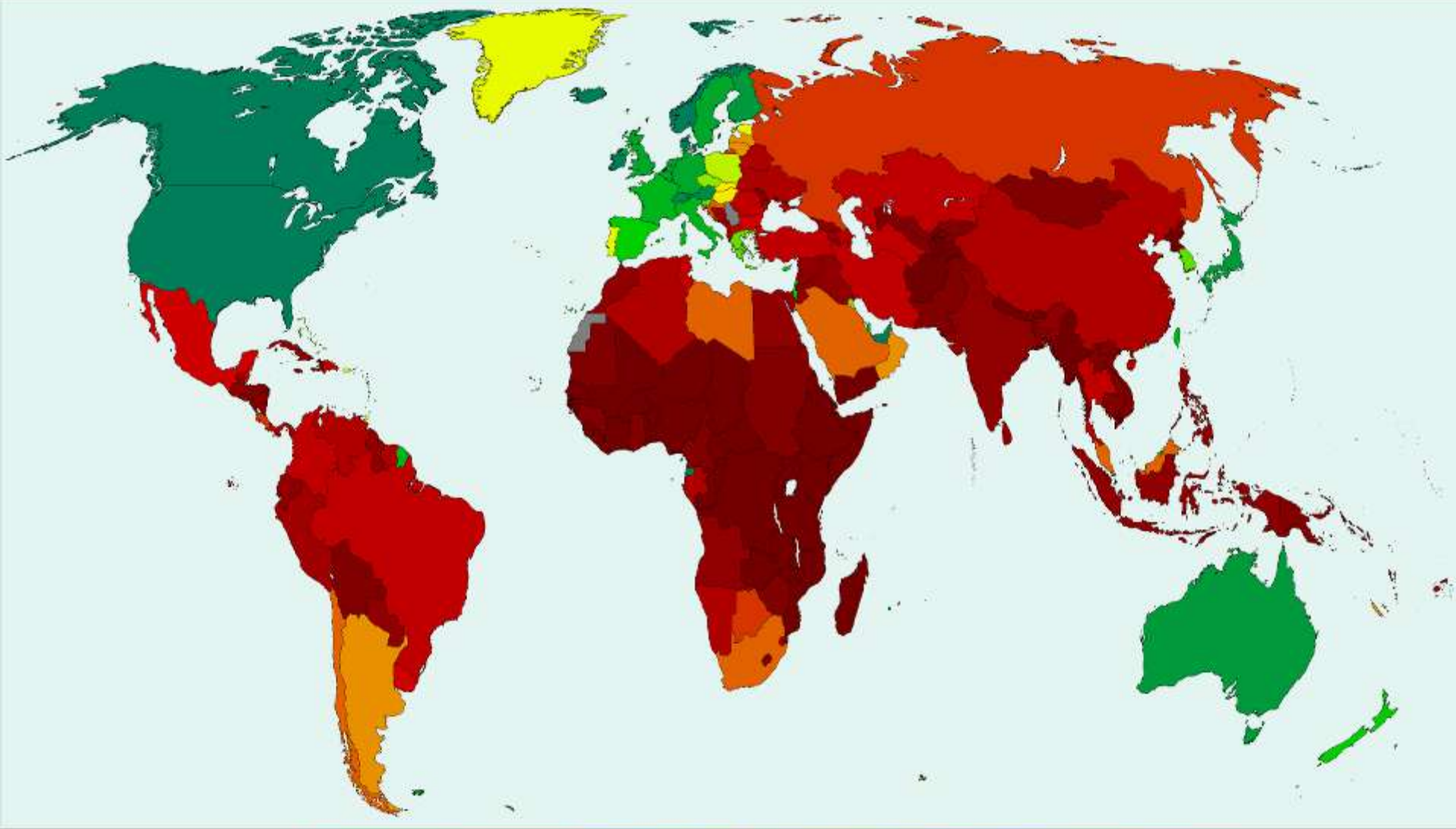


Gross Domestic Product (GDP) - value of all goods and services produced within a country

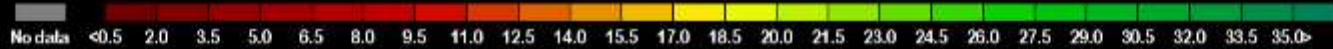
GDP (PPP) per capita 1975



World: GDP per capita (PPP) 2007



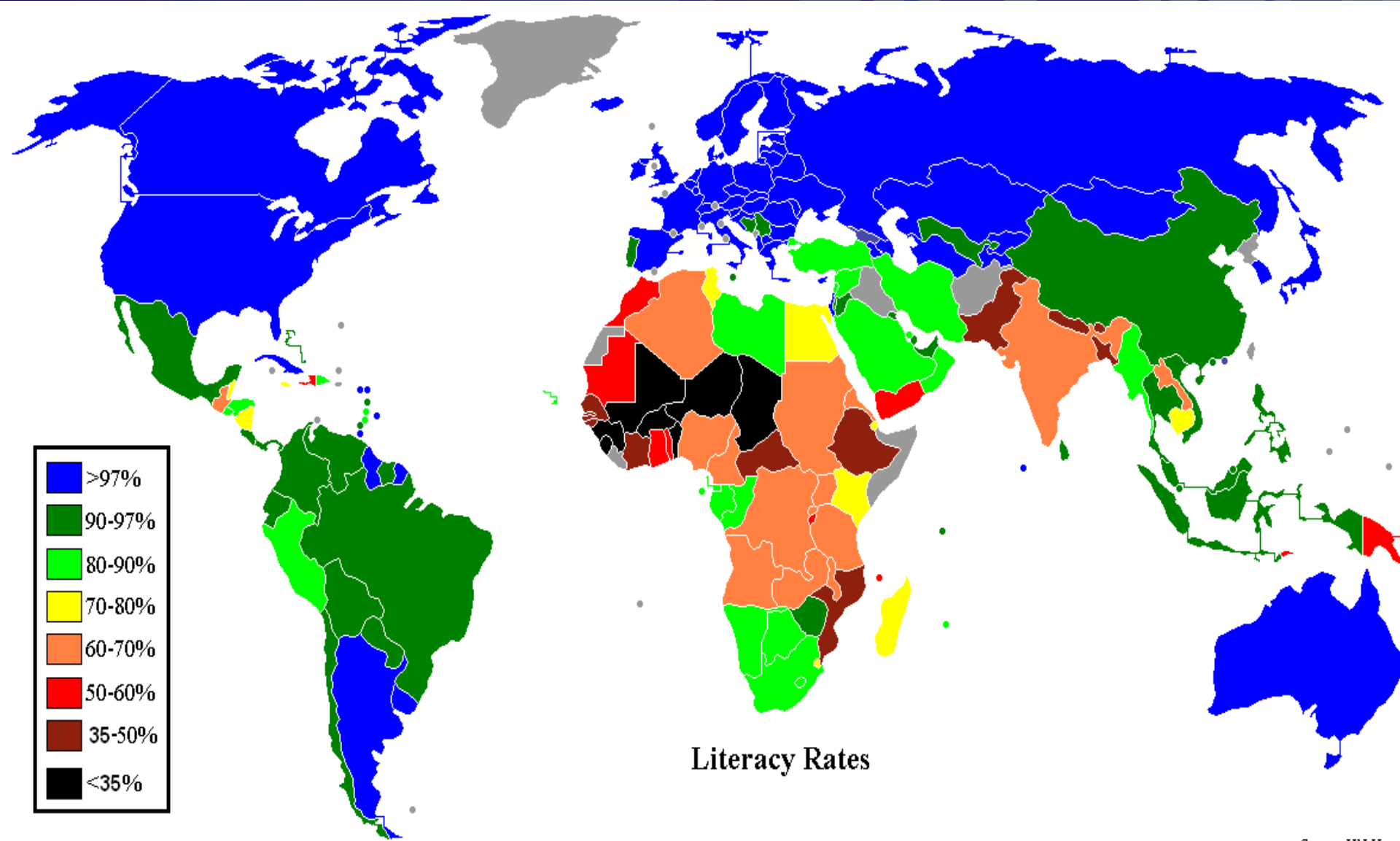
unit = 1000 USD



2007

If the literacy rate is growing quickly, is the GDP growing at a fast rate also?

Highly developed economies like the USA and Japan have smaller growth rates because the size of these economies are already so large. Japan has the second largest economy in the world.



Blue	>97%
Dark Green	90-97%
Light Green	80-90%
Yellow	70-80%
Orange	60-70%
Red	50-60%
Brown	35-50%
Black	<35%

Literacy Rates

India



Years compulsory—No compulsory education

Literacy Rate— 64.84%

Real growth rate (2006-2007): 9.4%

Capital Investment—39% of GDP

China

Years compulsory—Up to Grade 9

Literacy Rate— 90.9%

Real growth rate (2007): 11.4%

Capital Investment—40.2% of GDP



Japan

Years compulsory— Up to Grade 9 (only 4% leave school after this grade)

Literacy Rate— 99%

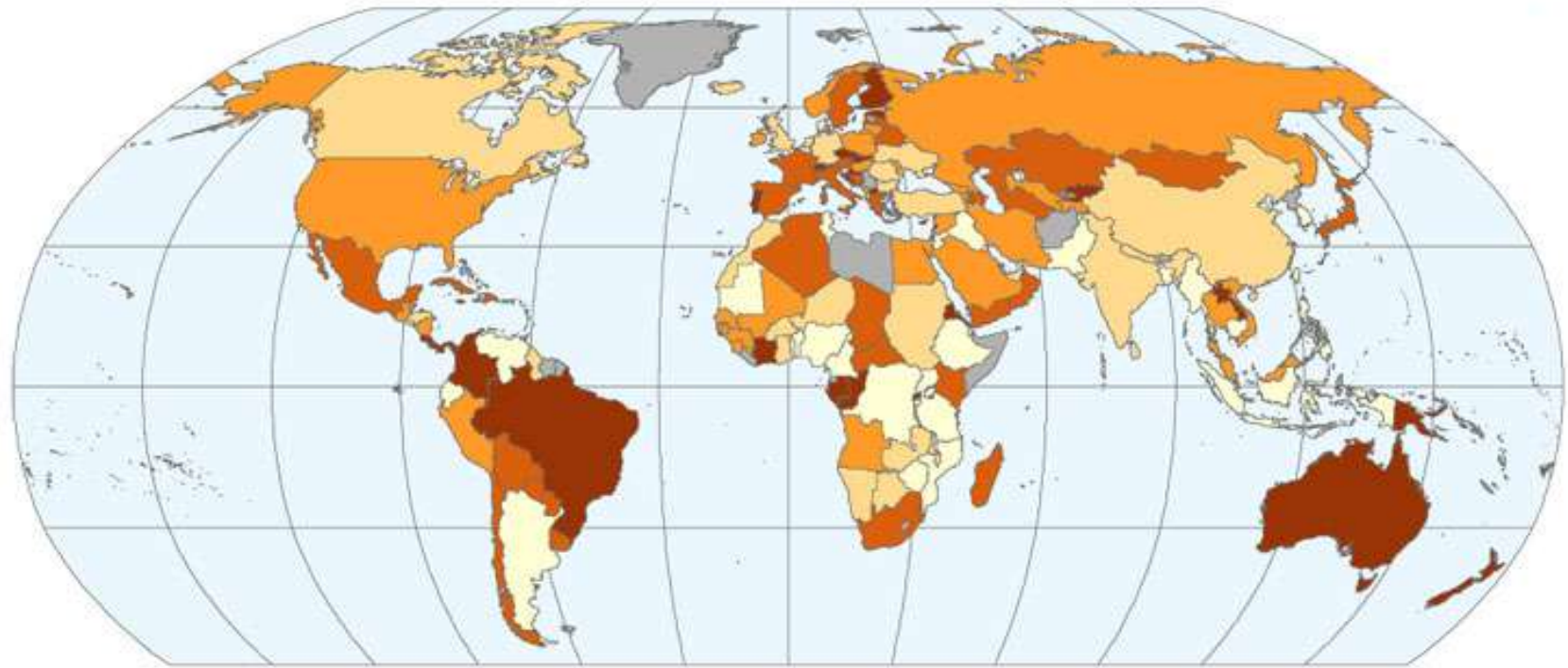
Real growth rate (2007): 2.5%

Capital Investment—22.5% of GDP



How does the presence or absence of natural resources impact a country's economy ?

Productive Natural Resources Policy Category Scores (2008 EPI)



Robinson Projection

Productive Natural Resources Scores



Index Description:

The Productive Natural Resource Policy Category of the Ecosystem Vitality Objective from the 2008 EPI is a unitless score based on the theoretical range from 0 to 100 (0 represents farthest from the target and 100 represents attainment of the target). Scores are averaged across the three constituent sub-categories: Forestry, Fishery and Agriculture. Countries with no forests, no active marine fishing fleets and industries, and no land used in agriculture may be missing certain indicators, associated with those activities. This category weight is 7.5% of the overall EPI.

© 2008. The Trustees of Columbia University in the City of New York. Esty, Daniel C., M.A. Levy, C.H. Kim, A. de Sherbinin, T. Srebotnjak, and V. Mara. 2008 Environmental Performance Index. New Haven: Yale Center for Environmental Law & Policy. Data available at: <http://sedac.ciesin.columbia.edu/es/eipi/> and <http://eipi.yale.edu>



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Japan is a great example of a country with few natural resources that has developed systems of production and trade that are so efficient that they have been able to develop one of the best economies in the world. It is worth noting that Japan does not have to maintain a large military like other nations.

How has entrepreneurship aided development in India, China, and Japan?

If there is a lack of entrepreneurship, how has this affected development in these regions?

China's economy has begun to change from a command economy to a more market economy. This has resulted in increased investment both by the Chinese and by foreign entrepreneurs. How will this investment in capital affect China's GDP?

- A. Increase GDP
- B. Decrease GDP
- C. No effect on GDP
- D. Not related to GDP

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Microsoft Corp, the world's largest software company, said that the company will invest \$1.7 billion in India over the next four years to expand its operations. The money will be spent to make India a major hub for Microsoft's research, product and application development, and services and technical support. India's highly skilled software professionals, low-cost operations, a booming economy, good telecommunications links, and a rapidly growing market have made many foreign companies announce plans to expand their operations in India.

Which is an example of human capital in the above passage?

- A. skilled software professionals
- B. computer factories in New Delhi
- C. research products for Microsoft
- D. loans to local software companies

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- B. They run the government.
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