


# ECONOMIC UNDERSTANDINGS

## SS7E8

The student will analyze different economic systems.

- a. Compare how traditional, command, and market economies answer the economic questions of (1) what to produce, (2) how to produce, and (3) for whom to produce.
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Every society must deal with providing goods and services for its people. Each society must also develop an economic system that can decide how to use the limited resources of that society as well. Three basic questions must be answered.

(1) What goods and services will be produced?

(2) How will goods and services be produced?

(3) Who uses the goods and services that are produced?



Above: Chinese workers in a Nike factory.

# TRADITIONAL ECONOMY

In a **traditional economy**, most of the economic decisions are based on **custom** and on the **habit** of how these decisions were made in the past.

The word **tradition** means something that has been passed down in a culture from one generation to the next.



Subhas Gurju (above) is part of an artisan cooperative in Nepal. She is part of a community of craftspeople who have learned family craft traditions that have been passed down from generation to generation.

Goods and services are exchanged instead of using cash as payment in a **traditional economy**.

This is also known as **bartering**. In very rural areas of India and China, bartering still plays a role in local economies. As areas become more **urbanized**, however, bartering gives way to cash as payment. No country today can be described as having only a traditional economy.



Artists in Indonesia, Kenya, Nepal, Ghana, India, Mozambique and Thailand have produced these traditional wood carvings that they might trade or sell.

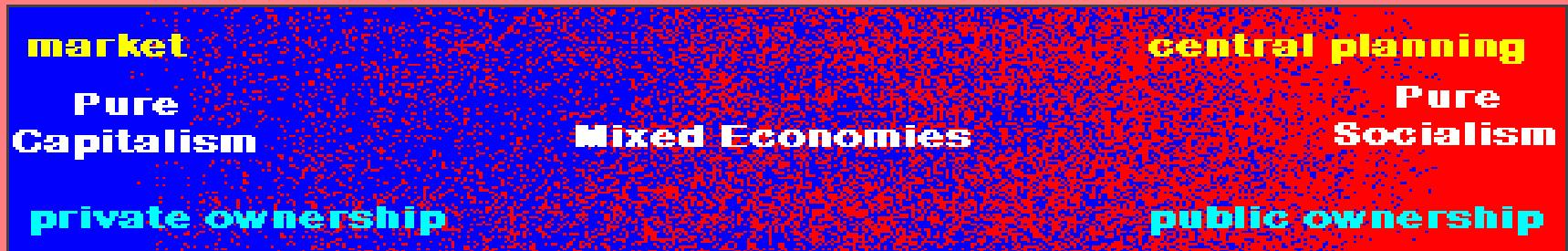
There are countries in Asia like Japan that still produce fine traditional crafts, but these countries have many other types of economic activities going on as well.



At an artisan's center in Japan, artists still make handmade paper. <sup>5</sup>

# COMMAND ECONOMY

A **command economy** is one in which government and planning groups make most of the economic decisions for the workers. This group decides which goods and services should be produced, as well as prices for the goods, and wages paid to the workers. No individual could decide to start a new business.



In a **command economy**, the government decides what and where to produce the goods. The government decides what jobs the workers do and how and where the goods produced would be sold. The best example of a command economy in Southern and Eastern Asia today is **North Korea**.



**Above** : Kim Jung-Il, leader of North Korea

In North Korea, the government makes all economic decisions. The government owns nearly all the important factories and industries. China was set up along a command economic system in the 1950s after the communist revolution, but now the country is beginning to make exceptions to the rule of total government control.





# MARKET ECONOMY

The third basic type of economic system is a **market economy**. In a market economy, economic decisions are made by individuals who decide what to produce and what to buy. Other names for a market economy are **capitalism**, **free enterprise**, and **laissez-faire**, which is French for let them do as they please.

## SS7E8

The student will analyze different economic systems.

b. Explain how most countries have a mixed economy located on a continuum between pure market and pure command.

# A MIXED ECONOMY

Today, no countries in the world have economic systems that are purely traditional, purely command, or purely market systems. India is a good example of a **mixed economy** in Southern and Eastern Asia. The government makes some decisions about agriculture and industry, but **free enterprise and entrepreneurship** are very

common.



Above: Images of small business entrepreneurs in India.

The economy of a country like China is a good example of one that is similar to a **command system**, although in recent years many business entrepreneurs have begun operating in China as well. Nearly all countries have **mixed economies**. In other words, they have the characteristics of a free market and free enterprise as well as some government planning and control.





## SS7E8

The student will analyze  
different economic systems.

and compare  
economic systems in China,  
India, Japan, and  
North Korea.



# THE ECONOMY OF CHINA

The government of The People's Republic of China was originally designed as a command economy. The government had control over nearly all the major parts of the economy, including large industries and banks. The government also made the decisions about what was to be produced, what goods would cost, and what workers would be paid.

	MARKET	COMMAND
SOCIALISM	market socialism	command socialism
CAPITALISM	market capitalism	command capitalism

When the Chinese Communists came to power in 1949, nearly all of China was agricultural. The leader of the Chinese revolution was a man who called himself **Chairman Mao Zedong** (also spelled *Mao Tse-Tung*). He was the chairman of the **Chinese Communist Party** and he ruled China until his death until 1976.



Chairman Mao, as the leader of the Communist Party, decided how much of the country would remain in farming and how much would switch to industrial production. Traditional farms were reorganized into **collective farms** where people worked together and shared what they produced.



AFP File Photo / Jean Vincent  
Red Guards marching with Mao's "Little Red Book" in hand in Beijing during the Cultural Revolution, August 1966.

During the Cultural Revolution, **collective farms** were more like massive prisons. People lived in barracks-style bungalows, eight people to one small room, without a kitchen or bathroom. Nearly 500 people shared one men's toilet and one women's toilet. For bathing, each room had a small wooden bathtub that was small enough to slide under a bed. Each person was allowed just one thermos of hot water a day. Everyone had a set schedule for waking, sleeping, working and eating.



The Chinese government tried to reorganize the economy in the late 1950s during a period known as the **Great Leap Forward**. Conditions did not improve fast enough, and another program, the **Cultural Revolution**, came about in the 1960s. This program tried to do away with all previous programs, and reorganized farms, businesses and most of society.



**Chinese Cultural Revolution (1966-1976)**

The people in charge of the **Cultural Revolution** wanted China to do away with everything old, everything that connected the Chinese people to their past. They wanted to replace the culture of the Chinese people and to have a new approach to all aspects of their lives. This program was also a failure.

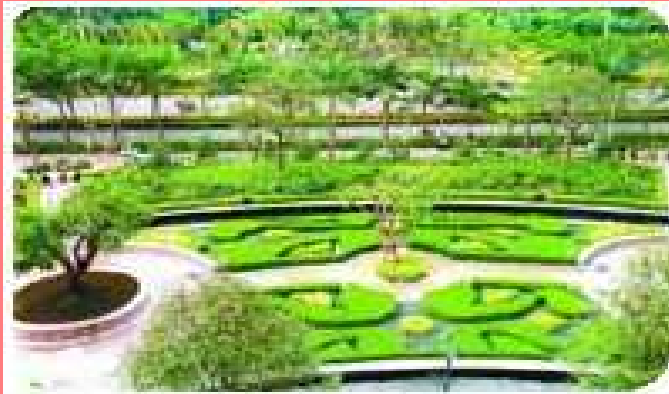


**Left:** Chinese poster saying: *"Smash the old world / Establish a new world."* Classical example of the Red art from the early **Cultural Revolution**. A worker crushes the crucifix, Buddha, and classical Chinese texts with his hammer; 1967.

In the 1970s, China's leader, **Deng Xiaoping** [duhng shou-ping]; , began to reorganize the Chinese economy with what he called the **Four Modernizations**. Farmers were given more control over what they decided to produce and they were allowed to sell surplus products and keep the profits. Industry shifted from heavy industries like iron and steel to the production of more consumer goods.



Factory workers and managers were allowed to make more of the decisions in the running of the factories. **Special Economic Zones** were set up along the coastal areas to try and encourage foreign companies to do business with China. Defense industries were also built up and made more productive. The results of all these efforts were mixed.



Shenzhen, located in the western part of the special economic zone is a rising city for tourism. **(Left)** Overseas Chinese Town embraces the theme parks of Splendid China, the China Folk Culture Villages, Window of the World and Happy Valley. **(Right)** Wutong Mountain is the highest mountain in Shenzhen

The coastal areas of China began to grow economically, but some of the farm areas in the countryside fell behind. People began to leave and come to cities looking for work. The rapid growth of cities created new problems for the Chinese government.



Many Chinese people today have small businesses of their own, even though the Chinese government still has final authority in most matters. There are many more examples of a market economy at work in China than in the years since the revolution.



Although China doesn't have an unlimited supply of farmland, especially in the light of the country's huge population, the country still manages to feed itself. At least half of China's workers remain in agriculture.



Today, China's economy continues to be growing and strong, and many Chinese enjoy a higher standard of living than ever before. Cities along the southeastern part of  
of  
China are experiencing tremendous growth, especially places like **Shanghai and Hong Kong** (below).





# THE ECONOMY OF INDIA

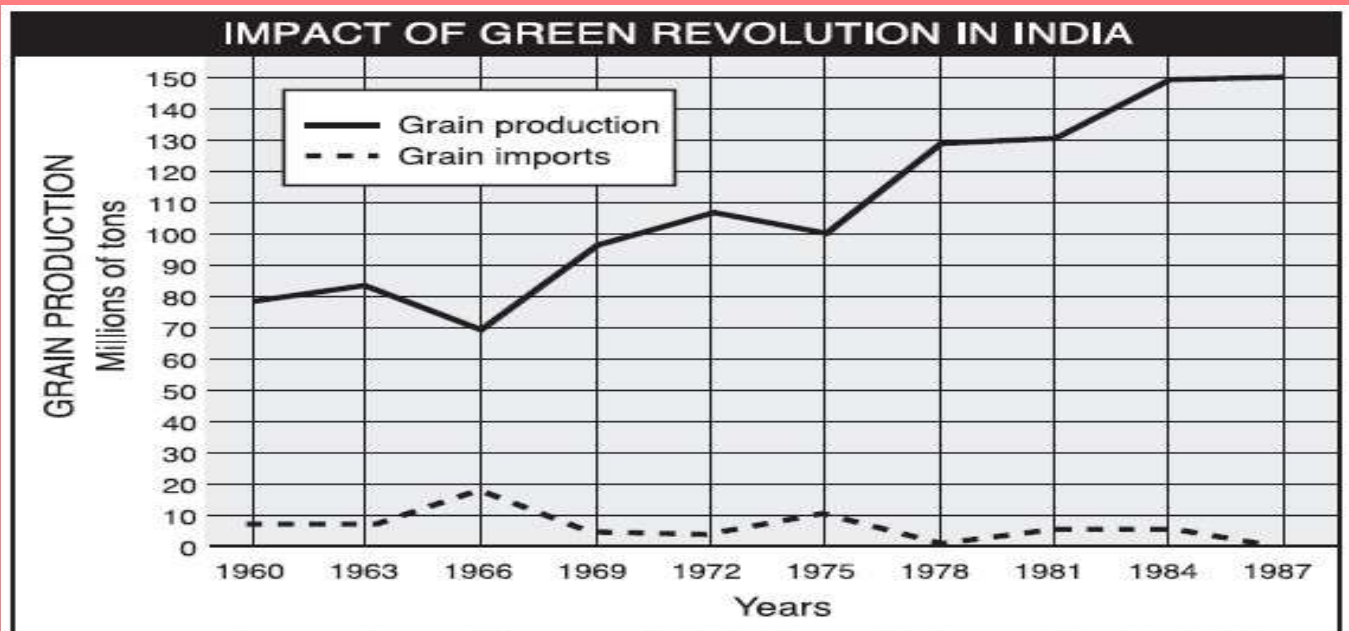
The economy of India is a blend of traditional activities and modern ones. About half of India's population still works in agriculture, many using farm techniques that haven't changed for centuries. Many poor farmers still plow with oxen and water buffalo.



Rice and wheat are leading agricultural products in India. India's government decided to try and modernize Indian agriculture in the 1960s by declaring the beginning of the **Green Revolution**.



New types of seeds and grains were introduced, and fertilizers and pesticides were made available. While farm products increased, there were problems as well. The chemicals the farmers used increased pollution of streams and rivers, and some farmers found the new techniques too expensive to use.

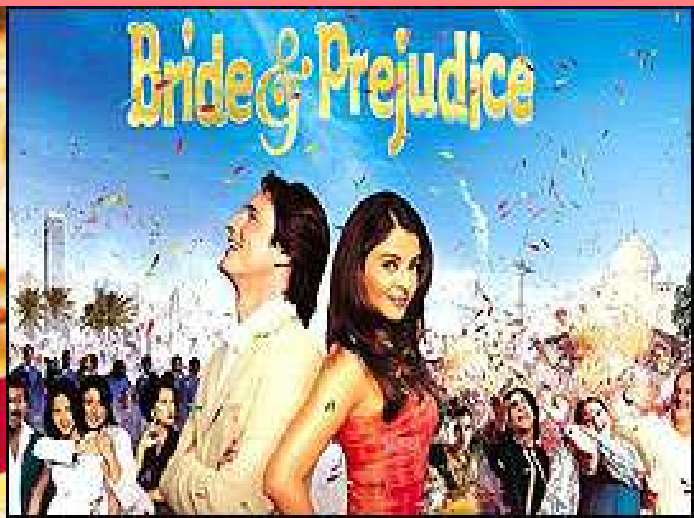
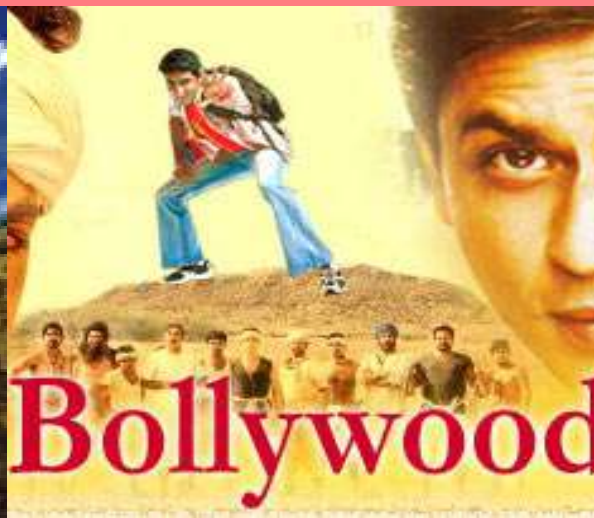
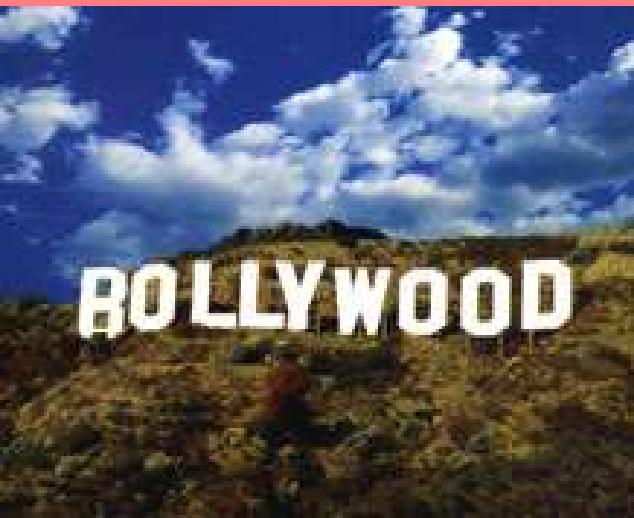


Source: James Killoran et al., *The Key to Understanding Global History*, Jarrett Publishing Co. (adapted)

India now leads many of the countries in this region in the growth of technology and service industries. There is a booming electronics industry in India, producing computers, software, televisions, CD players and VCRs. India has launched several communications satellites systems, and leads the region in a number of related fields.



India is also home to a popular movie and film industry. **Bollywood** films are as popular in Southern and Eastern Asia as are films made in the United States. Service industries are booming in India, with thousands of people employed to handle technology questions, airline reservations, and retail sales for customers from around the world. The success of these industries has allowed India to develop a growing middle class.



# THE ECONOMY OF JAPAN

Japan has one of the most technologically advanced economies in the world. Only the United States and China have economies that are more productive, and in China's case, they are ahead of Japan in large part because of the size of the country and the huge population.



The Japanese government has a close and cooperative relationship with major industries in Japan and the Japanese people traditionally have had a strong work ethic.

### INDUSTRY AND POWER

#### INDUSTRY

- Iron and steel
- Machinery and metal goods
- Electric engineering
- Transport equipment and/or shipbuilding
- Chemicals
- Building materials
- Textiles and clothing
- Wood and/or paper
- Foodstuffs
- Others

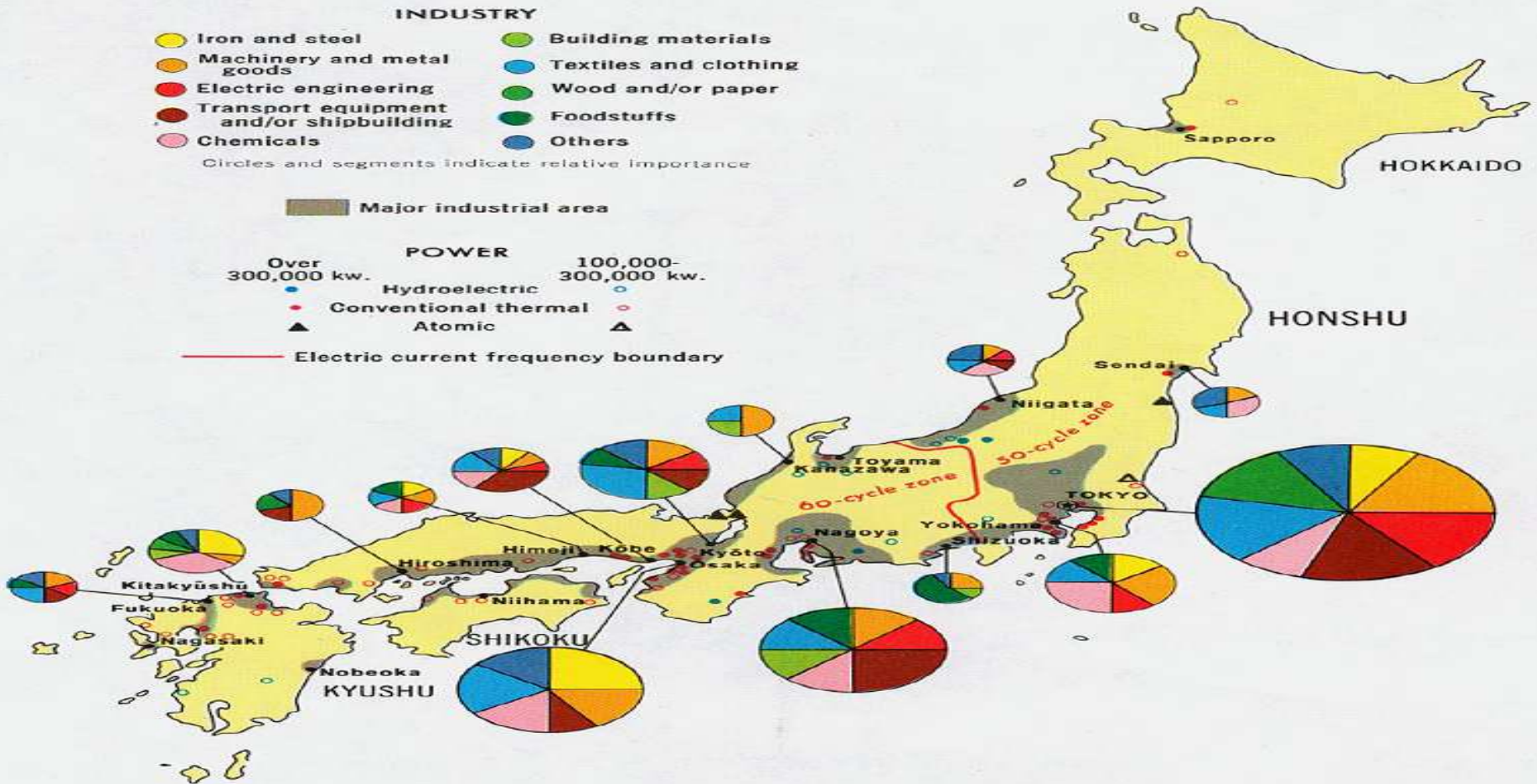
Circles and segments indicate relative importance

Major industrial area

#### POWER

- Over 300,000 kw. Hydroelectric
- Conventional thermal
- ▲ Atomic
- 100,000-300,000 kw. Hydroelectric
- Conventional thermal
- ▲ Atomic

— Electric current frequency boundary

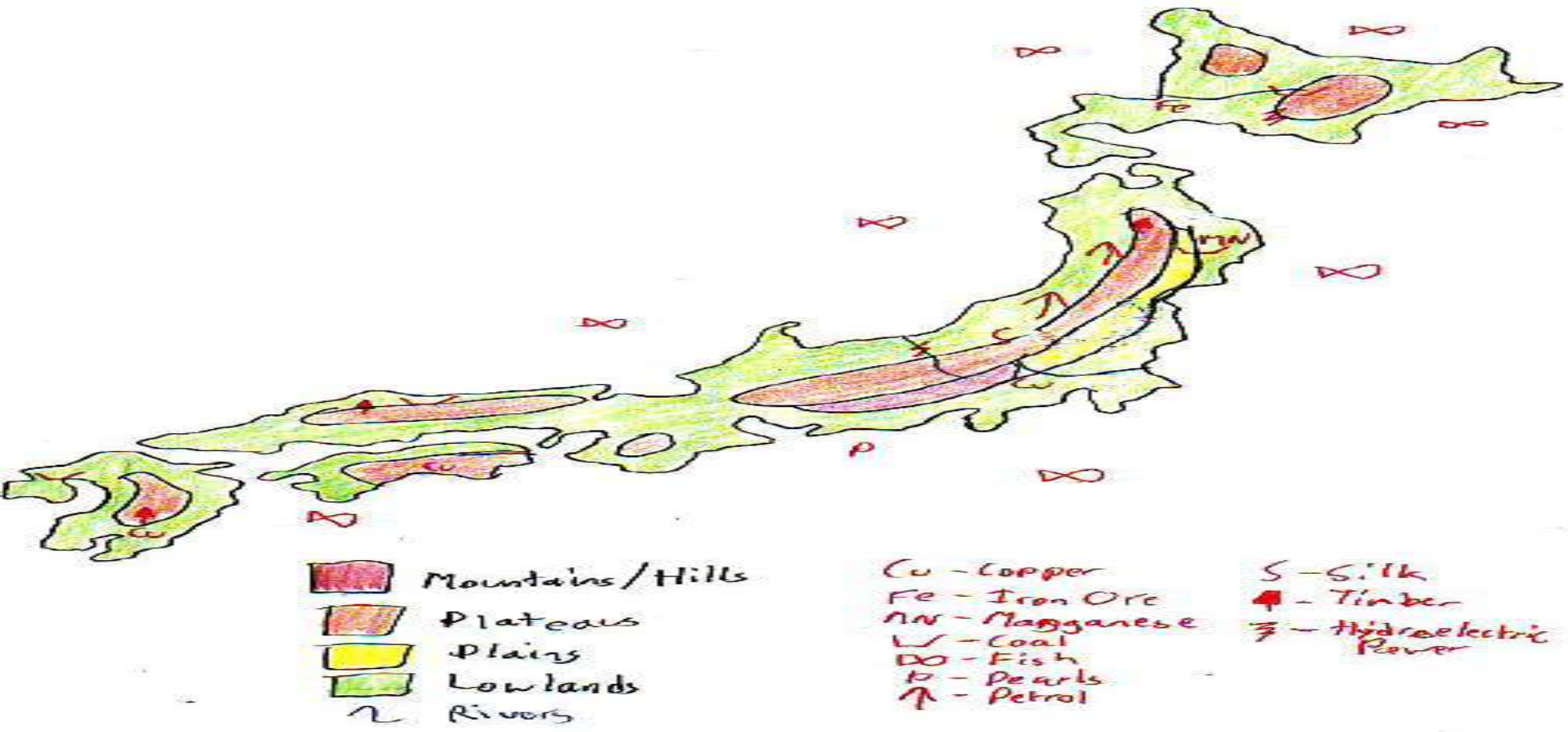


In addition, Japan spends very little on maintaining a military, a restriction that has been in place since the end of World War II. Japan is able to invest more money on industry and technology because they don't need it for the military.



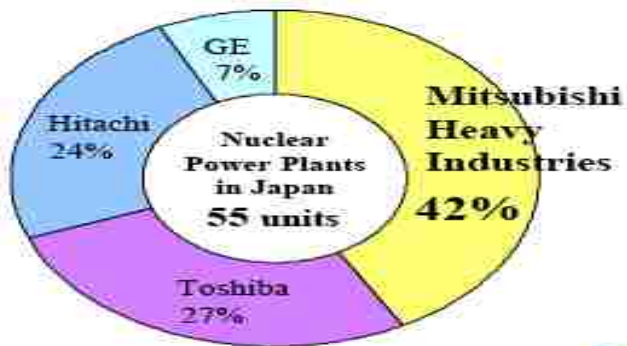


Japan has very little farmland and natural resources. For that reason, the country must **import** raw materials and food. The need for industry and for world trade also means a well-educated work force is an absolute necessity.

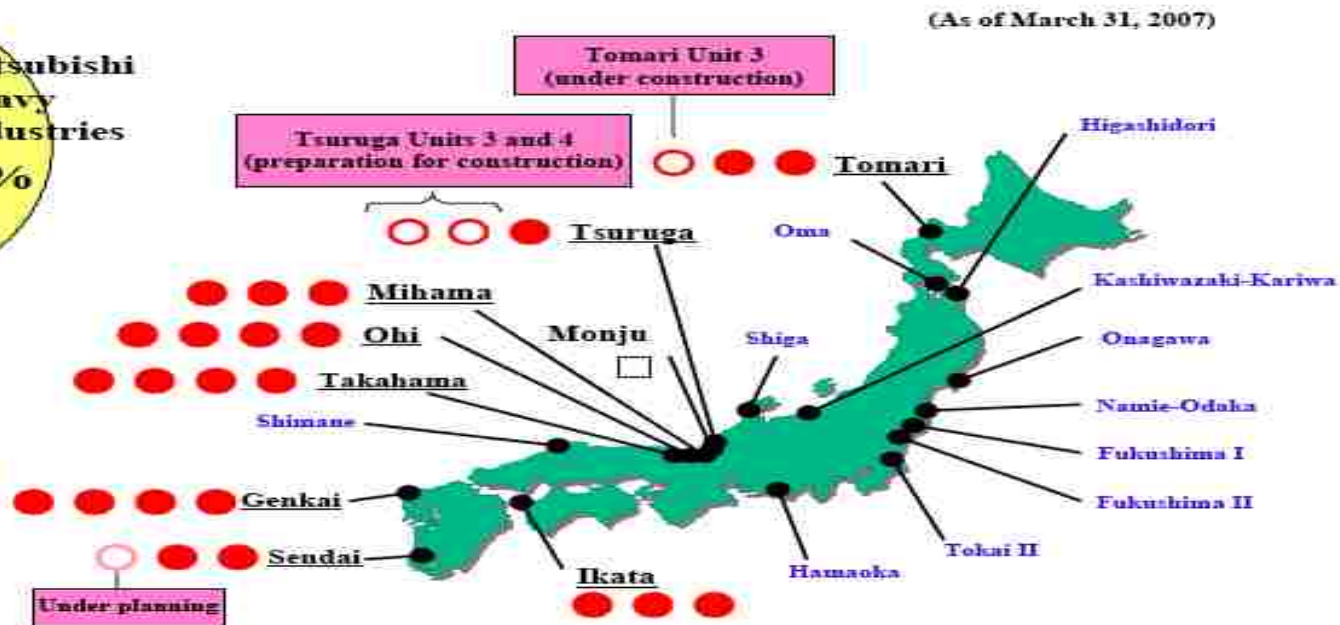


Japan must also import all of its oil. One alternative energy source the Japanese have developed is nuclear power. About one-third of all of Japan's energy is supplied by nuclear power plants.

## 2. (2) Nuclear Power Plants in Japan



	In operation	Under construction
<b>PWR</b>	23 units ●	3 units ○
<b>BWR</b>	32 units	3 units
<b>FBR</b>		1 unit □



One of Japan's largest industries is the fishing industry. Because so much food must be imported, the sea is a valuable resource for the Japanese.



**Above left:** A large selection of tuna at Japan's famed Tsukiji fish market. **Right:** Japanese fishermen haul in a net full of giant jellyfish.

There is some farming in Japan, but there is so little arable, or suitable, land for farming, only 6 %, so crops are often planted in terraces carved out of hillsides. The government often buys up farm goods to keep the prices high enough for farmers to make a profit. They don't let foreign countries sell certain farm products in Japan if those products will compete with Japanese farm goods.



Above are examples of terrace farms in Japan. Terrace farming was invented by the Peruvians. 36

Japan has one of the most highly educated populations in the world. Competition for places in high school and college is hard, and Japanese students must be able to pass very difficult exams to earn a chance to go on to a higher level.



This same effort goes into the Japanese workplace as well. Companies in Japan have traditionally expected their employees to work long hours, but also to be proud of the success their hard work will bring. Many companies provide benefits for their workers, like health insurance and job security.

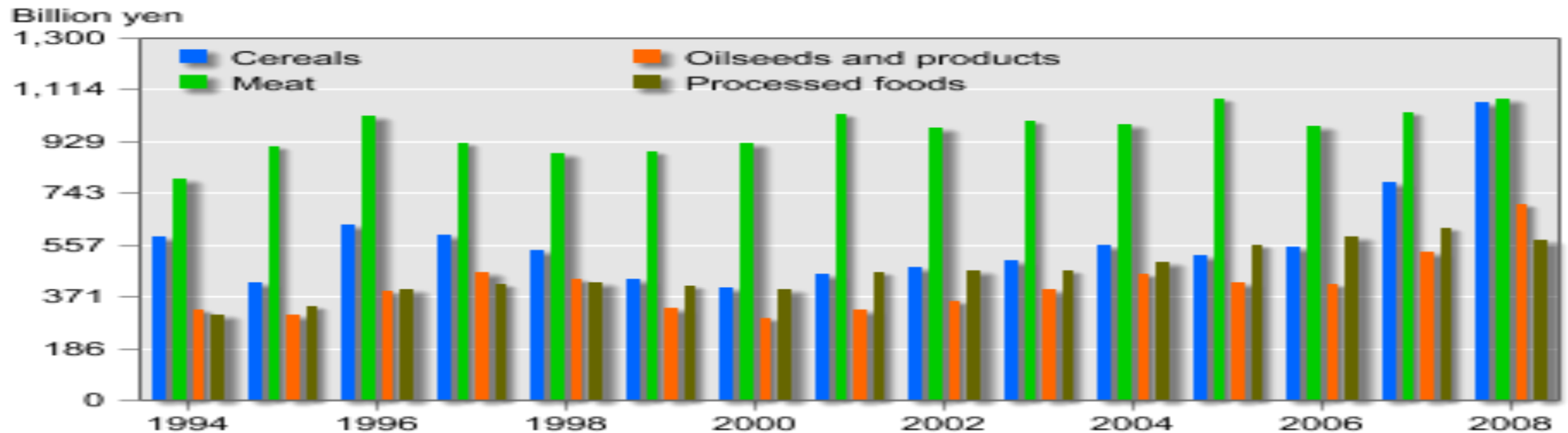


The Japanese government also has a hand in industrial planning. The Ministry of International Trade and Industry (MITI) helps companies decide what products will sell best on the global market.



The government also protects Japanese industries by setting tariffs on imported goods that might compete with products made in Japan. These tariffs are taxes placed on imports that make them more expensive than the Japanese products.

### Commodity composition of Japan's imports



Source: USDA, Economic Research Service using data from ERS calculations based on Japan trade data.





# THE ECONOMY OF NORTH KOREA

The Democratic People's Republic of North Korea has one of the least open and most government-directed economies in the world today. The Communist Party controls the government and the economy, though a majority of the power rests in the hands of Premier Kim Jong-il.



North Korea's economy is a **command economy**. The government owns all the land and factories, and the government decides what jobs will be done and who will do them.



Agriculture in North Korea doesn't produce enough food to feed the population. Farms are organized into **cooperatives** that are owned by the government. The farmers are told what to grow, though some manage to have small gardens.



**Above left:** Young men and women transplant rice seedlings in paddies on the Oeso cooperative farm near Kaechon. **Right:** Comrade Kim Il Sung provides on-the-spot guidance to the Chongsan Cooperative Farm.

In the 1990s, North Korea had several years of poor harvests and as a result, thousands of people faced starvation. The government of Kim Jung-il would not take aid from countries in the West like the United States.



**Above left:** Mountainous North Korea is hard to farm. **Middle:** Market prices are too expensive for the average North Korean. **Right:** A woman collecting food rations sent to North Korea from China.

North Korea's main trading partner had been the Soviet Union which collapsed in 1985. When that country was no longer able to help them, the people of North Korea had nowhere else to turn.