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# An Economic Theory in Action in Asia

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By
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**In 1988, the U.S. Government (Fulbright Seminar Abroad: CFDA 84.018) commissioned the author to become an Asian specialist for the future 20-30 years. At that time, the U.S Government believed that Asia would become the center of economic activities. In 1998, the author also became the advisor to the South Korean president (Alumni Reminiscences: Fulbright 2010). This paper is one of his works responding to the appointment by the U.S. Government.

*This paper is a part of Asian Studies Research Series conducted at Paul Kim's Asian Study Center at JCCC. This paper is Series #3. Other work includes Series 1: "Studies of Economic Development," by Paul Kim (Google), and Series 2: A New Economic Growth Theory: An Obstacle to Economic Growth. (http://scholarspace.jccc.edu/econpapers/4 or Google).

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1.Preface

Our studies of economic development in our series at Paul Kim's Asian Study Center at JCCC focus on having practical application or to be useful to our life not intending to build scientific or mathematical theories, which are often far detached from real life. This means that our studies seek for an inspiration or a new insight and target our thought to capture the right things to do at a right moment in history, not just theoretical or mathematical work. We predict the future of economic growth and show the crucial elements of economic growth at a particular moment in history.

In this paper (series #3), we will discuss how an Asian nation particularly China, a rapidly developing nation, responded to our publication or how our prediction was accurate about their course or path of economic growth.

Then in the other series (#2), we also begin to explore what must be done in near future as some of the Asian nations approach to the advanced stage of economic development in order for them to sustain their economic growth. We will do these by reviewing and learning what went wrong in Japan's economic growth as well as issues that hindered economic growth in the U.S., which would be useful to newly arrived advanced nations in Asia.

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2. Introduction: An Economic Theory in Action in Asia

A new theory of economic development is presented in the previous work (February, 2013: http://scholarspace.jccc.edu/econpapers/3: Originally published and distributed at JCCC in August 2012) showing what a nation must do to complete successfully its economic development during the transformation stage (mobilizing labor from rural area to cities) before it moves into an advanced stage of economic growth when its rapid economic development is heavily carried out by government. Therefore the major source of the rapid economic development of a developing nation is found in the mobilization of the nation's labor force from an unproductive sector (rural area) to a productive sector (industrial sector), which was suggested by W.A. Lewis. The government often facilitates and induces this method of achieving rapid economic growth (often propelled by exports). <u>What is new to the above model presented here is that the growth rate achieved needs to be readjusted or re-computed, especially when the government involvement is extensive, which had been in effect in many Asian nations, most recently in China.</u>

The overwhelming desire to mobilize labor from rural areas to achieve the rapid economic growth, thus taking aggressive actions by a government to increase production artificially or the GDP, thus increase the economic growth rate, is the major reason why the excessive capital goods produced ends in vain (thus overcapacity issues are developed later.)

For specific examples, the Disneyland (and its surrounding housing complex) produced in China but never opened, and the Olympic stadium constructed (but the Olympics were never held,) because the Olympic had not been scheduled. These construction projects helped to increased GDP figure artificially, and helped to mobilize and utilize labor from rural areas, thus increasing the national income and the GDP figures artificially. Those projects completed (or uncompleted) should remain as overcapacity projects (unutilized projects) and we proposed in our theory to subtract those figures from the GDP to learn the accurate figure in the GDP.

By presenting this new theory in the previous work, I meant to recommend rapidly developing nations in Asia to pay serious attention to the problem of "overcapacity." In that article, I clearly stated: "Note that the economic growth achieved <u>through (f)</u> (p.2), means that a nation must work to remove <u>the waste</u> or "overcapacity," specifically "abnormal overcapacity" (of which concept will be discussed in the next section) or it must work hard to remove (not to have) "abnormal overcapacity."

One year later of the publication of my new theory, China recently decided to pay attention to this issue of “overcapacity” as the top priority in setting their economic goal for 2014 as noted below.

China set the top priority to deal with “the over capacity” issue for the 2014 plan, which was announced in December of 2013 (See WSJ: 12/14/2013).

**China Sets Its 2014 Economic Goals** by: BOB DAVIS and WILLIAM KAZER Dec 14, 2013 Click here to view the full article on WSJ.com

**TOPICS:** Business Investment, Chinese economy, credit channels, Debt, GDP Growth

**SUMMARY:** China's leaders announced this week that they wish to lower domestic debt and business manufacturing overcapacity while at the same time maintaining steady economic growth. There were no specifics on how this juggling act would be managed, and due to shadow bank lending, reducing debt may be almost impossible.

3. Overcapacity issue

The above extreme examples (of the Disneyland and the Olympic Stadium) show “abnormal” overcapacity, which they ended up creating because of the government’s overwhelming desire to increase the GDP or to mobilize labor from the rural areas into the industrial areas. The abnormal overcapacity had been the intended result. (There were, of course, many examples of less extreme abnormal overcapacity. For example, building a factory which is two or three time bigger than what is necessary. They just wanted to give jobs to the people who had migrated from the rural area or simply they wanted to increase the production, the GDP figure.)

However, “normal” overcapacity also developed due to the decline in the demand in the course of normal economic activities. This is an unintended overcapacity. When China announced in 2014 a new plan to control overcapacity, it meant to address the issue of the abnormal overcapacity (intended overcapacity). But that plan could give a false impression to the rest of the world that they were addressing unintended overcapacity just like any other nation would experience. Thus, it covers up their intended false economic activities by announcing them as “overcapacity.”

If China does right thing either to deal with the overcapacity issue or the right thing to remove (abnormal) overcapacity, its economic growth rate figure would decline as indicated in my previous publication: “through (f) (p.2).” By doing so, China would have the true GDP figure, even though its GDP figure would be lower (but it is the true figure). On the other hand, if China does not do this right now, its GDP figure might be higher artificially, but its economic system might have a possibility of collapsing just like old Soviet Union had experienced before they changed to a capitalistic system.

The policy to deal with overcapacity would be difficult because if it works, the GDP figure would decline to reflect the true fact. However, the decline in the GDP figure would put the pressure on the government to repeat the same mistake of creating overcapacity as they would be pressured to stimulate the spending to raise the GDP figure artificially.

REFERENCES

Kim, Paul, "Studies of Economic Development," http://scholarspace.jccc.edu/econpapers/3

Davis, Bob and Kazer, William, "China Sets Its 2014 Economic Goals," Wall Street Journal: 12/14/2013.