

Economic Observations of the Far East

by an Armchair Economist

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January 14, 2005

1 Introduction

Recently I took a brief, two week tour of three major states in Asia: South Korea (7 days), Hong Kong¹ (4 days) and Shanghai, China (4 days). The trip was a combination of vacation and work, with vacation leading up to my stay in Shanghai, where I was working at a conference. In this article, I want to lay out my observations about these three cultures, with an overwhelming emphasis on economic aspects.

One may claim that my itinerary could not have possibly afforded enough time to sufficiently absorb a culture to report on it in the way I am presuming to do here, but I believe that with a packed schedule and the right observational mindset, much can be learned in a short time. One of the greatest lessons I have learned is you cannot hide the success or failure of an economy: what has become to locals so commonplace it is invisible is instead painfully obvious to visitors.

I must, however, provide a few disclaimers. Mind the subtitle of this article: I am no more than an armchair economist, and perhaps just an aspiring one at that. I have an acute interest in economics, and so this report serves as an applied, analytical exercise for me. It is at risk of being flawed, perhaps fundamentally so. However, I am certain that it will contain some errors of fact and omission, due to my ignorance of the subject at hand, both classically and as it relates to the present world. Another legitimate niggles is that there is a lot of the far east not included; Japan being a prominent example. Still, this piece should be somewhat informative to most, and at the least, serve as narrative and record of my experiences.

¹I list Hong Kong as a separate state because, for all practical purposes, it is. It has a completely different culture than mainland China, and in particular a completely different economy, as we might expect from its development under British colonial rule.

2 South Korea

Commercialism seems to be everywhere in South Korea. Much of this must stem from an extremely friendly small business environment — mom and pop shops abound, both in the form of small store fronts and street vendors. Every Korean family seems to run a store or have numerous relations in retail or small scale services. After seeing this, the success of Korean American immigrants in small business is unsurprising. I have fond old memories of my neighbors growing up, who had a Korean aunt who ran the 7-11 down the street. She was always giving away so much candy to her little niece and nephew that we would get some of the freebies secondhand, a transplanted testament to the Korean spirit of friendly giving and hospitality. I experienced this effect in person on many occasions in South Korea.

Contemporaneous with this small business environment, Korea has an interesting and somewhat bizarre relationship with its mega-corporations. The handful of them (Daewoo, Hyundai, LG, et al.) seem to be everywhere, and the Korean urban landscape and consumer products proudly announce their corporate affiliation. For example, the living room of my family's house in Korea contained a prominently-marked "LG Chemical" baby mat. In the USA, the overt association of a baby product with the chemical industry would make most people cringe. This is not so in South Korea, where there is almost a paternalistic attitude towards the mega-corporations.

These large corporations are not as laissez-faire as I have been led to believe over the years, unintentionally by Korean friends in the states who frequently told me about Korea's economic might. These claims had seemed to me to be in stark contrast to what I had read recently about Korea's *chaebol*, a term referring to the large mega-corporations with heavy government ties. Now I see how the *chaebol* are distinct from large American corporations: they systematically benefit from massive protectionism and subsidies from the Korean government. The influence of this stretches into nearly every consumer product category, due to the nature of the *chaebol* as conglomerates. Protectionism in the USA is not as far-reaching, both because it is not part of a unified, intentional economic vision of the country, and because recipients of corporate welfare tend to be specialized.

I don't think South Korean companies, or the people, actually benefit from this system. To illustrate, one of my observations in Korea was that there were only about four brands of cars on the road, with Hyundai and Daewoo dominating. Japanese cars were nonexistent, a fact surprising to me, as Korea is certainly much closer to Japan than the USA. Importation should be cheaper. One could explain this as a legacy of the Japanese occupation, but it would not explain why American cars were also, as the Koreans would say, *absoyo* ("nothing" or "not there").

Upon inquiry, I discovered that this was due to large duties on foreign cars, particularly Japanese, in the range of 100%. American cars might just be too expensive relative to subsidized, tariff-free, and hence cheap Korean domestic cars. This kind of sheltering has clearly led to *chaebol* cars dominating the South

Korean landscape. South Korea also exports its cars, with Hyundai and Kia in particular having been in the American market for years. While cheap, however, these cars have until recently been considered a joke in the United States (in fact, Hyundais are just now being taken somewhat seriously). A friend recently told me an amusing anecdote of test-driving a Daewoo with another friend. Suffice it to say, the car did not make it to his friend's short list.

The stark contrast between the failure of Korean cars in the states and their near-universal domination in South Korea strongly suggests to me that Korea's *chaebol* system has failed to produce higher quality goods, and operate with greater efficiency than a more *laissez-faire* arrangement. I'm not exactly sure what the Koreans get materially for this system, except perhaps more nationalism.

This is, actually, revealing: the South Korean attitude towards its large corporations likely exists in opposition to North Korea's militaristic mindset, in order to differentiate the two in an epic game of peninsular rivalry. It also probably explains the paternalistic attitude. Really, both countries have nationalistic mindsets, albeit channeled through different ideologies. For South Korea the *chaebol can't* fail, or this would "prove" that South Korea's way of economic freedom has failed and North Korea's way of central control has won.

Of course, this is not the case: government interference in the *chaebol* has probably made them weaker and stunted South Korea's economic growth to a measurable, and possibly significant extent. North Korea, on the other hand, is an impoverished, sabre-rattling third-world dictatorship, where the quantity of people at risk for starvation is proportional to the number of people in the military (both numbers are well into the millions). There is certainly no risk of North Korea "winning," at least, through a path of creation rather than destruction.

Another major characteristic I noticed about South Korea is the overwhelming dominance of high-rise apartment buildings. These are the primary domiciles of the Korean people. It appears that western-style sprawling suburbs have no foothold there. I'm not sure why this is. Geographically speaking, it seems like Korea has plenty of space to plow up and turn into homogenized, dead-worm neighborhoods. Yet most of 50 million people are packed into three major urban areas: Seoul, Busan, and Daegu.

Perhaps the reason is a lack of a USA-style government-backed financial scheme engineered to allow almost anyone to own a single-family home on a separate plot of land. Instead, in South Korea, the space of 6-10 suburban homes contains a high-rise with 100-300 apartment units. At any rate, the end result is cities with a more metropolitan, less isolated feel to them, as well as efficient public transit, and relatively low pollution.

In general, I think the attitude of the South Korean people towards commercialism is very positive, and the country is overwhelmingly a story of success. The flashy and often garish billboards, shop signs, and advertisements nearly everywhere attest to a general acceptance of life lived through commerce to an even greater extent than people in the west would be comfortable with. However, at the government level, too much mucking is done with the corporations

that control much of South Korea's economy. The South Korean people seem to know that a free market economy is good, but they do not seem to want to leave anything to chance in their cold war with the north. My only recommendation to them would be to cut the *chaebol* loose, go it all the way, and become an even greater success and better example for the north..

2.1 Hong Kong

Hong Kong impressed me. After Korea, I was not ready for what I experienced there. In Hong Kong, the laissez faire commercial attitude is palpable, and affluence seems to be overflowing. Small companies were squeezed into every corner of the run-down tenement mansion I stayed in, smack in the middle of Kowloon. Shops abounded for property management, titling, financial services, and other business services. Kowloon was bursting with commercial store fronts selling electronics, clothes, luggage and other personal effects. There were also countless restaurants, bars and other night spots. These establishments ranged from holes-in-the-wall to city-wide and international franchises.

The very fact that I was able to stay in a guest house in a run-down building on the cheap, yet still be located in a prime district, is testament to the availability and acceptance of all tiers of goods and services in Hong Kong. No one is bothered by seeing things goods, services, and accommodations for sale that are below their means. Yet simultaneously, I also discovered that downtown Hong Kong is a gleaming, world-class metropolitan power house, with large skyscrapers serving as the Asian headquarters of many international corporations. Around this area, there are some extremely upscale shopping establishments, as well as mega-malls such as Times Square.

Overall, Hong Kong was probably the most impressively-run city I have ever been in. There were numerous parks, and the streets were very clean (even grubby districts like Kowloon were comparatively clean). Public transit was ubiquitous and came in a variety of forms: special buses to tourist spots, standard double-decker city buses, small shuttle buses, hotel shuttles, the MTR subway system, taxis, and ferries for the harbor. I experienced all of these, except the smaller city shuttle buses. Without exception, all of the public transit was inexpensive, punctual, highly-available, and very easy to use (especially the subway).

I have experienced nothing like the subway in Hong Kong. The stations are huge, filled with tens of thousands of people moving rapidly, and served by trains so long I couldn't see one end from the other, even while they were empty. Using the system is very easy, with multiple kinds of passes available, and vending machines that calculate fares based on your current location and destination. Fares for moving a couple stops typically come out to less than a dollar in US terms. The trains move quickly and arrive with sufficiently high frequency that there is no need to travel on a schedule. At one point I got to take the airport express train, which traveled from the airport to Kowloon in less than 25 minutes (a trip that took more like 35 by taxi and 45 by bus).

This all begs the question of how they do it. From what I know, Hong Kong's

public transit system is largely privatized, at least as much as as public transit system ever can be. While I was sitting in the Hong Kong airport at a coffee shop, I opened the business section of the paper and found something characteristic of the system: it was a story on the discussion between retail development firms and the subway company (MTR) about building a new subway stop. MTR had decided not to move forward with the project, because unless the retailers decided to help fund the project, the stop would not be profitable. This struck me as very smart: the profitability of a transit operation serves as the most reliable indicator of *how useful it is to society*. This should be the primary development criterion, not an arbitrary bureaucratic (or politically-motivated) decision to build a stop somewhere.

Could this system be duplicated in the US? Certainly the application of a discipline of running public transit like a real business would probably help. But Hong Kong's public transit system surely benefits from the compact nature of the city. There are no suburbs (same as Korea), except here it this is because there is simply no space for sprawl. A result of all of this is that everyone lives in high-rises in the city, and public transportation networks are consequently more viable.

I had the opportunity to experience some other Hong Kong services that really demonstrated how the city-state shone, economically. Money changers were everywhere, and usually operated with no commission (try getting this at an airport). Other services benefitted tremendously from competition and operated with spectacular efficiency: I had a new Chinese VISA procured in about three and a half hours, while I was waiting at the airport! And of course, there was the retail: I acquired a new wardrobe of 8 ties for the equivalent of about \$35US². Finally, I got some good bargains on jade at the jade market, haggling 25-50% off of the price with vendors who didn't want to lose me to the next booth over.

I had heard the stories, which almost had a mythical quality, of how laissez-faire the economy of Hong Kong was. I had seen the city-state consistently rank at the top on the "World Economic Freedom" indices. I knew it was incredibly wealthy, despite having no land or natural resources to speak of. But I did not really see how much of a free market utopia Hong Kong was until I visited. To be sure, Hong Kong had its share of the poor and destitute, but they seemed to be as rare as one might ever hope for in a real-world human society.

3 Mainland China

To me, mainland China was represented by Shanghai. I realize that China is a gigantic country and that there is sure to be a very different feel in each of its major cities. However, Shanghai is generally held to be the economic "crown jewel" of the People's Republic, with Beijing instead famous for being

²The ties were prominently labeled as "silk," however, I made the purchase assuming this was not true. Sure enough, another, more obscure label identifies them as 100% polyester. You can do well in Hong Kong if you aren't fatally naive.

the seat of government, and hence political power. Therefore, I think that if one had to select just one place in mainland China to visit to get the “economic experience,” Shanghai would be it.

I was welcomed to Shanghai with a bang, and I don’t mean this in any sort of good way. In fact, the most appropriate term for what happened to me would, ironically, be that I was “Shanghaied.”

Immediately after arriving at the Shanghai airport and changing some currency, I was solicited by a cabbie for the ride into the city. I accepted his services, glad to avoid any sort of lengthy search around the airport for transportation. This turned out to be a huge mistake. I mechanically allowed him to carry my luggage to the car and put it in the trunk, at which point I was in some measure a hostage. I got in the car and discovered he had a partner there already! The ride into town was as pleasant as it could be, given how suspicious I was, but as we approached somewhere near my hotel, my fears were confirmed. The drivers demanded an insanely steep fee for the service: 880 Yuan, or somewhere north of \$100 US.

I calculated my options at this point. I could refuse to pay and find out the hard way whether the drivers were armed, or just willing to rough me up a bit as a tag-team. I could jump out of a moving car in the dark in Shanghai, an unfamiliar city to me, forfeiting my luggage. No, I decided, it was better to pay up and end the whole ordeal quickly and cleanly. Luckily, they actually gave me my luggage back before dropping me off across the street from my hotel and speeding off.

So, as it transpired, I was pseudo-abducted and robbed, first thing in Shanghai. Luckily, things went uphill from there, but not by much.

One of the other things that immediately struck me about Shanghai was a slight air quality problem. In fact, the pollution in Shanghai was spectacularly bad. It was the worst I have ever experienced. I couldn’t believe it when I was seeing it, on the worst days, almost completely obscure everything over two blocks away (I have pictures). It was also detectable in other ways: you could smell it, you could taste it, you got ill from it. The first day, I had a headache all day, despite a full night’s sleep and aggressive Advil treatment (which nearly always works for me). The second day, I was just dizzy all day — an improvement.

One day, I managed to get away from the conference in the early afternoon so I could tour some of Shanghai during daylight. I took a 45-minute stroll down Nanjing Road, the main store front commercial district of Shanghai, and ate lunch outside. While the pollution was detectably bad, I was not prepared for the treat that awaited me a few hours later back at the hotel room. Upon blowing my nose, what came out was pitch black. And people live here! People still even line dry their clothes in Shanghai, a process which surely must leave them almost as dirty as when they were washed, and certainly not smelling “April fresh.”

The pollution in China is often interpreted as a positive sign of economic growth. While this is encouraging in one narrow sense, one must also consider the later costs on public health, which *will* be borne by the economy in some ca-

capacity. One must also consider hypocrisy of a regime, supposedly in the interest of “the people,” that doesn’t do something about such a thorough destruction of the people’s natural commons.

There was an underlying sense of desperation in Shanghai, only one example of which was getting abducted and robbed. As an easily-identifiable foreigner, I was repeatedly solicited by countless aggressive hawkers of wares and, more distressingly, beggars. The level was among the worst I have seen, if not the worst. Prostitutes, young and attractive, were present in most popular night spots well before midnight. It was not difficult or even necessary to find them: they found you.

Added to the desperation was the sense of cynicism. The pollution indoors was almost as bad as the pollution outdoors, due to continuous smoking almost everywhere. Did the people not know how incredibly bad this was for them? More likely, they just did not care. It probably is difficult to care when you know your lungs are already shot from the pollution outside, which you can’t control.

There were those who were wealthy and successful, of course. I passed many such businessmen in their power suits on Nanjing Road. In fact, the presence of such people probably only adds to the cynicism, both of the have’s and have-not’s. The have’s become cynical in defense of their fortunes, which a large share of them (most?) must know they did not acquire by merit. The have-not’s of course see the have’s and become cynical in their knowledge that there is nothing they can do to better their own situation. They are simply not connected to the right political people.

In Shanghai, things which were new, polished, and expensive had the sense of being contrived, because of the decrepit state of their surroundings (the vast majority of the city). The upscale was typically, beneath a thin veneer, not so well-appointed. The modern conference center our meeting was held in was, in many places, in serious need of a new coat of paint, some new trim, paneling, or similar. The hotel next door, admittedly a more budget option, but still allegedly “three star,” had never seen a carpet it saw fit to replace. In the hallway outside my room, expired mattresses were simply left leaning against the wall. In general, the environs and provisions were underwhelming given the amounts of money that were being extracted from us, giving the impression that we were all being ripped off.

The infrastructure of the city was poor. The tap water was undrinkable, and had a detectably stale odor. Most intersections in the city seemed to be uncontrolled, with shocking volumes of traffic coming from four directions battling it out; trucks versus cars, cars versus motor bikes, motor bikes versus foot bikes and pedal carts, and all of these versus pedestrians on foot. Once I spotted a police officer about 20 meters back from one such intersection, during rush hour, simply watching the chaos. I’m not even sure directing traffic is something the officials have thought to do in Shanghai.

Bordering the block of the hotel and conference center to the east was a massive gash, running between a canal and the buildings. It could easily have accommodated more buildings or a wide road, but instead was just a wasteland

of rubble. It appeared to have been there a long time, and there was no sign of development.

In fact, one gets the impression that the bulk of the nice areas of Shanghai weren't built by the Chinese since the revolution, but were actually built by the French and British colonialists. The government is forced into the whimsical position of having to show off these areas for tourism, while simultaneously deprecating the people that constructed them and trumpeting their own majesty. What precisely was supposed to embody this majesty I am unsure of; perhaps the pollution?

This double-speak can be illustrated perfectly by taking an excerpt from an "official Shanghai tourist map," which I purchased at the conference center gift shop³:

In 1840, the Opium War broke out between China and Britain. In 1843, Shanghai was forced to become an open port by the colonialists. In the 100 years since 1843, Shanghai had become an important port for the foreign colonialists to dump their goods, ravaged raw materials and money. ...

On May 27, Shanghai was really liberated. Through the continual and long-term reform and construction by the successive municipal governments and the people, Shanghai has become an important industrial and commercial base in new China.

I can think of worse fates than to have goods, raw materials, and yes, even *money* dumped upon me. For instance, having myself closed to all trade with the outside world until 1978 (by the map's own admission). If those foreign colonialists were so wrong and evil, why not stay closed (I mean "liberated") to the outside world, level their profane structures, and rebuild something superior?

Along this vein, the effects of decades of pervasive communist propaganda surprised me by popping up in unexpected places. For example, the conference organizers conveniently printed everyone's posters, and set them up for us. However, this was not so convenient, as their idea of "posters" was apparently standard 8x11 sheets, black-and-white, all tacked up to the same board. When I offered to personally go to the trouble and expense of having my poster printed large (as was intended) and in color, I was told that this *couldn't be allowed*, because then mine would "be better than all the others." Upon hearing this, I was aghast, but gave up, realizing this was a bigger battle than one man could fight.

What of China's economic boom in manufacturing and sourcing? It seems like everyone's doing it, and everything is made in China, or largely composed of parts thereof. Even I was nearly involved: had I had time, I would have

³Looking at the map closely now, I am fairly sure the clear blue sky on the cover picture was inserted digitally. Inside the map, the pictures all feature pollution-grey skies, which are almost certainly smog and not simply cloudiness (I'm sure they could otherwise find a sunny day).

inspected a Shanghai-based manufacturing plant of electronic devices, as my father (a research scientist) had ordered some custom parts from it.

I was very curious about this aspect of China, and Shanghai in specific. Luckily, on the plane ride back from Asia, I met no less than two American businessmen who were involved in sourcing operations based in Shanghai. One ran an actual sourcing company, in other words, a company which served as a middle-man in low-cost China procurement (I will call him Sourcing Guy). The other was in metals manufacturing (his family's business), and was working on establishing a plant in Shanghai (hitherto known as Metals Guy).

My conversation with the Sourcing Guy started something like this:

Sourcing Guy: So what did you think of Shanghai?

Me: Its got issues. It was certainly an experience.

Sourcing Guy: Yeah, I hate Shanghai.

Me: <Nods sympathetically.>

Upon further questioning, I learned that he had had to fire his chief operative in Shanghai, after bribery payments became so brazen and significant as to make the issue unavoidable.

Metals Guy spoke positively about the prospect of getting a plant established in China, as one would expect, since from a business perspective, this would certainly help the bottom line. However, when pressed, he admitted that the only reason his company had a snowball's chance in hell of setting up shop in China was because they employed a Chinese engineer who had many useful government contacts. This man was put in charge of running their operations China-side.

I questioned both men about the prospect of floating currency exchange rates effecting their businesses⁴. Chinese currency floating to its inherent value would kill Sourcing Guy's business completely, a fact he was admirably indifferent about. It would also be very damaging to Metals Guy's business, in specific, killing the price advantage of the Shanghai plant and undermining all the resources that were used to move there.

Metals Guy gave an interesting response when I pointed this out: he said it wouldn't really matter, because so many businesses they do business with are also in Shanghai (presumably, the consumers of the parts for finished goods). At first, I thought this was just interesting. Then, I realized something more insidious was going on. Not only did China's currency-pegging have the effect of stealing the world's business for finished products, it also had the effect of moving a huge bulk of the companies to China! Amazing how dictating the value of a mathematical ratio can change the physical face of a country, in addition to the economic face of the world...

Shanghai was a place that desperately wanted to be the booming economic capital of a successful, powerful first-world country — as my tourist guide put

⁴Some brief background: China's currency is pegged to the US dollar at a fixed rate by the Chinese government. However, economists estimate that this rate is too low by a factor of at least 5 times. This makes Chinese manufactured goods very cheap on the world market.

it, an “international modernized metropolis.” Instead, this desire seemingly obtained only in part and in an ingenuine, dishonest fashion. It was like these aspirations of grandeur were suffocated by an omnipresent black pall, almost Tolkeinesque in its quality and extent. This is a force we have heard of, and it perhaps might be more recognizable if I were to call it, instead, a “spectre,” haunting the country of China.

Once again, I was not prepared for what I encountered. I had expected China to be an affluent, highly laissez-faire culture, with the communist government virtually reduced to an irrelevant joke as economic progress steamed passed the crumbling edifices of central planning. Instead, the country still seems to be well within the grip of the government, even if that grip manifests largely in the form of corruption. I now even more seriously believe the claims I have heard that China’s economic leaps have been greatly exaggerated, either by official-level outright lies, or by dubious metrics.

4 Conclusion

In terms of material success, I would order the three countries as Hong Kong (best), South Korea, China. Hong Kong and South Korea are relatively close together, with China a distant last. I have also learned from my travels that the material success of a society is strongly coupled with the social health of the populous. This result doesn’t surprise me, but it would frustrate many who make a show (or living) of downplaying the importance of money. I found that people in South Korea and Hong Kong were detectably nicer, happier, and healthier than those in China, measured in ways I can easily express, and some I cannot. It seems to me that the best thing a government can do for its people is to make sure they are wealthy, not well taken care of.

Additionally, China and Hong Kong have a special relationship that begs commentary. My hope is that the communist Chinese can resist the urge to “improve” Hong Kong, now that they “own” it. People outside Hong Kong seem quite confident that the city-state will be left alone, however, I am not so convinced people in Hong Kong are as blase (as evidenced by the recent mass demonstrations in response to the Chinese government’s political actions). There are many ways the mainland Chinese could interfere in the economy: the heaping-on of pointless rules and regulations, the installation of all manner of taxing social “safety nets” for a society that doesn’t need them, or perhaps most destructively, the degradation of the efficiency of business establishment and administration. Dangerously, these changes are second nature to politicians, to say nothing of communists, and the people usually don’t know well enough to question them.

The proper mindset would be for the mainland Chinese government to learn from Hong Kong, and figure out how to reproduce China-wide the elements that have made Hong Kong so successful. However, I do not have much faith that this success will be seen with anything but envious eyes, which could spell bad news for the city-state. Hopefully Beijing will realize that Hong Kong will not work if

it is plundered, as its valuable resources are not natural, but are a byproduct of its free-market capitalist structure. To alter this will kill the goose that laid the golden egg. At any rate, Hong Kong has 50 years of promised self-sovereignty; let's hope that this promise is upheld. Perhaps China will even have advanced sufficiently in this interval to become a country of the same calibre. I will not be holding my breath, however.