



Lessons from a resurgent Asia

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FINDINGS

Rapid economic growth led the development process in Asia and was responsible for its spectacular rise in the world economy

Asia was characterized by significant diversity in paths to, and outcomes in, development, which were shaped by the national context

Governments performed a critical role, ranging from leader to catalyst, in the economic transformation of Asia

Success at industrialization in Asia was shaped by sensible industrial policy implemented by effective governments

Economic openness performed a critical supportive role wherever it was in the form of strategic integration, rather than passive insertion, into the world economy

Inequality between people within countries rose rapidly almost everywhere, while the gap between rich and poor countries remained awesome

There was a massive reduction in absolute poverty that could have been even greater but for rising inequality

Photo: Vlad Shapochnikov



In 1820, Asia accounted for two-thirds of world population and over half of world income. The subsequent decline of Asia was attributable to its integration with a world economy shaped by colonialism and driven by imperialism. By 1970, Asia was the poorest continent in the world, marginal except for its large population. Its demographic and social indicators, among the worst anywhere, epitomized its underdevelopment. A deep pessimism about Asia's economic prospects, voiced by Gunnar Myrdal in *Asian Drama*, was widespread at the time.

In the half century since, Asia witnessed a profound transformation. By 2016 it accounted for 30% of world income, 40% of world manufacturing, and one-third of world trade, while its income per capita converged to the world average. This transformation was unequal across countries and between people. Even so, predicting it would have required an imagination run wild. Indeed, Asia's economic transformation is almost unprecedented in history.

Resurgent Asia

Our book analyses this phenomenal transformation. In doing so, it provides an analytical narrative of economic development, situated in historical perspective, and an economic analysis of the underlying factors, with a focus on critical issues in the processes of, and outcomes in, development. It considers differences in initial conditions, highlights turning points in economic performance, assesses how change was managed or mismanaged, discusses the influence of development strategies and economic reforms, examines changes in engagement with the world economy, explores the role of governments and politics, and analyzes the factors underlying successes, failures, or mixed-outcomes in development.

Given the size and the diversity of the Asian continent, the study disaggregates Asia into its four constituent sub-regions – East, Southeast, South, and West Asia – and further into fourteen selected countries, described as the Asian-14: China, India, South Korea, Indonesia, Turkey, Taiwan, Thailand, Philippines, Malaysia, Singapore, Pakistan, Bangladesh, Vietnam and Sri Lanka. These countries account for more than four-fifths of the population and income of Asia.

Kaleidoscopic Asia

It is essential to recognize the diversity of Asia. There were marked differences between countries in geographical size, embedded histories, colonial legacies, nationalist movements, initial conditions, natural resource endowments, population, income levels, and political systems. Reliance on markets and degree of openness in economies varied greatly across countries and over time. Politics too ranged widely, from authoritarian regimes or oligarchies to political democracies. So did ideologies, from communism to state capitalism and capitalism. There were different paths to development, because there were no universal solutions or magic wands.

Despite such diversity, there are common discernible patterns. Economic growth drove development. Growth rates of GDP and GDP per capita in Asia

were stunning and far higher than elsewhere in the world. Rising investment and savings rates combined with the spread of education were the underlying factors. Growth was driven by rapid industrialization, often export-led, and associated with structural changes in the composition of output and employment. It was supported by coordinated economic policies, heterodox or unorthodox wherever and whenever necessary, across sectors, and over time.

Rising per capita incomes transformed social indicators of development. Literacy rates and life expectancy rose everywhere. Absolute poverty was massively reduced. But the scale of absolute poverty that persists, despite unprecedented growth, is just as striking as the sharp reduction therein. The reduction could have been much greater but for rising inequality. Inequality between people within countries rose almost everywhere and the gap between the richest and poorest countries in Asia remains awesome.

Open economies of Asia

Economic openness performed a critical supportive role in Asia's development wherever it was strategic integration with, rather than passive insertion into, the world economy. While openness was necessary for successful industrialization, it was not sufficient. Openness facilitated industrialization only when combined with industrial policy. Clearly, success at industrialization in Asia was driven by sensible industrial policy implemented by effective governments.

POLICY RECOMMENDATIONS

Coordinate economic policies in pursuit of development objectives, while learning and unlearning from experience, for policies are means not ends

For latecomers to development, heterodox or unorthodox economic policies – in trade, industry and macro-management – are more effective than orthodox policies

Efficient markets and effective governments, together, adapting to each other as time and circumstances change, provide the way forward in development

Economic openness, while necessary, is not sufficient, and is conducive to development only when combined with industrial policy

Social opportunities for people, through public provision of education and healthcare, which improve wellbeing and the economic development of countries reinforce each other in a virtuous circle

Economic policies must be conducive to inclusive outcomes for growth to be sustainable and for development to be transformative

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Photo: Na Inho

Developmental Asia

Governments performed a critical role, ranging from leader to catalyst, in the half-century economic transformation of Asia. Success at development was about managing the evolving relationship between states and markets, complements rather than substitutes, by finding the right balance in their respective roles that also changed over time.

The developmental states in South Korea, Taiwan, and Singapore coordinated policies across sectors and over time in pursuit of national development objectives, using a carrot-and-stick approach to implement their agenda, and were able to become industrialized nations in just fifty years. China emulated these developmental states with much success, and Vietnam followed the same path two decades later, as both countries have strong one-party communist governments that could coordinate and implement policies.

It is not possible to replicate these states elsewhere in Asia. But other countries did manage to evolve some institutional arrangements, even if less effective, that were conducive to industrialization and development. In some of these countries, the institutionalized checks-and-balances of political democracies were crucial to making governments more development-oriented and people-friendly.

Future Asia

The rise of Asia represents a shift in the balance of economic power in the world with some erosion in the political hegemony of the West. The future will be shaped partly by how Asia exploits opportunities and meets the challenges and partly by how the difficult economic and political conjuncture in the world unfolds. Yet, it is plausible to suggest that circa 2050, a century after the end of colonial rule, Asia will account for more than half of world income and be home to more than half the Earth's population. It will thus have an economic and political significance in the world that would have been difficult to imagine fifty years ago, even if it was the reality in 1820.



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