

The half-century miracle of Asian resurgence

BY RAMESH THAKUR

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CANBERRA – Is Japan Asian? Geographically, this is a silly question. Yet in an age in which identity politics have become increasingly critical, by economic logic, political orientation and geopolitical alliance, Japan is Western.

The question is prompted by a brilliant new book by Deepak Nayyar: “Resurgent Asia: Diversity in Development” (Oxford University Press). His focus is on the development experience across Asia since 1968.

Japan was the only Asian country in the 19th century to have successfully followed the Euro-Atlantic path to an industrialized modern economy and Asia’s only major power in the first half of the 20th century. Regrettably, Japan also emulated European powers in their colonial aggression, over-estimated its military prowess and paid a heavy price with military defeat, atomic bombing and occupation. Subsequently, too, Japan still belonged to the Western group of wealthy nations after recovering and re-establishing itself as the world’s second-biggest economy.

Nayyar comes to the task with exceptional academic qualifications and real-world national and international policy experience. The book, magisterial in scope, blends wide-angled study of the Asian experience overall (minus already industrialized Japan) with a detailed granular study of four sub-regions and 14 countries. It combines a wealth of empirical data with numerous tables and charts and an analytical narrative with a compelling storyline. Nayyar also has a rare command of the language that makes the book a pleasure to read.

His point of departure is the influential book by Swedish economist Gunnar Myrdal titled “Asian Drama: An Inquiry into the Poverty of Nations” (1968). Myrdal was pessimistic about Asia’s future because its “soft states” lacked the institutional capacity and political strength to defeat vested interests and entrenched elites. Confounding the pessimism, in the 50 years after 1968 Asia’s economic growth was without precedent in history. In successive chapters Nayyar develops a seven-part argument.

First, European powers rose to economic and geopolitical dominance on the back of the Industrial Revolution. This gave them the military wherewithal to conquer Asian lands to pursue their own commercial-strategic interests.

Second, for the colonies the result was deindustrialization and impoverishment. The main reason for the “great divergence” of European and Asian income levels for over 100 years was that the terms of Asia’s integration with the world economy were dictated by the needs of the colonial powers, which extracted Asia’s resources to accumulate capital and flooded Asia’s markets with their industrial products. This caused prolonged negative growth rates and Asia’s share of world income fell from half in 1820 to 15 percent in 1960, and manufacturing share from half to 6 percent.

Third, Asia's postcolonial growth was far better than in the preceding century under colonialism. Industrialization is necessary for economic growth, and economic development for nations and social progress for peoples form a virtuous circle. There was a migration of workers from the countryside to cities, a decline in the role of agriculture in economic output and employment, and the growth of economic activities in city-based industrial and services sectors. The economic transformation underpinned a major social transformation with falling infant mortality rates, and rising literacy and life expectancy as key indicators of wellbeing.

Fourth, Asia's post-1968 record is much better than that of the Euro-Atlantic countries during the Industrial Revolution. With the right policies and institutions, latecomers to industrialization can catch up with the first industrializers. To offset the adverse initial conditions of scarce capital, unskilled labour and lack of entrepreneurship and technological capabilities, state intervention is necessary.

Fallible states and imperfect markets are complements, not substitutes. Finding the right balance between them was a key factor in explaining the success of the "developmental states" of South Korea, Taiwan and Singapore, which adopted the Japanese model of the state being either the catalyst or the essential enabler of industrialization.

Indigenous manufacture of steel, cement and automobiles was central to industrialization. Economic openness enabled industrialization, but only when combined with strategic coordination of trade and industrial policies, for example tariff protection of infant industries, state support to emerging industries and state-guaranteed access to credit at concessional rates of interest.

Fifth, the pattern and sequence of industrialization and rates of growth varied considerably, with East Asia being the star, South Asia the laggard and Southeast Asia in between. The record of individual countries is similarly uneven, as strikingly illustrated by China and India. Growth rates also varied considerably within countries. For example, India's performance has been highly uneven across states and surely that would hold important lessons for successful and flawed strategies for sustained economic growth and social transformation.

Nayyar doesn't address this question. Policy frameworks, the quality of governance and political leadership are the likely explanations for the variable performance.

Sixth, Asia, the world's poorest continent in 1950, outperformed both industrialized and developing countries. The relatively better growth record has significantly increased Asia's share of world GDP, manufactured, merchandise and services exports, and foreign exchange reserves.

Seventh, the changed balance of economic power in Asia's favor has not yet ended the West's political hegemony in the premier institutions of global governance. Rivalries between Asian powers could continue to deny them their rightful place at the top tables of global decision-making.

There are another two critical questions. Just as Myrdal's general pessimism in 1968 was confounded by Asia's unprecedented growth over the following 50 years, so too might the current general optimism prove misplaced over the next 50 years. Despite a massive poverty reduction by 1.1 billion people, 500 million Asians are still stuck in absolute poverty. To turn optimistic long-term forecasts into reality, Asian states will have to overcome the major challenges of mass poverty, jobless growth, rising

inequality and the middle-income trap. To transition to sustained industrialization and high average incomes, countries must improve productivity through managerial capabilities, technological learning and R&D-based innovation.

The most critical challenge is to sustain the process of economic growth through energy-intensive industrialization without causing fatal environmental damage. The Industrial Revolution brought sharp rises in productivity, output, incomes and living standards, but was powered by fossil fuel energy sources. Can the mega-economies of China and India switch to non-carbon sources before the world tips into an irreversible climate catastrophe? For reasons of space, Nayyar raises but does not discuss this, despite the literally life-and-death implications for all of us.

The omission-based caveats notwithstanding, executives in Japan's aid bureaucracy could benefit professionally from reading this book and absorbing its lessons for successful pathways to development.

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