



Deepak Nayyar: Resurgent Asia: diversity in development

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K. L. Krishna¹

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The book as stated by the author Prof. Deepak Nayyar is the result of 2 years of his painstaking research on the important theme of economic and social development of Asian Nations during the 50-year period ending in 2016. It was motivated mainly by Gunnar Myrdal's (1968) magnum opus of about 2300 pages, *ASIAN DRAMA: An Inquiry into the Poverty of Nations*, Volume I, II and III, London, Allen Lane, The Penguin Press. Myrdal (1968) was pessimistic about Asia's development possibilities. Much of Myrdal's book is primarily about India, Pakistan and Ceylon, the sub-region described as South Asia. It paid some attention to Burma and Indonesia, while Malaysia, Philippines and Thailand were grouped together as the rest of Southeast Asia, with some references to Cambodia, Laos and South Vietnam.

As pointed out in the Foreword to Nayyar (2019) by Kunal Sen, Director, UNU-WIDER, which commissioned the book, the 5-decade period since the publication of *Asian Drama* in 1968 has witnessed the most "astonishing economic and social transformation" in Asia. Nayyar (2019) produced two volumes to analyse the process of economic development and social progress in Asia:

1. *Resurgent Asia: diversity in development* authored exclusively by Deepak Nayyar.
2. *Asian transformations: an inquiry into the development of nations*, edited by Deepak Nayyar with contributions from leading economists and scholars.

In 1968, Nayyar was a graduate student of Paul Streeten at Oxford. He read Myrdal's book with keen interest. Later, he met Myrdal at a dinner meeting in Streeten's home. The meeting made a lasting impression on Nayyar. He revisited the book in 2016 in Delhi. It stuck him that in 2018 it will be 50 years since the book was published. He thought that a study, which analyses the story of economic development in Asia over the span of half a century, would be a "wonderful idea" and made a proposal to UNU-WIDER, and the proposal was accepted.

✉ K. L. Krishna
krishna@econdse.org

¹ Centre for Development Economics, Delhi School of Economics and Madras Institute of Development Studies, Chennai, India

Nayyar gives in the prologue to *Resurgent Asia* three reasons for his interest in producing the two-volume study. The most important reason is the reality of a “profound transformation in terms of economic progress of nations and living conditions of people”, disproving the pessimism of Myrdal and several other scholars about the development prospects of Asian economies. The second reason is the “momentous ongoing shift in world economic history”, Nayyar’s (2013) *catch up: Developing Countries in the World Economy* dealt in detail with this aspect. *Resurgent Asia* (2019) goes far beyond in terms of explanation and analysis. The third reason is Nayyar’s desire to study Asian Economic history from Asian perspective rather than European perspective. Such studies covering Asia are rare. Nayyar hopes that his work in two volumes will have an identity of its own.

In *Resurgent Asia*, Nayyar attempts a comprehensive and coherent analytical narrative of the phenomenal progress of economic and social development of Asian nations since 1970. He recognises and highlights the diversity in development across nations.

Asia consists of 47 nations, Nayyar focuses attention on 14 major nations referred to as Asian-14, which have accounted for around 90% of population and around 80% of GDP in Asia. The 14 nations are China, South Korea, Taiwan in East Asia; Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam in Southeast Asia; Bangladesh, India, Pakistan and Sri Lanka in South Asia; Turkey in West Asia. Countries in Central Asia and the oil-exporting countries in West Asia are not among the 14 included in Nayyar’s book.

The book consists of a prologue, nine chapters, appendix and endnotes, chapter wise at the end. The end notes add much value to the narrative in the book. The nine chapters are

1. Historical perspective and initial conditions
2. The rise of Asia
3. Macroeconomics of growth
4. Structural change and economic transformation
5. Openness and industrialization
6. Markets, governments and politics
7. Unequal outcomes for countries and people
8. Asian development and the world economy
9. Contemplating the future

Statistical sources and notes for the figures and tables in the different chapters are given in the appendix. The book is data intensive with 18 figures and 44 data tables.

The review of *Resurgent Asia* proceeds as below.

The objectives, contents and conclusions of each of the nine chapters are presented, often in the author’s own words, for the sake of accuracy and consistency. An overall critique of the book is attempted at the end of the review.

Prologue provides a very good introduction to the book project and its implementation.

Chapter 1 Historical perspective and initial conditions presents a very useful historical perspective on Asia in the world economy with a focus on the colonial era beginning 200 years ago, around 1820, when Asia accounted for two-thirds of the world population and three-fifths world GDP, with the two giant countries, China and India, together accounting for 50% of world population and GDP. The colonial era, 1820–1950, witnessed a huge decline of the importance of Asia. By 1962, share of Asia in the world population diminished to 50%, while its share of world GDP fell to 15%. The result was ‘Great Divergence’. Income per capita in Asia, as a proportion of that in the West dropped from one-half in 1820 to less than one-tenth in 1962. This was accompanied by ‘Great Specialization’, with Western Europe producing manufactures and Asia producing primary goods. The combined share of China and India in world manufactures fell from 47% in 1830 to 5% in 1963. The industrialization of Western Europe and deindustrialization of Asia were simultaneous. Circa 1970, Asia was the poorest continent. Its demographic and social indicators reflected its glaring underdevelopment.

Chapter 2 The rise of Asia depicts the phenomenal transformation of Asia since 1970, in terms of its demographic transition, social progress and economic development. By 2016, the share of Asia in World GDP increased from less than one-tenth to three-tenths, while its income per capita surpassed that of the group of developing countries and converged modestly towards the world average income level. Growth in GDP and GDP per capita in Asia was much higher than in the world economy, and industrialized countries, over this period, the share of Asia in world industrial production jumped from a mere 4% to more than 40%. Its share of world merchandise trade increased from one-tenth to one-third. As a destination and a source of international investment, Asia witnessed a similar increase.

This transformation provides a stark contrast with the decline and fall of Asia in the world economy during 1820–1960 in the Colonial Era. Political independence and the associated economic autonomy enabled Asian economies to pursue their national development objectives. Nayyar highlights that the economic and social development was very unequal among the sub-regions of Asia. East Asia was the leader and South Asia was the laggard, with Southeast Asia in the middle, while progress in West Asia did not match its high income level. Economic growth was faster than elsewhere in the world, not only in East Asia, but also in South Asia and Southeast Asia through most of the period.

Industrialisation was uneven across regions with East Asia accounting for more than three-fourths of the increase in Asia’s share of world manufacturing value added.

Chapter 3: Macroeconomics of growth This chapter provides a macroeconomic analysis of the growth process at the individual economy level for the Asian-14. Economic growth over the period 1970–2016 was impressive in most of the Asian-14. China was the top performer throughout. Growth rates of both GDP and GDP per capita were high in South Korea, Taiwan, Singapore, Indonesia, Malaysia and Thailand during 1971–1990 but slowed down much during 1991–2016, whereas growth rates were lower in India, Vietnam and Bangladesh during 1971–1990 but were much higher during 1991–2016. The growth performance of Sri Lanka was ‘respectable’, while that of Turkey was average, but that of Pakistan and Philippines

was poor. The slowdown in growth during 1991–2016 in several countries was due to the long-term effects of the Asian Financial Crisis (AFC).

In countries where growth was impressive, investment and savings were the main drivers of growth on the supply side. Education, which contributed to human capital formation, was a sustained driver of growth. From the demand side, growth was primarily private consumption—expenditure led and investment led in most of the Asian-14. It was government consumption led only in Indonesia. The contribution of net exports as a demand stimulus to growth was in general small or negative.

The interaction between supply side and demand side in the Asian-14 suggests that this was a virtuous circle of cumulative causation, where rapid investment growth coincided in time with rapid export growth, leading to rapid GDP growth.

Many of the Asian-14 did not conform to the orthodox prescriptions of balanced budgets and price stability. Their primary objectives were economic growth and employment generation. Their approach was versatile in their use of policy instruments.

Chapter 4: Structural change and economic transformation This chapter analyses the process of structural change in Asian-14 countries and their paths to structural transformation, over the past 50 years. The paths differed among the countries, South Korea, Taiwan and Singapore, followed by Malaysia, China and Indonesia conformed to the classical pattern of structural change from agriculture through manufacturing/industry to services. India, Turkey, Thailand, Philippines, Pakistan and Sri Lanka, followed by Bangladesh and Vietnam later did not follow the traditional sequence. The transition from agriculture-dominated structure circa 1970 to service-dominated structure in 2016 was far from uniform in Asian-14, although there was an exit of labour from agriculture in every country, in some countries to manufacturing, in others to non-manufacturing industry (construction) and in other countries to services.

The transformation of the agricultural sector is incomplete in China and in South-east Asia, and South Asia is far behind in this regard. The progress in industrialization is tardy, while industrial dynamism has lost momentum in Southeast Asia. The services sector has led economic growth in several countries largely through the absorption of unskilled labour, mainly in construction.

Nayyar is of the opinion that it is essential to exploit the synergies and complementarities between manufacturing and services; economic growth cannot be sustained and structural transformation completed even if one of the three sectors is a weak link in the chain.

Chapter 5: Openness and industrialization This is one of the important chapters in the book with particular relevance to India. Nayyar states that the past 50 years have witnessed an increase in the degree of economic openness in Asia, as measured by international trade and investment flows. During the period 1970–2016, merchandise trade–GDP ratio for Asia increased from 10 to 25%, in spite of the setback due to the global economic crisis of 2008–2009; the stocks of inward and outward FDI–GDP ratios increased from around 17 to 30% and 1 to 20%, respectively. The Asian-14 displayed similar trends, with inter-country differences.

Nayyar goes on to state that the pace of industrialization was impressive. For Asia, and the Asian-14, the share of manufacturing in GDP, increased from 10% in

1970 to 25% in 2016. This change is reflected in the composition of their international trade, with the share of primary products and resource-based manufactures diminishing and the share of medium-technology and high-technology manufactures rising in both exports and imports. However, there was considerable diversity in the progress of industrialisation among the Asian-14.

Economic openness played a supportive role in industrialization. However, openness was necessary, but not sufficient. It was conducive only when combined with industrial policy. The pioneering success cases—South Korea, Taiwan, and Singapore—used industrial policy through government intervention. The more recent success story is China has used industrial policy in a very different context in learning to industrialize and then building domestic capabilities in terms of long-term objectives. Vietnam is following the example of China. The industrial dynamism of Indonesia,

Malaysia and Thailand has not been sustained after the Asian financial crisis due to lapses in the application of industrial policy. India, the most industrialized as of 1970, lagged behind because industrial policy was poorly implemented. India's success in pharmaceuticals, automobiles and software owes to industrial policy. Bangladesh has used industrial policy for its garment-export-led industrialization.

Nayyar points out that in future technological learning and technological capabilities will be essential for sustaining industrialization.

Chapter 6: Markets, governments and politics This chapter is somewhat different from the other chapters in the use of data. There are no figures and tables. Nayyar states at the outset that for an adequate understanding of the relationship between markets, governments and politics over the past 5 years, the historical context of the preceding quarter century, 1945–1970 is relevant. He outlines the political developments in China, India, Indonesia, Sri Lanka, Malaysia, South Korea, Taiwan, Philippines Vietnam and Pakistan in this early post-colonial era.

The chapter draws upon Nayyar's many own relevant papers and various contributions to the companion volume, *Asian Transformations*. The major conclusions of the chapter are governments have performed a critical role, ranging from leader to catalyst or supporter in the economic transformation of Asia. State and market are complements. Efficient markets and effective governments, in tandem, have provided the way forward.

The developmental states in South Korea, Taiwan, and Singapore, with Japan as the role model, have co-ordinated policies across sectors, using carrot and stick in implementing their agenda. This strategy enabled these countries to become industrialized in 50 years. China has emulated these developmental states in an altogether different context with much success. Two decades later Vietnam is following the same transition path. In several other countries in Asian-14, governments have managed to introduce economic policies and to evolve institutional arrangements conducive to industrialization and development. In countries that do not have developmental states, it is only institutionalized checks and balances that made governments more development oriented and people friendly.

Chapter 7: Unequal outcomes for countries and people This is another important chapter in the book. It analyses the unequal outcomes in development and divergences in income during the period 1970–2016.

In the 50-year period since 1970, economic growth in Asia has been impressive compared with developing economies elsewhere and the industrialised economies. It was much higher than growth in Western Europe and North America during the industrial revolution. However, the distribution was unequal among the constituent sub-regions in Asia and between countries. More significantly, it was unequal among people within countries.

The empirical results for Asian-14 do not validate the convergence hypothesis. There was, in fact, a widening gap in per capita income levels within the Asian-14, while the gap between the richest and poorest countries in Asia was unconscionably high. There was a significant increase in inequality between people within economies, except in South Korea and Taiwan, and between regions within countries. Rapid growth resulted in a substantial reduction in absolute poverty. During 1984–2012, the proportion of the population below the specified international poverty lines declined sharply in every country in Asia. However, the number of people between the two poverty lines, who are vulnerable, rose sharply over this period. The poverty reduction could have been much greater, were it not for the rising inequality.

Among the Asian-14, rising per capita income and improving social indicators—life expectancy and literacy rates—were related and the causation ran in both directions.

Chapter 8: Asian development and the world economy Three specific aspects of Asia's emerging engagement with the world economy, with implications for development, are highlighted in this chapter. First, more than one-half of Asia's merchandise trade is within developing Asia. Its relative importance increased over time, and after 1995, China replaced Japan as the hub for such trade. The share of Asia in the stock of outward FDI (Foreign direct investment) in the world, during 1990–2016, increased from one-thirtieth (1/30) to one-fifth (1/5). This internalization of Asian firms—concentrated in China, Singapore, South Korea, Taiwan, India and Malaysia—is based on the acquisition of capabilities over a much longer period while learning to industrialize. However, capital account liberalization and premature integration into international financial markets has done more harm than good, with negative consequences for development.

Second, rapid economic growth in Asia has implications, both positive and negative, for the world, industrial countries and developing countries. For industrial countries, it might worsen their terms of trade, but it could provide them with expanding markets, cheap manufactured goods and new technologies. For developing countries, it could not only improve their terms of trade, provide finances and technologies for development, but it could also have an adverse impact on their industrialization prospects.

Third, the international economic and political architecture for global governance was created around 1945. Asia had no voice in that process. The shifting balance of power provides Asia with an opportunity to influence the reform of existing institutions and the creation of missing institutions. However, co-ordination and co-operation among the Asian countries, to exercise collective influence, have not surfaced yet, possibly because their relationship is characterized by rivalry—economic and political—rather than unity. At the same time, economic problems confronting the

world have led to a political backlash in the form of resurgent nationalism across countries, creating an international milieu very different from the preceding quarter century when the economic transformation of Asia gathered momentum. The uncertain future is a challenge.

Chapter 9: Contemplating the future This is the concluding chapter of the book. It is presented in three sections. Section 1 outlines the contours of change to recapitulate the essential elements of the transformation in Asia during the past 50 years, and highlights the major analytical conclusions that relate to the debates on development. Section 2 considers prospects, in terms of opportunities and challenges, for countries that have led the process so far and for those that might follow in their footsteps. Section 3 reflects on the future, with reference to the past, to speculate how the changed international context, and new challenges on the horizon, might shape, or be influenced by development in Asia over the next 25 years.

1 Concluding remarks of the book review

Deepak Nayyar's book, *Resurgent Asia: diversity in development* is indeed a master piece. It is a superb and solid contribution to the literature on economic and social development of Asia and its major nations. It provides an incisive, insightful and informative analytical narrative of the phenomenal economic transformation and social development Asia and 14 of its major nations located in four sub-regions, East Asia, Southeast Asia, South Asia and West Asia. The book depicts in detail the resurgence of Asia and its major nations against the backdrop of decline and fall during the colonial period, 1820–1950. It conclusively disproves Gunnar Myrdal's (1968) pessimism documented in *Asian Drama*.

Deepak Nayyar is a researcher and writer of the highest calibre. His long list of writings and publications since the early 1970s on a variety of themes in the broad areas, such as Economic Development, International Economics, Industrialization, Poverty and Inequality have won him international recognition and acclaim.

Resurgent Asia is built upon solid and authentic data bases from several relevant sources. Chapters 3, 4, 5 and 7 of the book contain 26 statistical tables and several figures for the Asian-14 nations. It is desirable and feasible to exploit the data series constructed by him for further meaningful and potentially fruitful analysis. A detailed comparative study of China and India during the post-colonial period 1950–2020 on economic growth, structural change, industrialization, agriculture, service sector and productivity is desirable. There are other possibilities of analysis using data sets compiled by Prof. Nayyar.

There are many lessons in the book for researchers in the social sciences profession in the developing world and industrialised nations. Nayyar deserves rich compliments for his impressive contribution.

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