

Resurgent Asia: Diversity in Development

Deepak Nayyar (1967 and Honorary Fellow), Oxford University Press, 2019

David Vines (Emeritus Fellow)

This is a thought-provoking book with a fascinating backstory. In 1968 Deepak Nayyar was a Rhodes Scholar at Balliol, working towards a DPhil in Economics. Gunnar Myrdal's magnum opus *Asian Drama: An Inquiry into the Poverty of Nations* had just been published, to much acclaim. (Myrdal was awarded the Nobel Prize in Economics soon afterwards.) The book was controversial – and it was much discussed in the Balliol Common Room. So Nayyar took himself to Blackwell's and obtained the three volumes (for 25 shillings), and then proceeded to read all 2,300 pages over the course of the next six months. Myrdal was very pessimistic about Asia's future, not just because its initial economic position was a very depressed one. He also thought that the 'soft states' in Asia lacked the institutional capacity and political strength to defeat vested interests and entrenched elites and to bring about the necessary change. In retrospect, Myrdal turned out to be spectacularly wrong. In the 50 years since 1968, the Asian miracle has created something without precedent in human history.

After his time at Balliol, Nayyar returned to India for a long and distinguished career, both as Professor of Economics at Jawaharlal Nehru University and as Vice Chancellor of Delhi University. He has also spent significant periods in government service, including the post of Chief Economic Adviser to the Government of India and Secretary in the Ministry of Finance. Internationally, he has been a Distinguished University Professor of Economics at the New School for Social Research in New York, and he has served as Chairman of the Board of Governors of the World Institute for Development Economics Research (WIDER) in Helsinki.

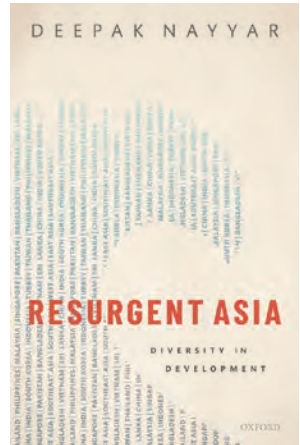
But Myrdal's *Asian Drama* has continued to haunt him – and eventually it provided the stimulus for a major intellectual undertaking. In his Prologue to *Resurgent Asia: Diversity in Development* Nayyar describes how he has continued to return to the pages of *Asian Drama*, becoming increasingly puzzled as to why Myrdal was so mistaken. By chance, quite recently, he realised that the 50th anniversary of the book's publication would arrive in 2018. This realisation prompted a research project which Nayyar organised at WIDER, in which a number of international scholars explored just what it was that led

Myrdal to be so badly misled. This book is the outcome of that collaborative research project.

The book is magisterial in scope, providing a broad overview of the Asian experience, except for that of Japan, which had already industrialised by the 1960s, as well as a detailed study of four sub-regions and 14 countries. It combines a wealth of empirical data with numerous tables and charts, and a compelling storyline underpinned by a clear analytical framework. In addition Nayar has an easy facility with the English language that makes the book a pleasure to read.

The title of the book – emphasising resurgence – draws attention to the fact that the Asian miracle has actually returned Asia to its historical importance in the world economy, something which is too easy to forget for those of us outside the region. In 1820, Asia had 65 per cent of the world’s population and accounted for 56 per cent of world GDP, with around half of the world’s manufacturing activity. Clearly, something extraordinary happened in the century and a half after that time.

That something was the Industrial Revolution. European powers rose to an economic and geopolitical dominance which gave them the military wherewithal to conquer Asian lands and pursue their own commercial and strategic interests. But for their colonies, the result was deindustrialisation and impoverishment. Even for China, not formally colonised, something similar happened. The result was what has become known by economic historians as ‘the great divergence’: for over a century, and despite two world wars, the gap between European and Asian income levels kept on widening. This happened because the terms of Asia’s integration with the rest of the world economy were dictated by the needs of the colonial powers. Those nations extracted Asia’s resources in order to accumulate capital, and, in doing so, flooded Asia’s markets with their industrial products. This caused Asian countries to concentrate on exporting primary commodities to pay for their imports. The prices of many of these commodities steadily declined over the period, and the prices of all of them were very volatile. The outcome was a prolonged period of very slow Asian growth compared with growth in advanced countries. Despite the fact that by 1960 Asia still had around half of the world’s population, its share of world income fell from 50 per cent in



1820 to 15 per cent a century later, while the manufacturing share was cut from 50 to 6 per cent. By the mid 20th century, Asia had become the world's poorest continent.

Since then, Asia has outperformed both industrialised and developing countries. The relatively better growth record has significantly increased Asia's share of world GDP, of manufactured merchandise and services exports, and of foreign exchange reserves. In 1970, Asia's per-capita GDP was 16 per cent of that of the whole world. By 2016, Asia's per capita GDP was a little over a half of that of the whole world – slightly above the proportion in 1820.

Here is my summary of Nayyar's account of why this has happened. Of course, I must be brief, but there is a wealth of detail in Nayyar's book. I see five factors at work in his account.

First, industrialisation played a central role in the process of Asia's economic growth, just as had happened in Europe two centuries earlier. Manufacture of steel, cement and automobiles has been central to this industrialisation process. Asia's industrialisation has relied on the very rapid 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 sectors, and – more recently – in service sectors. This economic transformation has underpinned a major social transformation, with falling infant mortality rates and rising literacy and life expectancy as key indicators of the way in which population wellbeing has increased.

Second, Asia's rapid industrialisation has been financed by a very high level of domestic savings, rather than by foreign borrowing. For China the levels of saving are extraordinary: a third of all output was saved in 1971, while by 2015 the figure was 45 per cent. In 2015, the savings rate in nearly all major Asian countries was in the high twenties; for Indonesia it was 34 per cent and for India 33 per cent. Such saving for the future is quite outside the range of European experience. It is this high level of savings which has made possible the investment that is necessary for rapid industrialisation. Nayyar notes that the countries which saved most are the ones that grew most rapidly – including of course China.

Third, Asia has shown that, with the right policies and institutions, latecomers to industrialisation can catch up with the first industrialisers in Europe and the US. Nayyar argues that, to offset the adverse initial conditions of scarce capital, unskilled labour and lack of entrepreneurship and technological capabilities, state intervention is of fundamental importance. Capable states and well-functioning economic markets are complements, he argues, not

substitutes; the two institutions must adapt to each other in a cooperative manner over time. Finding the right balance between them is, he says, 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 the industrialisation process.

Fourth, the liberalisation of international trade has been essential for such industrialisation. It has enabled firms to produce at large scale for the world market, and not to be hindered by the size of the domestic market. What has happened in China has been the most obvious example of this. But China’s export-led growth model was laid down in the 1980s by the Asian Tigers: Korea, Taiwan, Thailand, Hong Kong, Singapore and Malaysia. And this model is now being followed by Vietnam and other countries.

The fifth strand of the argument, as presented by Nayar, is that such openness has worked as a development model only because it has been combined with strategic coordination of trade and industrial policies. This has involved tariff protection of infant industries in the early stages of industrialisation, state support to emerging industries and state-guaranteed access to credit at concessional rates of interest. The Asian miracle is not a free-trade story.

The pattern and sequence of industrialisation and rates of growth have varied considerably across different regions of Asia and Nayar clearly illuminates these differences. East Asia is the star performer – including not just China but also especially Korea and Taiwan. South Asia – dominated by India – is the laggard, even though India’s growth has increased markedly since the early 1990s as a result of policy reforms there. Southeast Asia lies in between, with the stories of Thailand, Vietnam, and Indonesia being the most remarkable. The record of individual countries is even more varied, as strikingly illustrated by the comparison between China and India. Differences in political leadership, in policy frameworks, and in the quality of governmental regulation provide likely explanations for the remarkable difference between these two countries. The best book by far on why the Indian growth process has been so troubled, and why so many difficulties lie ahead for that country, is by another Balliol alumnus, Vijay Joshi (1960). I reviewed his masterful book *India’s Long Road: the Search for Prosperity*, in the *Annual Record 2017*.

Finally, I return to the big picture with which we began. Why is it – the reader will ask – that Myrdal turned out to be so mistaken? His view – that states in Asia lacked the necessary institutional capacity and political strength – now appears to have been just plain wrong. All the five parts of my summary

of Nayar's narrative turn on the existence of capable government processes that work alongside individuals and organisations in the private sector, so as to bring about remarkably rapid change. Although Nayar does not say this explicitly, the success stories which he documents seem to contradict conventional economic views in both the US and Europe. In the US, the ideology has favoured a detached approach by the state to the market – in the face of ever-present pressure from financial markets – except through subsidies often obtained by means of dubious political deals. In Europe, by contrast, we have seen a much more supervisory relationship between state and market as a result of the complex processes of European social democracy. The genius of Asia seems to have involved figuring out practical ways of making the state a useful guide and facilitator of economic policy rather than a passive spectator or an omnipotent overseer.

Yet, just as Myrdal's 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 half century. 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 still have to overcome the major challenges of mass poverty, jobless growth, and rising inequality. Many scholars see the risks of a 'middle-income' trap: it is very hard to move from being a poor country – achieving rapid increases in living standards through export-led growth – to being a mature economy with high average incomes in which there is a much wider range of economic and social activities. To achieve this transition, countries will need to continue to improve their productivity through better managerial capabilities, through technological learning and through R&D-based innovation. And they will need, as Nayar notes, to do this at a time when the world is necessarily moving from fossil fuels to renewable energy. None of this will be easy.