

One Asia, two perspectives

The Asian economic story has moved from pessimism to optimism — a subject for two economists, over 50 years apart



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In 1968, Gunnar Myrdal, distinguished Swedish economist and later a Nobel Laureate, published his three-volume *Asian Drama*. Its subtitle, *An Inquiry into the Poverty of Nations*, reflecting Adam Smith's *An Inquiry into the Nature and Causes of the Wealth of Nations*, was meant to convey that it should be seen as a modern epic.

That the economies of Asian countries, perhaps mainland Asian countries excluding Japan, were in dire poverty in the early part of the 20th century was widely accepted. But in the middle of the century they became independent countries and UN members that called for necessary changes in diplomatic parlance. The poor countries became “underdeveloped” (and rich countries “developed”) and development became the central idea in official and scholarly discourse. And soon the crux of the problem was identified too. The underdeveloped economies were caught in a “low-level equilibrium trap” – low incomes, low savings, low investment – and thus a built-in inability to grow. The remedy, of course, was foreign aid accompanied by labour-intensive technologies.

Myrdal refused to fall in line. It is hazardous to summarise what took Myrdal 2,000 pages to analyse Asian countries and then to arrive at his own pessimistic conclusion about the continent's prospect. As an economist, he used the standard concepts of the profession, but what he put forward as the “social system” had additional features: attitude towards life and work and institutions in general. Expounding these special features of Asia took the major part of *Asian Drama*.

Value comparison

Myrdal made a comparison of “Western values” and “Asia Va-

lues”. Among the latter he included survival mindedness; irresponsiveness to opportunities for betterment; scorn for manual labour; unwillingness to work for others; superstitious beliefs and irrational outlook; submission to authority and exploitation; low aptitude for cooperation. Combine these with what Myrdal considered to be institutions specific to Asia – underdeveloped institutions for enterprise, employment and credit; imperfections in the authority of government agencies; low standards of efficiency and integrity in public administration. Add to these the caste system and the joint or extended family, and Asia emerges substantially different from western nations. He was willing to concede that radical policy measures could bring about change in Asian countries, but thought that social, cultural and religious attitudes made it virtually impossible to realise changes via that route. Asian countries, therefore, were caught in a poverty trap, he felt.

While working on *Asian Drama*, Myrdal was possibly not aware that another scholar was working on Asian economic development in historical perspective. Angus Maddison in several of his historical studies in the late 1970s and early 1980s, especially *The World Economy in the Twentieth Century* (1989) pointed out that in 1820, just two centuries ago, Asia accounted for almost two thirds of the world population and three fifths of the world's income. China and India put together accounted for half the world population and world income. That is, Asia (China and India in particular) was not always at the bottom of the pit and poverty was not its characteristic feature.

Another recent study on Asia is *Resurgent Asia: Diversity in Development* by Deepak Nayyar (Oxford, 2019). Some readers may remember that he was one-time Chief Economic Adviser, Government of India as also Vice-Chancellor, Delhi University. In the book, he recalls that when *Asian Drama* came out in 1968, he was a graduate student in Oxford University



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and that the pessimistic outlook about Asia was widely prevalent in academic circles. Nearly 50 years later (and after holding academic positions in different parts of globe and authoring many books), he decided to take a closer look at Asia, by now noted for its diversity in development.

Nayyar saw that the two Asian giants, China and India, contributed close to 60% of the global manufacturing production and an even larger proportion of manufactured exports until around 1750. However, over the next two centuries, the Industrial Revolution in Britain brought about a radical transformation of the situation that changed the profile completely, except for the outlier, Japan. During the second half of the 20th century, the situation has changed again as is widely known. It began with the East Asian tigers, South Korea, Taiwan, Hong Kong and Singapore. Soon others joined, Malaysia, Thailand and Indonesia; then, of course, China and India. The economic profile of Asia has completely changed.

A diverse Asia

These changes indicated too that Asia cannot be and should not be treated as a single unit; social, cultural and economic conditions are significantly different among Asian countries, much more than in other continents, Europe for instance. Initially, the author considers four sub-regions, East Asia, South East Asia, South Asia and West Asia, and then 14 states. The states are China, South Korea and Taiwan in the East; Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam in Southeast, Bangladesh, India, Pakistan, Sri Lanka in the South and Turkey in the West.

The colonial era witnessed a precipitous decline in Asia's eco-

nomics position. By 1962, Asia's share in the world population diminished to 50%, while its share in global income fell sharply to 15%. And by 1965-70, Asia was the poorest continent. For China and India taken together these shares plunged to 35% and 8%, respectively. The share of China and India in world manufacturing production collapsed from 47% in 1830 to 5% in 1963. By the second decade of the present century, things had changed drastically, but also differentially in the subregions and countries. East Asia was the leader and South Asia was the laggard with South East Asia in the middle.

Taking the Asia-14 together, the author describes the economic growth of the past 50 years as “stunning” with China being the star performer. In all instances where growth was impressive, high levels of investment and savings were the main drivers which must have come as a bit of a shock to all who in an earlier period considered the Asian “poor” countries of being incapable of generating high savings. The pattern in many countries including China was rapid investment growth coinciding with increasing exports. Education too contributed towards raising growth rates. Many countries have been experiencing lower levels of growth in the 21st century.

Moving to services

Nayyar then turns to the structural transformation of economies which goes with economic growth. What is considered as the standard pattern is for labour force to move from agriculture (A) to manufacturing and industry (M) and then to services (S) and this pattern is seen in the case of South Korea, Taiwan and Singapore. In India and several other countries in South East, there was an exit from A, not much into M, but significantly into S.

The move into the S sector was partially into productive activity, but more so into transactions of different kinds, including stock market activities. It also manifests as unemployment and under-em-

ployments of various shades.

Of equal importance is the fact that the big economies of Asia, notably China and India which began their development strategies as closed economies opened up to international trade and capital movements subsequently, and have become notable players in what since the turn of the 21st century at least has come to be referred to as “the global economy”.

Nayyar also notes that the growth of the Asia economies has considerably reduced the percentage of their population considered to be below the poverty line. But that has been accompanied by sharp increases in inequalities of income and more so of wealth in democratic India and even communist China which also raises questions about the future. Obviously the transformation of Asia during the past 50 years has been phenomenal, and there can be little doubt that in the next 50 years, Asia's multifaceted economic performance will continue and by the beginning of the next century, if not earlier, China will overtake the United States as the largest economy. Indeed, three other economies to claim top positions will most likely be from Asia – India, Indonesia and Japan and many other Asian countries may also do well, a far cry from the pessimism that was the cardinal note of Myrdal's *Asian Drama*. And yet there will be problems too. Absolute poverty may be minimal by 2030, but the poverty-inequality-unemployment nexus may continue. There are also the challenges of technology and environmental consequences. But these are global issues and will affect other economies also. Nayyar's concluding words are optimistic. “There can be little doubt that, circa 2050,... Asia will account for more than one-half of world income, and will be home for more than one-half the people on earth. It will, thus, have an economic and political significance in the world that would have been difficult to imagine fifty years ago....”

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