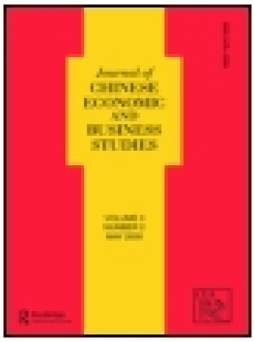

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# Resurgent Asia; diversity in development

by Deepak Nayyar, Oxford University Press, 2019

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BOOK REVIEW

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## Introduction

The title of the book says it all. It is about the rebirth and growth of Asia towards the position of equivalence in the world economy, it once held in the historic past, but dwindled to insignificance by the middle of the twentieth century. In the year 1500, Asia accounted for 62% of both world income and population. But by the year 1820, though it had restored its share of population to 65%, its share in world income had declined to 56.5%, with India and China together accounting for almost 46% of the total. The decline in Asia's share of world GDP continued unabated and reached a low of 14.9% by the year 1962 with a significant contribution by China and India to this decline. It is the revival of Asia from this state of the doldrums to one of the dramatic growth and development from 1970s onwards, which is aptly referred to by Deepak Nayyar as a resurgence of the Asian economies. The growth and development experience of each of the Asian countries discussed in the book differs significantly from that of the others as the subtitle of Nayyar's book suggests.

Deepak Nayyar has many strings to his bow: an eminent economist, a prolific writer, an administrator in academia and government, and an advisor to international institutions. His wide range of expertise and knowledge of economic development is reflected in his discussion of the decline and rise of Asia that collates many sides to the story. The analysis in the book is unique. It is grounded in economic theory and history and is not confined to a chronological narration of events or regression analysis-oriented conclusions. It complements other incisive reviews of the recent growth and development experience of the two large Asian economies; China – edited and authored by David, Chris, and Shujie (2010) and India = edited and authored by Rakesh (2018). This review discusses the main issues in Nayyar's wide-ranging analysis of the growth and development of 14 major Asian economies.

### *Historical perspectives*

The first chapter of the book provides a historical perspective of the growth of the economies of Western Europe and Asia. A thousand years ago, per capita incomes were much the same across the world and so was life expectancy. This situation changed dramatically in the century that followed with the ratio of per capita income of Asia to that of Western Europe declining from 1.1 in 1000 to 0.58 in 1700. The superior performance of the West is attributed to slow capital accumulation and technological change. How did technological change arise? Was it the capital accumulation induced growth rate that fuelled it or was it autonomous, a product of slowly evolving science and innovation? It can only be surmised that capital accumulation fuelled growth, which, in turn, promoted technological change through investment in R and D.

It is a historical fact that the colonial powers, principally Britain, compelled the colonised countries to export raw materials and import manufactures from the pioneers of the industrial revolution. The colonisers prohibited the low-income countries from imposing tariffs and quotas on imports of manufactures. Nayyar interprets this policy framework as the imposition of free trade on the low-income countries by the colonisers. Free trade, in the broader context, is specialisation in the production and trade of goods and services in which the trading countries possess a comparative advantage. The developing countries, endowed with natural resources, such as cotton, jute, tea and other raw materials, possessed neither the technology and know-how nor the resources to utilise their endowments to produce manufactures. The raw materials they were endowed with were surplus to their requirements and trade provided a vent for the surplus as Hla Myint would put it (1958). Often the production and exports of these surpluses were owned and managed by firms from the industrialised countries. In other words, poor countries were not encouraged to transform their endowments of natural resources into low-cost manufactures; instead, they were compelled to export them for the benefit of their colonisers.

Britain, one of the colonisers, exported not only raw materials but also labour from India to be put to work in other colonies, such as the African ones. Exports of labour from India consisted not only of manual labour but also white-collar workers to assist the top-level bureaucrats in various colonies and the East India Company. The imposition of the English language on the colonised Indians, however, had broader objectives than just training them to function as low-level administrative assistants. As Thomas Babington Macaulay, historian and Labour politician, put it 'We must at present do our best to form a class who may be interpreters between us and the millions whom we govern; a class of persons, Indian in blood and colour, but English in taste, in opinions, in morals, and in intellect' (Minute on Education 1835). The imposition of not only the English language but also the British administrative structure on the then colony has imposed significant repercussions, both good and bad, on Independent India's economic policies and performance. The English language has enabled interregional communication between citizens in various parts of the country with as many as 22 diverse native languages. The administrative structure too has enabled the vast country to function as a democracy, though the bureaucracy that operates the structure has been cumbersome and corrupt. Robert's (1982) analysis of the nature and structure of corruption in India is instructive in this context.

## Growth performance of the Asian fourteen

Chapter 2 of Nayyar's book discusses the dramatic growth and development of the Asian economies since the 1970s. Chapters 3 to 7 cover 14 of the Asian countries categorised as the East Asian countries (China, Korea and Taiwan), South East Asia (Malaysia, Singapore, Thailand, Vietnam, Cambodia, Indonesia), South Asia (India, Bangladesh, Pakistan and Sri Lanka) and Turkey in West Asia. Chapters 8 and 9 discuss Asia as a whole in a broader perspective. The share of Asia in world GDP rose from 8.7% in 1970 to 29.9% in the year 2016, and its share in world's per capita income rose from 16.2% to 51.4% over the same period. There were though significant differences in economic performance between the 14 countries that constitute the Asian economy. East Asia led the pack with a share of 17.9% in world GDP in the year 2016, followed by Southeast Asia (3.4%) and South Asia (3.8%).

All this was achieved with macroeconomic policies oriented towards growth rather than stabilisation. Most of the 14 countries were adept at managing fiscal and monetary policy tools to promote growth. In most cases, with the growth rate being above the rate of interest, borrowing on the capital markets posed no problems. As Nayyar writes, "in pursuit of development objectives, they used orthodox policies for heterodox or unorthodox objectives, such as interest rates to influence the allocation of scarce resources in market economies. The success of these countries in utilising orthodox policies, to promote unorthodox objectives, suggests that they also possess institutions such as well-governed central banks and stock markets that enable them to implement orthodox policies.

## Structural transformation and growth

Does structural transformation of the economy promote growth or is it the other way round? The well-known Simon (1971) paradigm on the structural transformation of economies suggests that growth of productivity in agriculture, the mainstay of most economies prior to transformation, not only increases demand for manufactures but also releases labour for employment in the manufacturing sector. Growth in manufacturing, in turn, increases demand for services and the share of services in GDP>. Nayyar's painstaking analysis of the data for the 14 Asian countries suggests that productivity in agriculture increased in most countries, especially so in China, Taiwan and Korea – the East Asian countries. The introduction of high-yielding varieties and land reforms in these countries contributed to the growth in productivity of agriculture. Labour released from agriculture found its way into manufacturing and services. In most others, including India, the size of labour in agriculture was higher than output. In these country labour moved from agriculture mostly to services rather than manufacturing in search of employment.

Whilst the East Asian experience conforms to the Kuznets thesis, that of the other Asian countries reflect the Arthur Lewis (1954) model of structural change. In the Lewis model, labour whose marginal product in agriculture is less than its wage rate, referred to as disguised unemployed labour, is available for employment in manufacturing at its opportunity cost, the low wage in agriculture. But in some of the East Asian countries, principally India, the size of labour in agriculture continues to be high, though the share of agriculture in GDP has declined to less than 20% of GDP.

One of the interesting features of the transformation in most countries is the high share of services in GDP that exceeds that of manufacturing. In the year 2016, the share of services in GDP was as high as 50–60% in most countries, except Indonesia and Vietnam, where it was around 45%. In most countries the share of manufacturing in GDP was relatively low –between 30% and 40%. Both economic theory and the experience of developed countries posit a transformation of the economy from agriculture to manufactures and then on to services, mostly propelled by growth in incomes. But the economies of most Asian countries, especially that of India, seem to have transitted from agriculture to services with a brief nod at the manufacturing sector. India possesses a relatively large service sector, one which is dualistic – with services with low skill levels at one end and those with high levels of human skills at the other. Inequalities in income distribution in most of the Asian countries, including China and India, explain the growth of low skill-intensive services. With growth in incomes, the upper income groups demand services that improve their everyday living standards.

How about the growth in the share of skill intensive upper level services in GNP? Historical and sociological factors, policy objectives gone wrong and unexpected growth in demand for human capital-intensive services explain the growth of the upper level services. These factors explain the birth and growth of the IT sector in India in particular, centring on software. As discussed earlier, the introduction of the English language during the mid-nineteenth century, by the British, has contributed significantly to the development of higher education in India including science, engineering, and the social sciences. The Nehruvian policy of liberalisation of the economy from dependence on imports from the developed countries was central to the establishment of state-owned domestic industries producing machinery and equipment. The engineering and science personnel for these industries were to be provided by the Institutes of Technology and Engineering Colleges spread around the country. These institutions, established around the mid-fifties, did and continue to produce large numbers of trained engineers and technical personnel. Alas, the industries that were to employ the trained brigade of scientists and engineers were not up to the task and there was a surplus of trained service personnel. Added to this was the departure of IBM from India during the late seventies. Indian experts, deployed by the departure of IBM and the other firms with a surplus of trained personnel to their requirements, initiated the birth and subsequent growth of India's IT sector. Fortunately, the demand for scientists and engineers by the US space programme that went into operation in the seventies also absorbed India's surplus of skilled labour. These emigrants, the Indian Diaspora in the USA, were not only a factor in the development of the Silicon Valley but also a major factor in the growth of the Indian IT industry. The so-called to and fro diaspora, Indians settled in the US who frequently visited their country of origin, were instrumental in establishing new software firms in India and supporting the Indian firms in existence. Thus, there were several factors responsible for the development of India's services sector. As Nayyar emphasises, the services sector can make a substantial contribution to the growth of India's manufacturing sector by providing the sort of know-how it needs to increase productivity of its investments. More importantly, the IT sector can provide the know-how required by the agricultural sector to increase not only its productivity but also the marketing of its products. In sum, whilst most of the economies of Asia have followed a path of transformation that is none too traditional, it has contributed to the growth and development of these economies.

## Open economic policies

Open economic policies of the Asian countries are often regarded as a factor of significance in their impressive growth performance. Whilst it is a fact that trade has played a part in the growth performance of the Asian 14, the origins, nature, extent and the sort of open economic policies pursued differ between the members of the group. Almost all of the 14, many of them bruised by the sort of trade they were engaged in during the colonial era, embarked on a policy of import substitution in the post-colonial period, on until the 1980s by most of these countries. Since then, many of these countries have embarked on selective and controlled open economic policies, including inflows of foreign direct investment. Whilst the degree of openness differs between the 14, there are several factors common to all of the 14. First, is the emphasis placed on industrialisation, second is the nature of policies designed to promote industrialisation, third is the sort of trade policies pursued by each of the 14. Whilst all of the 14 have pursued industrialisation, relatively small countries, such as Taiwan, Korea and Hong Kong, have oriented it towards export markets. Large countries such as China, Vietnam and India have moved from domestic market-oriented industrialisation to foreign market-oriented industrialisation. Size of countries, resource endowments and inheritance from colonial days seem to matter in the nature and extent of market orientation of these countries. India, though it has turned towards exports from an ideologically oriented domestic market-oriented industrialisation, has only a few sectors, such as pharmaceuticals and software that have made a mark in export markets. In the case of these knowledge-oriented sectors, it is not only government policy but also entrepreneurs with a vision and ability to harness India's endowments of higher education and R and D that have contributed to the export market orientation of the highly skilled sectors.

Nayyar's discussion of the factors that have influenced Asian economies to move from inward-looking economic policies to outward-looking export-oriented policies casts light on their success in promoting growth and development. Those economies that moved from developing the domestic markets to open economic policies seem to have fared better than those that were compelled to shed domestic economy-oriented policies and move towards open economic policies. Taiwan and Korea belong to the category of the countries that engaged in a gradual progression towards outward economic policies, whilst India had to shed its diverse domestic economy-oriented policies, including the industrial licensing system and steep tariffs, when its economy was faced with an acute balance of payment problem with dwindling foreign exchange reserves, and had to obey the instruction of the IMF to reduce tariffs and devalue the exchange rate. Whilst India's positive response to the IMF's ruling did save the economy from collapse and enabled it to achieve a respectable growth rate, its achievements pale in comparison to that achieved by Korea and Taiwan. The lesson that follows from the experience of these countries is clear. A stable domestic economy, with efficient financial institutions, high levels of education and mobility of resources between sectors, is more than likely to gain from outward looking policies than those that switch from one sort of policy to another under compulsion.

Capital flows are yet another ingredient of growth and development. Broadly defined, they consist of both portfolio capital flows and FDI. As Nayyar argues, reliance on portfolio capital flows not only limits the freedom of policy-makers to utilise interest rate mechanisms and the exchange rate to promote domestic objectives of growth and stabilisation, but they also expose the economy to increased risk and uncertainty. The Asian financial crisis of the late nineties that caused havoc to the economies of Malaysia, Thailand and Indonesia is a case in point. Their resort to FDI though has paid dividends.

## Outward FDI from Asian countries

Most of the Asian economies, including China (155 USD billion in 2019) and India 24 USD billion in 2019) have received substantial volumes of FDI that have played a significant role in the promotion of their exports and growth. But that which has attracted attention in recent years is the substantial volumes of outward FDI flows from China (97.7 USD billion) and India (13.14 USD billion) in particular and also Korea (35.5 billion) in the year 2019. The total volume of FDI from Asian countries increased from a low of 67 USD billion in 1990 to 496 USD billion in the year 2016. Although these outflows do not amount to much as a percentage of world outflows (around 15%), their investments mostly in the developing countries of Africa have reignited the debate on FDI. Most of China's FDI in Africa is in oil and raw materials that is required by the manufacturing industry at home. India's FDI is also mostly in primary commodities, but there are also investments in pharmaceuticals. The sort of FDI from China and India in African countries has provoked critics to say that FDI from the developing countries is no different from the sort of investments undertaken by the Colonial countries in the past. These investments exploit the African economies, and they offer little for their growth and development. These criticisms that the gamekeepers who guarded their economies from exploitation have now turned poachers may be far off the mark. There are reasons to suggest that FDI from the Asian countries contributes to the development of the host countries (Balasubramanyam 2015). First, in addition to FDI, China provides aid and portfolio capital to the host countries for the development of their infrastructure, mostly roads and other transport facilities. Admittedly these investments are for transporting raw materials from the production sites to the ports from which the raw materials are exported to China. Even so, these investments provide the sort of infrastructure the African countries badly need. Second, they provide a market for the unexploited raw materials of the African countries, a source of badly needed funds for development. Third, there are several Indian diasporas in African countries, such as South Africa and Kenya, that derive benefits in the form of on-the-job training and experience from Indian investors. For these reasons, FDI from the Asian countries in Africa, mainly by India and China, cannot be dismissed as neo-colonial exploitation of the African countries by Asian investors.

Asian countries FDI is not confined to the African countries; they also have investments in developed countries. Nayyar observes that these Asian outward investments were not a means of exploiting existing comparative advantage but a means of obtaining access to technology, capturing international brand names and augmenting their comparative advantage. Well known in this context are investments by the Indian firm of Tatas in automobile and steel industries in the UK.

## Role of the state in development

Nayyar is emphatic about the role of the State in the process of growth and development. The State and the market should complement each other. Amongst the Asian countries, Korea, Taiwan and Singapore have managed to promote trade and industrialisation policies with the State in the lead. So has China with Vietnam on its trail. The State has had a role in the economic policies, and their implementation in the South Asian countries, also including India, Bangladesh and Sri Lanka. The growth and development record of these countries though is no match to that of the East Asian countries. None of them has implemented the sort of land reforms that have promoted both equity and efficiency in agriculture. Nayyar's discussion of the role of the State in the development process raises several thought-provoking issues. Why does the role of the State in development differ so much between the Asian countries? Is it their history, their size by both population and area, the homogeneity or diversity of their population by creed, language and endowments that explain the differing role of the state in the Asian economies? Nayyar's observation that no state can replicate the experience of South Korea, Taiwan or, for that matter, that of China and Vietnam cannot be disputed. South Korea and Taiwan stand out amongst the Asian countries in more ways than one. Their inheritance from Japan, their coloniser, is a factor in their impressive growth and development. As Nayyar puts it, 'in history, the Japanese colonial legacy, repressive though it was, did create initial conditions in the form of spread of education in society that was greater than in most colonised Asian countries, the basic elements of a state bureaucratic apparatus, some manufacturing experience, a minimal physical infrastructure, and a strong sense of nationalism' (Pg. 168). Repressive though it was, Japanese colonialism seems to have bestowed on these countries the basic ingredients of development. Hopefully, these remarks of Nayyar will influence researchers to analyse the impact of differing colonial regimes on the economic development of the countries they colonised.

## Income inequalities

Apart from the role of the State in development, there is the much-discussed impact of growth on income inequalities and poverty in the Asian countries. Nayyar provides relevant data, all well organised, to show that whilst poverty has declined substantially in most of the Asian countries, inequalities in income have increased. This was so both in authoritarian regimes such as that of China and democratic ones such as that of India. In these two populous countries, poverty declined from 41% of the population in 2001 to 0.5% in the year 2011 in China and from 35% to 22.5% of the population in India. The Gini coefficient that measures income inequalities though was above 35 in both countries. There are several reasons for income inequalities to increase as growth occurs. These include increased mobility of capital relative to that of labour and economic policies that in general favour capital to promote investment and growth. Could growth occur without increased income inequalities? For growth to occur, factors of production, such as skilled labour, entrepreneurship and idle savings, must be cultivated and activated. As growth occurs, these sorts of scarce resources get paid their marginal product, which would be relatively high. For these reasons, it is inevitable that as growth occurs, income inequalities increase. There is, though, a distinction to be drawn between income inequalities and income disparities. The latter are a product of corruption and misguided state policies. Whilst increased income inequalities with growth would be difficult to avoid, policies designed to promote redistribution of incomes, increased facilities for education and regional mobility of labour would assist the lower income groups to share in the fruits of growth.

## Types of regimes; authoritarian to democracies

The types of political regimes in place differ between the 14 countries from democracy in India, Sri Lanka and the Philippines to one-party autocratic Communist regimes in China, Vietnam, Cambodia and Laos, de jure democracies but de facto oligarchies in Malaysia, Singapore and Bangladesh, and democracies that have evolved from authoritarian regimes in South Korea (1987) Taiwan (1992) and Indonesia (1995). Do authoritarian regimes promote growth and development much better than democracies? Do they initiate and foster development policies and institutions that promote not only growth but also vitally important objectives, such as life expectancy, education, health and poverty reduction, much more so than democracies? Are the authoritarian regimes less corrupt than the democracies?

It would be a mistake to say that China, compared with India, provides evidence to argue that authoritarian regimes perform much better than democracies. It would be a mistake because authoritarian regimes differ from each other in their devotion to the economic welfare of the citizens. That which China experienced during Mao's regime was much different from the growth and development it has experienced since the year 1978 (Zheng, Wang, and Tan 2016; Zhang and Liu 2009). In any case, there are several factors, apart from the sort of political regimes in place, that contribute to growth and development. As Nayyar writes, 'the reasons underlying the differences in the economic performance of the Asian giants – China and India are manifold and complex. It is farfetched if not absurd to reduce these to differences between authoritarian and democratic regimes'. Nayyar's discussion of the types of regimes in place and economic development provides much food for thought. It would be difficult to disagree with his view that the future of Asia, both political and economic, would be much better if it chooses the path of democracy. Nayyar's advocacy of democracy reminds one of Winston Churchill's remark that 'Democracy is the worst form of government except for all the rest'

Nayyar's book is a veritable storehouse of a variety of issues including sociological and political economic issues that are not only informative but are also thought provoking. Apart from those briefly discussed in the foregoing there are several growth and development issues discussed in the book; conditional and unconditional convergences in the growth literature, backwardness and its impact on development, institutions and development with reference to the book by Acemoglu and James (2012), perspectives on economic history and much more. Are economic institutions of the sort that promote development a consequence or cause of progress? Nayyar argues that good institutions are a consequence and not a cause of progress as claimed by Acemoglu and Robinson. Admittedly good institutions do not drop from heaven, they are to be created and developed.

Nayyar makes a fundamental contribution to development economics with his incisive analysis of development issues relating to the highly successful Asian economies. The book also raises issues that are likely to cause much debate. Will the growth of the Asian economies promote development of the relatively poor African and Latin American countries? Will they provide them with appropriate technologies? Would the terms of trade of developing countries improve with the increased Asian countries demand for their raw material and primary product exports? Would the Asian countries continue to provide aid and resources to the poor African and Latin American countries? Is it though likely that the fast developing Asian countries will capture the market for labour-intensive manufactures that the poor countries rely upon. Is it likely that the Asian countries will divert whatever little FDI that the African countries attract to their own economies? Finally, what is likely to be the impact of the progress of the Asian economies on the world economy in general?

These and other issues in Nayyar's well-researched and readable book make it essential reading for students, academics, and policy-makers not only in developing countries but also in the developed countries and international institutions.

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