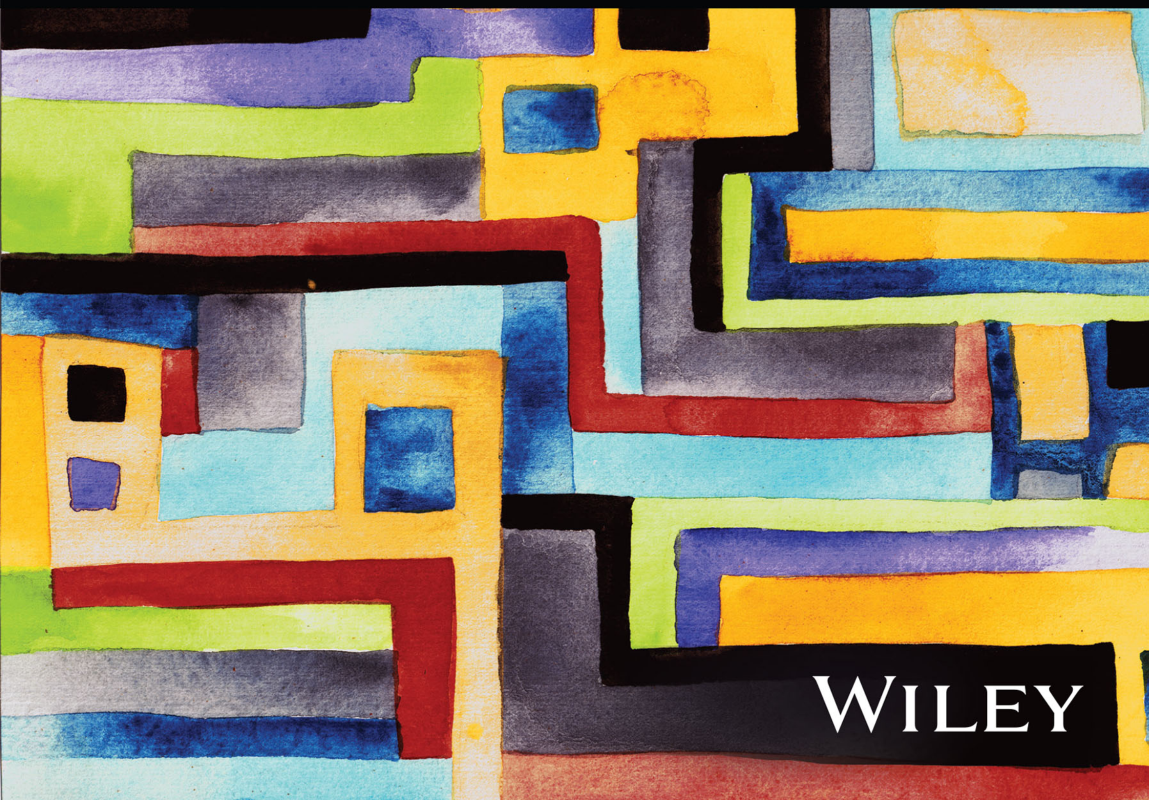
ASIAN ECONOMIES

HISTORY, INSTITUTIONS, AND STRUCTURES

JAMUS JEROME LIM



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A mi bella y paciente esposa, Eneida. Te quiero mucho

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Preface

Introduction

This book's title—*Asian Economies: History, Institutions, and Structures*—was deliberately chosen, to capture the book's emphasis on the enduring legacy of economic history on future prospects, the vast importance of political-economic institutions in shaping this trajectory, and the dramatic way that existing economic structures differ between Asian countries, which in turn condition their approach to economic development.

Also implicit in the title is the comparative nature of each country's development journey, as well as the relationship with the rest of the world, both of which we emphasize. Despite their continental nature—which often afford isolation and inward orientation—the economies of Asia have often been deeply integrated with each other, as well as the world at large. We therefore follow this cue, in our treatment of each country and region.

Motivation and Audience

Why another book on Asian economies? To be candid, there are a host of both more specialized references, such as the excellent books by Naughton (2018) on the Chinese economy, Panagariya (2010) on the Indian economy, and Ito and Hoshi (2020) on the Japanese one—and while they are often far more exhaustive, they are often written from the perspective of the economy in question.[1]

There are also books in this vein that take on a comparative perspective; Bardhan's (2013) comparison of China and India, Vogel's (1993) take on the

1 Naughton, B.J., *The Chinese Economy: Adaptation and Growth*, 2nd ed. (Cambridge, MA: MIT Press, 2018); Panagariya, A., *India: The Emerging Giant*, 1st ed. (Oxford: Oxford University Press, 2010); Ito, T. and T. Hoshi, *The Japanese Economy*, 2nd ed. (Cambridge, MA: MIT Press, 2020).

Newly Industrialized Economies (NIEs), and Noland and Pack's (2007) sweeping dissection of the Arab economies come to mind.[2]

There are also collected volumes of essays—handbook-like tomes such as Kaur and Singh (2014)—but these tend to be far less constrained in their scope, and single essays within may be repetitive or incomplete.[3]

Finally, there are books written more for a lay audience, where most recently, the rise of China and India has inspired a cottage industry. Such paperbacks are often featured prominently in airport bookstores, with provocative titles such as *Capitalism with Chinese Characteristics*, *The Argumentative Indian*, and *Vietnam: Rising Dragon*.[4] While wonderful reads, they often represent a particular take, and may not be as heavily referenced as the present book attempts to be.

This book—which emerged from many years of lecturing on Asian Economies at ESSEC Business School—positions itself within the gaps left behind by these other efforts. When I first started teaching the course, I felt bereft of a singular text that captured the breadth and scope of the economies across the world's largest continent. I was left with assigning key chapters within existing texts, but while these did a serviceable job (and exposed students to a wider variety of perspectives), they did not have a coherent narrative nor consistent approach. I wanted a book that would more closely match the needs of my course, which was catered to students who would go on to become practitioners, often in multinational corporations or financial institutions, but who may not have the sort of deep economics background or training that upper-level economics majors or graduate students could be expected to possess.

I wasn't entirely satisfied with the books targeted at a wider audience, either. While these offered important (if idiosyncratic) insights and painted vivid vignettes of contemporary events, they did not deliver in terms of the disciplined theoretical framework that I wanted my students to acquire. I wanted to be able to offer at least some basic analytical tools familiar to practicing economists. Many were in sufficiently steeped in the data for my taste, and I felt that it was important that my students gained a comfort level with essential quantitative knowledge.

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2 Bardhan, P., *Emerging Giants: Feet of Clay* (Princeton, NJ: Princeton University Press, 2013); Vogel, E.F., *The Four Little Dragons: The Spread of Industrialization in East Asia* (Cambridge, MA: Harvard University Press, 1993); Noland, M. and H. Pack, *The Arab Economies in a Changing World*, 2nd ed. (Washington, DC: Peterson Institute for International Economics, 2007).

3 Kaur, I.N. and N. Singh (Eds.), *The Oxford Handbook of the Economics of the Pacific Rim* (New York: Oxford University Press, 2014).

4 Huang, Y. *Capitalism with Chinese Characteristics: Entrepreneurship and the State* (Cambridge: Cambridge University Press, 2008); Sen, A., *The Argumentative Indian* (London: Allen Lane, 2005); Hayton, B., *Vietnam: Rising Dragon* (New Haven, CT: Yale University Press, 2011).

Approach and Innovations

My hope is that this book fills in the gaps that currently exist in the literature on Asian economies. While it can be profitably deployed as a primary textbook for upper-level undergraduate courses in regional economic studies, or graduate-level classes for non-economics majors—I certainly plan to do so—it can also be used by professionals with less familiarity with this part of the world who seek an in-depth introduction to the region, or by those who already possess some context but want a systematic reference work for diving deeper.

In this vein, this book has several pedagogical innovations that I hope will help with this goal:

- A consistent treatment of each economy or region, with the lens provided by both economic geography and history, before an introduction of the main economic structures and institutions associated with the country/region, which provide essential context. Economic progress is viewed both in a comparative context, as well as set against the country's interactions with the rest of the world. Each chapter then moves on to deal with the latest contemporary developments, before closing with prospects for their future.
- Each chapter is accompanied by a capsule introduction (available online) to a set of analytical tools that is especially relevant to the particular economy at hand. For instance, in trying to understand the growth experience of China, the tools of accounting in the Solow-Swan growth model are extremely useful; similarly, the importance of openness for the export-oriented development of the NIEs is explained via the Ricardian trade model, and fluctuations faced in the Japanese economy by a variation of the Salter-Swan open-economy disequilibrium model.
- As far as possible, each chapter is richly endowed with figures and tables. This serves to cultivate an empirical mindset—so important to the modern observer—as well as build familiarity with essential facts and figures for the economies being discussed.
- Discussion of topics is done in three ways. First, they are used to provide a deeper dive into specific case studies (riffing off the main text), such as the 2016 Indian banknote demonetization or the 1992 Japanese asset bubble. Second, they are used to provide expositional detail for unique structures and institutions, such as Korean *chaebol* or Singapore's band-basket-crawl exchange rate regime. Third, they could offer the intellectual history of ideas that played prominent roles in Asian economies, such as the East Asian export-oriented industrialization model, or the political economy of the West Asian resource curse.
- Creates discussion of political-economy elements—institutions, regimes, and actors—that tend to be de-emphasized by treatments that are more heavily focused on economics. This choice is deliberate: the only way to fully understand the dramatic, heterogenous development trajectories of Asian economies is to recognize that political economy had at least as much to do with their economic evolution, as purely technocratic considerations.

A Note on Nomenclature

This book is, by design, comparative in nature. Hence, it is necessary to represent many quantitative economic statistics—such as gross domestic product (GDP), trade volumes, and financial metrics—in a comparable format and currency.

By and large, these are shown in terms of constant (inflation-adjusted to a single base year) United States dollars (USD), unless the statistic is applied to a contemporaneous measure, in which case, current (nominal) USD is used. On occasion, where justified, such statistics may also be shown in terms of local currency, or in terms of an international dollar.

Why constant USD? Well, for starters, the Greenback (for the moment) remains the global reserve currency, and the U.S. the world's largest economy. It is most familiar to audiences worldwide, and is easily converted into an alternative, preferred currency. The choice of adjusting for inflation is also logical; with diverse rates of inflation—both within a country and between them—it is useful to get a picture of the true—what economists call *real*—macroeconomic picture, undistorted by price differentials.

Some authors and books choose to represent economic statistics, especially for GDP, in terms of a purchasing power parity (PPP)-adjusted "international" dollar (Intl$).[5] We have chosen not to do so, in general, for three reasons. First, the USD is a visceral, widely held, and frequently traded currency, whereas the Intl$ is abstract and not accepted in any given country or territory. Second, in spite of their best efforts, PPP measures capture quality differentials only imperfectly; for instance, even with so-called hedonic adjustments, it is difficult to imagine that even the best-quality healthcare in Sri Lanka might be comparable to that received in South Korea; by the same token, many purchasers would (and did) shun the purchase of a Proton or Perodua (Malaysian), opting instead for a Mazda or Mitsubishi (Japanese). And third, for international business consultants and financial market players—potentially a significant readership for this book—it is generally profits or returns in a globally-accepted currency that matter most. However, in instances where we are thinking either in terms of the cost of living/quality of life (especially expressed in per capita incomes), or when it is the volume of economic activity that matters, we will work with PPP equivalents.

On occasion, we also report Gross National Product (GNP), when such a metric is more illustrative of the situation at hand. In most instances, there is little practical difference between the two metrics, since wealth held abroad tends to be small (GNP measures the value of output of nationals, as opposed

5 These are usually termed Geary-Khamis international dollars, a hypothetical monetary unit that accounts for differences in the ability of a given currency to purchase goods and services in different economies at a single point in time. 2000 is typically used as the temporal benchmark.

to GDP, which measures the value of output produced within a nation's borders). In Asia, significant divergences tend to be observed in Japan (which sustains a large positive net international investment position), as well as Lebanon and Turkey (because of their large diasporas).

In most instances, political boundaries for geographic representations are secondary for our purposes. For example, in representing Taiwan as a distinct economy, or Egypt as an economy within Asia, we are not implying any political positions on either the official names of the territories, international recognition (or not) of political status of the location, or even whether these economies should be treated as sovereign states.

By a similar token, we refer to economies by their simple common placenames, as it is their economic boundaries and influence that we are most concerned with. These are usually the ones most identifiable to the average reader, rather than official country names (hence, Korea instead of South Korea or Republic of Korea, or Turkey instead of Türkiye). For the same reason, we also eschew formal naming conventions (Taiwan instead of Republic of China, Iran instead of Islamic Republic of Iran).

Acknowledgments

No scholarly work, even a sole-authored one, is fully attributable to one person. I rest on the shoulders of those I have learned from. These span the fields for which this book covers: macroeconomics (Ken Kletzer, Aart Kraay, Carl Walsh), international (Joshua Aizenman, Phil McCalman), political economy (K.C. Fung, Don Wittman), development (Maureen Lewis, Hans Timmer), and Asian economies (Chua Siow Yue). Anastasia Tsilyk provided amazing research assistance, Olena Kalinina generated many of the beautiful maps and figures, Susan Dunsmore offered valuable copyediting, and Syd Ganaden was the impetus for launching this project.

Abbreviations

ADB: Asian Development Bank, a regional development bank, headquartered in Manila, the Philippines, that extends development loans and provides economic advisory to member nations in Asia.

AIIB: Asian Infrastructure and Investment Bank, a multilateral development bank with members around the world, headquartered in Beijing, China, that extends infrastructure-related loans.

ASEAN: Association of Southeast Asian Nations, the main regional grouping for Southeast Asian economies, comprising 10 full member countries (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam), and 2 observers (Papua and Timor-Leste).

BRI: Belt and Road Initiative, originally known as the "One Belt, One Road" (OBOR) project, is a global infrastructure and trade development strategy initiated by the Chinese government, that now includes around 150 countries and international organizations as participants.

BRICS: An acronym, first coined by Goldman Sachs Investment Research but since adopted by the referent nations themselves, for the major emerging economies of Brazil, Russia, India, and China. The group was formally constituted in 2010 with the inclusion of South Africa, and, in 2024, further enfolds Argentina, Egypt, Ethiopia, Iran, Saudi Arabia, and the United Arab Emirates.

CAREC: Central Asia Regional Economic Cooperation Program, a program established under the auspices of the Asian Development Bank to promote economic cooperation among the economies of Central Asia, South Asia, and the Caucasus.

DM: Developed markets, a category of economies that includes most advanced economies with deep financial markets. While no universal categorization exists, these often include Asian economies such as Hong Kong and Singapore.

EM: Emerging markets, a category of economies that includes most developing economies with reasonably mature financial markets. While no universal categorization exists, these often include Asian economies such as China and India, but also South Korea, Taiwan, and the United Arab Emirates.

EU/EMU: European Union/European Monetary Union, an economic and political union of 27 member states within Europe, of which 19 members utilize a common currency (the euro), and hence are part of the EMU.

FDI: Foreign direct investment, typically the largest and most stable component of international financial flows, and a key component of Asian economies' development strategy of welcoming capital from abroad.

G7/G20: The Group of 7 (20) major economies worldwide that have met regularly to discuss matters of global economic governance. The G7 (G20) comprise Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States (plus Argentina, Australia, Brazil, China, India, Indonesia, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, and the European Union).

GCC: Gulf Cooperation Council, a common market among a group of hydrocarbon-rich, high-income economies, comprising Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

ICT: Information and communications technology, the hard and soft infrastructure and components that enable modern digital computing, networking, and information exchange.

IMF: International Monetary Fund, an international financial organization that, together with the World Bank, constitute the two original "Bretton Woods" institutions, formed in the aftermath of World War II to govern international financial flows within the global financial system.

N11: A term coined by Goldman Sachs Investment Research to refer to the "Next 11" economies poised to become the among the largest and most dynamic emerging markets: Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, the Philippines, South Korea, Turkey, and Vietnam.

NIE: Newly Industrialized Economies, sometimes referred to as the Asian Dragons, comprising Hong Kong, Singapore, South Korea, and Taiwan. The next wave of NIEs in Asia, sometimes called the Asian Tigers, include economies such as Malaysia, Indonesia, and Thailand, although there is, as yet, little consensus that these countries have attained NIE status.

OECD: Organisation for Economic Co-operation and Development, a group of industrialized nations often used as a proxy for advanced-economy status.

OPEC: Organization of the Petroleum Exporting Countries, a cartel arrangement of 13 major oil-producing countries, all located in developing economies, with 5 (Iran, Iraq, Kuwait, Saudi Arabia, and the UAE) located in Western Asia. The grouping accounts for about a third of global production and claims almost three-quarters of proven reserves.

OPEC+: A looser grouping of OPEC nations plus an additional 10 non-OPEC oil-producing economies that may participate in OPEC supply control initiatives, which includes Azerbaijan, Kazakhstan (Central Asia), Bahrain, Oman (Western Asia), Brunei, and Indonesia (Southeast Asia).

SEZ: Special Economic Zone, also sometimes known as Export Processing Zone, which is an area subject to distinct business and trade laws from the rest of the country, and usually subject to no taxes or tariffs, so long as goods produced within the zone are designated for export.

SME: Small and medium-sized enterprises, usually defined as firms that employ less than 200 employees and earning revenue below a certain threshold, although specific thresholds differ.

SOE: State-owned enterprises, usually defined as a firm that is wholly or partially owned by the government, and often directed to fulfill nonmarket objectives.

TFP: Total factor productivity, which is a measure of the contribution of technological progress and efficiency of combining factors of production, after accounting for observable contributors to economic growth, such as physical and human capital accumulation.

UN: United Nations, an umbrella intergovernmental organization, formed in the aftermath of World War II, with the aim of maintaining international peace and security and promoting international cooperation and relations between countries. A host of multilateral agencies, including the Bretton Woods institutions (the IMF and the World Bank), the World Health Organization (WHO), UN Educational, Scientific, and Cultural Organization (UNESCO), and UN Children's Fund (UNICEF), fall within the UN ambit.

USSR: Union of Soviet Socialist Republics, a country that spanned much of Eurasia between 1922 and 1991, including all the modern Central Asian nations.

World Bank: World Bank Group, comprising five subsidiary international financial organizations (the International Bank for Reconstruction and Development, IBRD, the International Development Organization, IDA, the International Finance Corporation, IFC, the Multilateral Investment Guarantee Agency, MIGA, and the International Centre for Settlement of Investment Disputes, ICSID), an international financial organization that, together with the IMF, constitutes the two original "Bretton Woods" institutions, formed in the aftermath of World War II to conduct international development lending within the global financial system.

WTO: World Trade Organization, the successor organization to the General Agreement on Tariffs and Trade (GATT), which is the main multilateral agreement governing international trade between nations.

Introduction: Asia as a Continent in Flux

[T]here is a small group of countries which are quite well off and a much larger group of extremely poor countries . . . countries in the former group are on the whole firmly settled in a pattern of continuing economic development, while in the latter group progress is slower, as many countries are in constant danger of not being able to lift themselves out of stagnation or even of losing ground so far as average income levels are concerned.

—Gunnar Myrdal (1898–1987), Swedish economist and Nobel Prize-winner

[M]ost of East Asia's extraordinary growth is due to superior accumulation of physical and human capital . . . [i]n this sense there is nothing 'miraculous' about the East Asian economies' success; each has performed these essential functions of growth better than most other economies.

—Lewis Preston (1926–95), American banker and World Bank President[1]

Introduction

On August 15, 1945, Emperor Hirohito announced Japan's surrender, which brought an end to the hostilities of World War II. Asia lay in ruins. The Empire of Japan had invaded or occupied virtually all of East and Southeast Asia. Western Asia had been part of the European theater, just a few short decades after the previous world war had sparked the final collapse of the six-century-old Ottoman Empire. South and Central Asia, while insulated from the direct ravages of the war, had been indirectly dragged into the conflict; the British

1 Birdsall, N., J. Campos, W.M. Corden, C-S. Kim, L. MacDonald, H. Pack, R. Sabor, J. Stiglitz, and M. Uy (Eds.), *The East Asian Miracle: Economic Growth and Public Policy* (Oxford: Oxford University Press, 1993).

Indian Army had been recruited to fight in West and Southeast Asia (along with North Africa), and Central Asia was likewise roped in by the Soviet Union to host refugees and deportees after the German invasion.

Amidst this destruction, Asia began to rebuild. It was starting from a very low base. China hosted coastal cities (such as Guangzhou and Shanghai) that had, over the course of their history, enjoyed significant prosperity. But by the end of the Qing dynasty, the Middle Kingdom had fallen far behind its European counterparts. India, for centuries the world's richest country, had likewise seen deindustrialization and stagnation after close to two hundred years of British dominion.

Despite millennia of being a key player in the global economy, it became increasingly difficult for contemporary observers to see Asia as anything but a relative backwater, doomed to obscurity in global economic and political affairs. The action was all in the West, in Western Europe as well as North America. Even Latin America, which had received significant migrant and capital inflows from the West, was often perceived as having more potential to succeed.

But developments over the course of the subsequent half-century turned these expectations and predictions on their head. Japan—the first industrialized economy in Asia—had been devastated by the ravages of war, and few expected the nation to rebound as quickly as it did after a humiliating military defeat. The oil age was only in its infancy, and the very modest discoveries in Western Asia gave little indication that black gold would subsequently be a central driver for the rise of hitherto peripheral economies, such as Saudi Arabia and the United Arab Emirates, making them among the highest-income nations in the world.

Today, cities across the Asian continent, from Dubai in the west, to Tokyo in the far east, to Singapore at the southeastern tip, are gleaming metropolises, often surpassing the wealth (and often opulence) of the richest cities in the West and, indeed, the rest of the world. Many Asian economies did so with idiosyncratic development formulae, albeit with common themes: robust accumulation of factors of production, such as labor, capital, and education, relatively open trading regimes, and the rapid importation of technological ideas from the developed world. It managed to do so with agility and aplomb, catapulting its constituents at an accelerated rate into the league of major economies.

This book will trace the rise (or, perhaps, re-emergence) of Asian economies. It will do so from the perspective of not just its businesses, workers, and macroeconomic environments, but also draw in the key features of its labor markets, educational frameworks, market structure, and political-economy institutions. We will embark on our explorations with a mindset that does not treat these idiosyncratic institutions as aberrations from Western-style capitalism, but rather as alternative modes of modern economic organization.

We will take both geographical features and historical evolution seriously. Asian nations encompass virtually every possible geographic configuration, and these varied landscapes and natural endowments have shaped the course of their development over centuries. Their histories are equally rich, and in cases such as in China, India, Egypt, and Mesopotamia, were the basis of whole civilizations that stretch back thousands of years.

And we will use these insights from the past not just as a lens to the present, but as a means to possibly peer into their future. The legacy of the past has resulted in these modern economies' structures and institutions, of course, but they will likely also direct the manner by which their subsequent development plays out. Many today may wonder whether Asia's rise will be sustained, and if the region will become ever-more important in the future global economy. Our answer is unequivocally yes, but this does not mean that we should take this rise for granted. Challenges abound, and only by confronting and resolving these constraints to growth will the region achieve its full potential.

The Diversity of Asian Economies

Asian Economies Include Rich and Poor

Asian economies are incredibly heterogeneous. Asia hosts some of the world's richest countries: from the world's second-richest large economy (Japan, after the United States), to one of its richest small economies (Singapore), along with economies that have only become remarkably wealthy within a generation (Brunei, Qatar, and the United Arab Emirates).

But Asia is also home to incredibly poor nations: North Korea is possibly the world's poorest economy, and Afghanistan, East Timor, Myanmar, and Tajikistan all number among the world's least wealthy. Even India—now the second-largest emerging economy, after China—remains the country with the world's largest number of poor people.

And in between, one finds the entire range of possible outcomes; from the economies that are belatedly finding a footing in their development journey and enjoying a growth spurt (such as Bangladesh, the Philippines, Turkmenistan, and Vietnam), to those that enjoyed their phase of accelerated growth, but are now confronting the classic middle-income trap (one thinks of economies such as those of Iran, Lebanon, or Malaysia), to those that appear locked into prolonged periods of anemic growth (Nepal and Yemen come to mind). A map of the world, weighted by per capita incomes, reveals an Asia that is both less prominent than might be suggested by its geographic footprint, but also featuring economies that are more important than they may seem based on physical size alone (Figure 0.1).

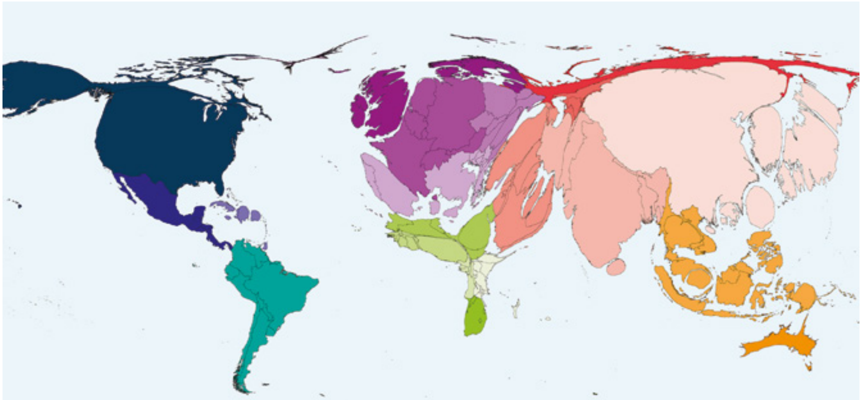

Figure 0.1 A map of the world in terms of per capita GDP becomes almost unrecognizable, as the economic footprint of each country is reshaped in a manner disproportionate to its geographic one.

Variations in Income Differences Stem from Political-Economic Distinctions

Behind these stark outcomes are economic, political, and institutional differences that have led to such outcomes. Many economic structures unique to the region—the mega-conglomerates (such as Japan's *keiretsu* or South Korea's *chaebol*), the prevalence of state-owned or government-linked firms (certainly in China, but also in highly capitalistic economies such as Singapore or the UAE), or the overall dependence on large banks for financial intermediation—were in turn born out of political, policy, and institutional histories.

Much of Asia has, like the rest of the non-Western world, borne the burden of colonization (or, at least, had more than a passing brush with it). India was the jewel in the crown of the British Empire, which also had a presence in Western and Southeast Asia. The Russian Empire dramatically altered Central Asia, both before and during the Cold War. Vestiges of French influence remain in Indochina and Lebanon, as well as in concession territories (such as Shanghai). The Dutch, the Portuguese, and the United States all had forays in Asia, and even the Japanese—belated entrants to the game—held colonies in Asia.

These colonial histories then shaped the sort of political-economic institutions that we find in Asian economies even today. The choice of central planning as opposed to the free market—or some middle-ground *dirigisme*—is the most obvious, but also in terms of the choice of import-substituting relative to export-oriented industrialization strategies, socialist versus capitalist ownership structures, and autocratic or democratic political regimes.

Common Features of Asia's Development Experience

Despite these nontrivial differences, there are also significant commonalities in the development experience, especially on the macroeconomic front.

A Reliance on Factor Accumulation as a Growth Engine

Principal among these is a reliance on factor accumulation as a primary engine for rapid, sustained growth. Riding on a steady pickup in the birthrate following World War II—a phenomenon sometimes referred to as the post-war Baby Boom—Asian economies (along with many others worldwide) enjoyed the fruits of a demographic tailwind that enlarged their working-age laborforce, providing a key input into economies that had hitherto remained mostly poor and backward.

Most Asian economies then channeled their relatively low-skilled workforces toward industrial processes, taking advantage of the lower wages afforded by surplus agricultural workers in the rural economy.[2] Soon, "Made in Asia" became virtually synonymous with low-end manufactured goods, from processed food to clothing and textiles to low-cost consumer electronics.

Labor is only a third of the story, of course. Many of these young populations exhibited the (perhaps stereotypical) trait of high-saving Asian cultures, which provided much of the necessary grist to the mill of capital accumulation, and proved complementary to labor inputs.[3] Asian households and firms simply saved more, on average, and this was an important growth factor, given the strong relationship between investment rates and saving patterns.[4] Where domestic saving fell short, many were able to tap into the global pool of foreign saving and welcome foreign investment via financial inflows.

The stress on capital accumulation has led the leading industrial nations in Asia to become among the most capital-intensive nations in the world. The share of capital stock (as a share of output) in economies such as China, Japan, and South Korea now clearly outstrips that of Western industrialized nations, even those commonly regarded as capital-rich (such as the United States). Asia boasts the highest density of industrial robots—accounting for two-thirds of all installed capacity worldwide—and perhaps more poignantly, is expected to continue to increase these investments, even as other regions pare back (Figure 0.2).

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2 Lewis, A. "Economic Development with Unlimited Supplies of Labor," *Manchester School* 22(2) (1954): 139–191.
3 Horioka, C. and A. Terada-Hagiwara, "The Determinants and Long-Term Projections of Saving Rates in Developing Asia," *Japan and the World Economy* 24(2) (2012): 128–137.
4 Feldstein, M. and C. Horioka, "Domestic Saving and International Capital Flows," *Economic Journal* 90(358) (1980): 314–329.

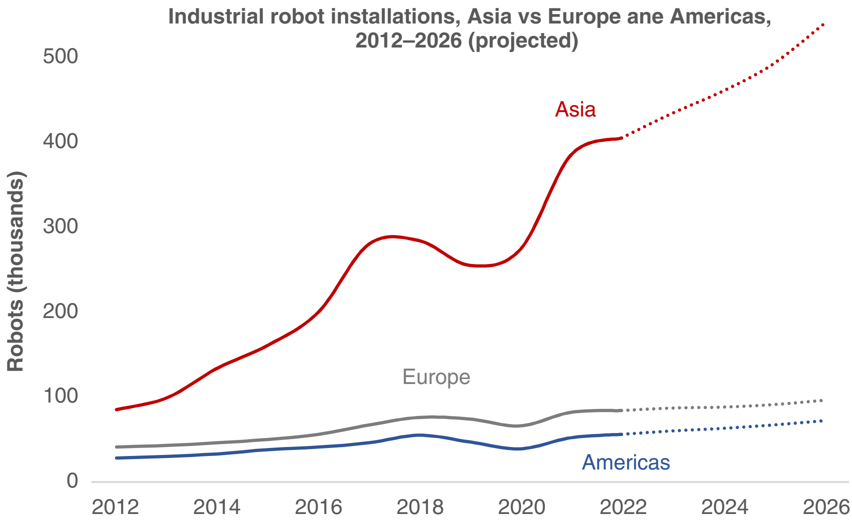

Figure 0.2 Today, Asia has the highest density of industrial robot deployment worldwide, accounting for two-thirds of all installed capacity (with China, at around half of this share, being the largest). Asia has also steadily invested more—and is projected to continue to do so—relative to other regions.

The final third of the story was the rapid increase in educational attainment among Asian economies. This was born of the explicit recognition that raw labor, alone, would be insufficient to drive growth over the long run. Rather, appropriate learning and training would provide the additional skills necessary to ensure a productive workforce. Accordingly, Asian economies ramped up their schooling efforts.

In the 1950s, Asian economies mostly started off behind other developing regions, such as Eastern Europe, Sub-Saharan Africa, and Latin America (Figure 0.3). However, by 2010, the average years of schooling in East, South, and Western Asia had caught up and—in the case of East Asia—largely exceeded those of other developing areas, except when compared to Eastern Europe. These remarkable gains offset the slowing of population expansion—which has unrelentingly begun to work its way to parts of East and Southeast Asia—as improved human capital quality made up for reduced quantity.

Together with increases in these so-called proximate drivers of growth—labor, physical, and human capital—was an emphasis on specialization in production, often as part of a disintegrated production chain,[5] where each country would produce only specific components of a larger product. Hence, a car may

5 Feenstra, R., "Integration of Trade and Disintegration of Production in the Global Economy," *Journal of Economic Perspectives* 12(4) (1998): 31–50.

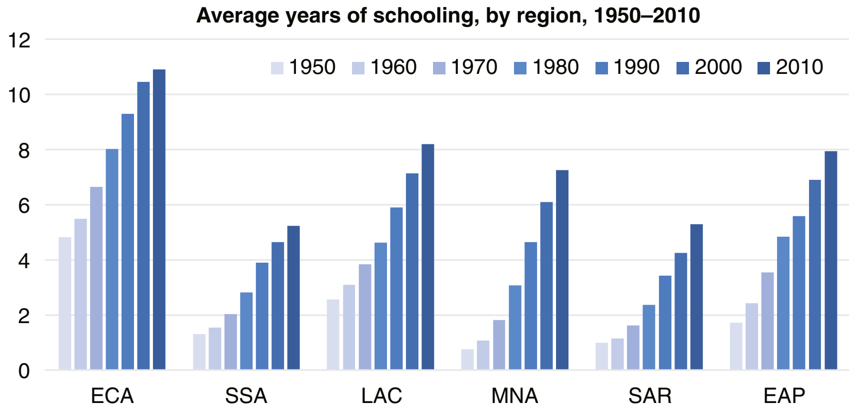

Figure 0.3 Eastern Europe (ECA), Sub-Saharan Africa (SSA), and Latin America (LAC) started off mostly ahead of in terms of educational attainment relative to Asian developing regions, such as Western (MNA), South (SAR), and East (EAP) Asia. However, by 2010, schooling in many Asian regions had caught up or exceeded those of the rest of the developing world.

be designed in Japan, use circuit boards and semiconductors manufactured in South Korea and Taiwan, paired with tires from Indonesia, a brake system from Indonesia, a chassis from Thailand, and fuel pipes from Vietnam. The final assembly and redistribution back to developed markets may occur in China, with marketing provided by a Singaporean firm and after-sales support by call centers in the Philippines.

Eventually, however, "graduating" Asian economies began to climb up the value-added ladder into services—while gradually scaling back on manufacturing production—to become post-industrial economies. In essence, most Asian economies followed a tried-and-tested script for development; indeed, some would argue that the move from primary to secondary to tertiary-dominated economies is the very *definition* of development.

This approach was followed, with notable success, by the Newly Industrialized Economies (NIEs)—Hong Kong, Korea, Singapore, and Taiwan—but has been replicated by many others across the continent, from those in the Far East (China) and Southeast Asia (the Asian Tigers of Indonesia, Malaysia, and Thailand), to Central Asia (Turkmenistan) and its western edges (Iran). South Asia has, somewhat belatedly, also made a foray into decentralized supply chains, with India and Pakistan following the lead set by Bangladesh.[6]

There are notable exceptions to this development pattern. India and the Philippines have experienced premature deindustrialization, with services in

6 Wignaraja, G., "The Great Supply Chain Shift from China to South Asia?", *Indian Council on Global Relations,* Essay Paper 34 (Mumbai: Gateway House, 2023).

these economies booming well ahead of manufacturing reaching any point of maturity or saturation. Certain economies—such as Kazakhstan—had inherited an industrialized base while it was part of the Soviet Union. And certain resource-reliant countries, such as Brunei or Saudi Arabia, have been comparatively less successful in diversifying their economies beyond their primary commodity export.

Export-Oriented Trade and Exchange Rate Undervaluation Strategies

Asian economies often accompanied their rapid accumulation of factors of production with an export-oriented industrialization strategy, where output was targeted at a global, rather than a local, market. In some ways, this was necessitated by the disintegrated value-chain approach, given how the routine import and export of parts and components are essential to the model.

But this choice was not a given. At the time of independence, many Asian governments had a choice for their industrialization strategy: export orientation, or (what had seemed to be) the equally compelling option of import substitution. Import substitution—where trade protection would be offered to domestic firms as a reliable outlet for their production, while they were still discovering their manufacturing chops—was chosen by many a regional policymaker, but when the limitations of the model became increasingly evident by the 1980s, most pivoted toward export orientation, even as they maintained certain aspects of protectionism (Figure 0.4).[7] Asia embraced globalization way before globalization became sexy.

It is important to stress, however, that little within the paradigm of export orientation requires completely unfettered trade or unvarnished free-market capitalism.[8] Indeed, Korea and Taiwan are two countries that—even as they moved away from a developmental state—deployed industrial policy (production subsidies for favored sectors) and commercial policy (import tariffs to allow infant industries to grow), especially during the earlier development phase. Others, especially India, have remained markedly recalcitrant in offering market access, especially in agriculture.

The omnipresent state did not limit itself to international trade. International finance, as practiced in Asia, includes significant elements of state interventionism as well. This is most pronounced in exchange rate policy, where

7 Stubbs, R., "War and Economic Development: Export-Oriented Industrialization in East and Southeast Asia," *Comparative Politics* 31(3) (1999): 337–355.
8 Chang, H-J., *The East Asian Development Experience: The Miracle, the Crisis and the Future* (London: Zed Books, 2006).

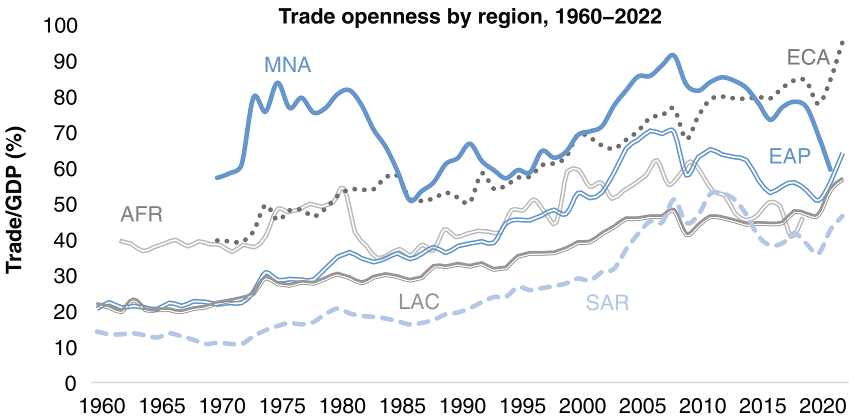

Figure 0.4 By the late 1980s, the limits of import-substituting industrialization had become evident, and most Asian economies that did not initially adopt export orientation pivoted toward the strategy. This resulted in a belated catch-up of trade openness in the region to global norms.

undervalued exchange rates—usually effected with some form of financial repression or outright capital controls—served as an invaluable complement to export-led growth.[9]

The upshot of such interventions to suppress the natural movements of the exchange rate has resulted in, on one hand, the need for institutions to manage the massive reserve build-up (which results from greater-than-normal purchases of the local currency), and, on the other, a sensitivity of policymakers to the ever-present possibility of currency and balance of payments crises (which is the outcome of unexpected sales of domestic currency). This explains, in no small part, the ubiquity of sovereign wealth funds in Asian states, as well as the recurrent financial crises in others, including the two major financial shocks experienced in recent decades: the Asian financial crisis of 1997/1998, and the global financial crisis of 2007/2008.

Distinct Elements of Asian Economic Organization

To the extent that one is able to draw finer distinctions between Asian economies, it is in their industrial organization, as well as other elements of microeconomic structure.

9 Dooley, M., D. Folkerts-Landau, and P. Garber, "The Revived Bretton Woods System," *International Journal of Finance and Economics* 9 (2004): 307–313.

Unique Aspects of Asian Industrial Organization

Perhaps most palpable among these are the disparate and potentially unfamiliar—at least to conventional Western-trained students of economics—modes of industrial organization. These designs range from economies dominated by large, diversified, and tightly-linked conglomerates (Japan and Korea), to those comprised almost entirely of small and medium-sized enterprises (Hong Kong and Taiwan), to ones where the largest firms have crowded out smaller competitors to the extent that the latter remain mostly micro-sized (India and the UAE).

Conglomerates can be found on Western shores, of course—think Diageo, Fiat, LVMH, or Time Warner—but these tend to lean primarily toward one sector, whether it be in food and beverages, autos, luxury, or media (the British Virgin Group and American Koch Industries are almost exceptions that prove the rule). But Asian conglomerates frequently span the gamut of sectors, and for Japanese *keiretsus*, even embed within the group a full-scale financial institution.

Similarly, some Western economies—notably Italy with its *distretti industriali*, or Germany with its *Mittelstand*—include a preponderance of smaller firms. But these segments of the economy tend to function both efficiently and relatively independently of one another, rather than being bound in symbiotic networks and overlapping corporate relationships, both informal and formal, which are common in China (where it is known as *guanxi*), Japan (the *kyōryoku kai* and *kinō-teki shudan*), Singapore (industrial parks), Taiwan (*chanye juluo*), and Vietnam (*khu công nghiệp*).[10]

This has led some observers to even brand distinctions drawn along market structure lines as "varieties of capitalism."[11] But the line is often drawn mainly between liberal market economies (such as the Anglo-Saxon economies) and coordinated market economies (those on mainland Europe). Yet this characterization—while useful insofar as it also emphasizes the unique approaches Europe employs for industrial relations between employers and employees—papers over some significant differences in how companies operate in the Asian context.[12]

This is especially so because the state often plays a much greater role in Asian economies, both during the developmental phase, as well as on an ongoing

10 The exception here may be Italy, which has the largest number of small and medium-sized enterprises (SMEs), and has among the lowest average enterprise size within the EU. Italian SMEs retain competitiveness by banding together in clusters, not unlike those in industrial parks and special economic zones across East Asia.

11 Hall, P. and D. Soskice, *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* (Oxford: Oxford University Press, 2001).

12 Hundt, D. and J. Uttam, *Varieties of Capitalism in Asia: Beyond the Developmental State* (London: Palgrave Macmillan. 2017).