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Asian economic development: A primer

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Abstract

During the post-World War 11 era, the process of economic transformation in Asia has been more rapid and extensive than in any other region in the world. With the Asia-wide embrace of market-oriented policy reforms and following the meteoric rise of China and India's awakening from economic slumber, the twenty-first century has come to be labelled the 'Asian Century'. The purpose of this paper is to introduce the nonspecialized reader to a selection of published papers that provides a comprehensive picture of economic policymaking and performance of these countries. The compilation of the collection was motivated by both the economic significance of the region in the global economy and the pivotal role played by Asia-focused research in the enrichment of the subject area of development economics. The papers have been carefully selected to help the reader to understand political and economic underpinnings of the Asian economic dynamism in general and notable differences in economic progress among the Asian countries.

Key words: Asian century, economic development, structural chnage

JEL codes: O10, O40, O53, F02

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Asian Economic Development: A Primer

Prema-chandra Athukorala

INTRODUCTION

During the post-World War 11 era, the process of economic transformation in Asia[1] has been more rapid and extensive than in any other region in the world. The process started with the miraculous rise of Japan from the ashes of the Pacific War in the mid-1950s. By the early 1970s, Hong Kong, Korea, Taiwan and Singapore (which soon gained the label the Newly Industrializing Economies, NIEs) had successfully embraced outward-looking development strategies. By 1980s, the three main Southeast Economies, Malaysia, Indonesia and Thailand, were on the trails of the NIEs. Following the policy regime shifts from 'plan to market' in the late 1970s, China emerged as the fastest growing economy in the world and a major hub within international production networks. During the first three decades of the post-World War 11 era, countries in South Asia remained largely severed from the on-going process of economic dynamism in rest of Asia, with the notable exception of Sri Lanka, which embarked on significant liberalization reforms in the late 1970s. India and Bangladesh began to embark on market-oriented policy reforms in the mid-1980s. The reform process accelerated in India following the macroeconomic crisis in 1991. From about the early 1990s the three economies of Indochina (Vietnam, Laos and Cambodia) and, more recently, Myanmar began to open their economies. By the dawn of the new Millennium, all major countries in the region, with the sole exception of North Korea, had become more open to foreign trade and investment, albeit at different rates.

In the early 1980s, when East Asia (Pacific Asia) became the major trading partner of the USA replacing Western Europe, economists began to speculate about the coming of the 'Pacific Century' (Linder 1986). With the Asia-wide embrace of market-oriented policy reforms and following the meteoric rise of China and India's awakening from economic slumber, the twenty-first century has come to be labelled the 'Asian Century' (Kohil et al 2011, Romei and Reed 2019). Asian economic

[1] Asia is defined here to cover Japan, Northeast Asia China (South Korea, Taiwan, Hong Kong), Southeast Asia (Cambodia, Indonesia, Laos, Malaysian, Philippines, Singapore, Thailand, Myanmar and Vietnam), and South Asia (India, Pakistan, Bangladesh, Sri Lanka and Nepean). Brunei in South East Asia and Bhutan and Maldives in South Asia have not been covered because of a dearth of material.

dynamism has been having a powerful ideology impact on the debates on development strategies, and a demonstration effect on policy making in countries in the region and elsewhere.

This two-volume reference collection brings together a selection of previously published papers on economic development of the Asian economies. The papers together provide a comprehensive picture of economic policymaking and performance of these countries. The compilation of the collection was motivated by both the economic significance of the region in the global economy and the pivotal role played by Asia-focused research in the enrichment of the subject area of development economics. The papers have been carefully selected to help the reader to understand political and economic underpinnings of the Asian economic dynamism in general and notable differences in economic progress among the Asian countries.

The countries covered in the reference collection account for 18.7 percent of the total land area 52.7 percent of the population and 32.2 percent of gross domestic product (GDP) of the world (Table1). Measured by GDP, Japan was the largest economy in the region until 2009 when China surpassed it. In 2018, China's share in world GDP (15.9 percent) was almost three times of that of Japan (5.8 per cent). India, notwithstanding its large share in world population (17.8 percent) and vast land area, accounts for only 3.2 of world GDP. Per capital income of the countries (according to the data for 2018) ranges from US$ 760 in Nepal to US10460 in Singapore. Japan, Hong Kong and Singapore are among the richest countries in the world. South Kores (henceforth referred to as 'Korea') and Taiwan have also been in the high-income league for over two decades are. Malaysia, Thailand; the Philippines and Indonesia, in that order, come next in the per capita income ranking. The South Asian countries and the Southeast Asian countries in Indochina are clustered at the bottom end of the raking. Japan and the four Northeast Asian countries are not endowed with natural resources, whereas a number of other countries in the region, in particular Myanmar, India, Indonesia, Malaysia, Thailand and Laos are rich in natural endowments. In sum, there are considerable diversity among the Asian countries in terms of the stage of development and resource endowments. This makes the region potent laboratory to assess many issues raised in the development debate from a comparative perspective.

The purpose of this introductory chapter is to provide place the essays in a comparative regional context and to introduce the reader to the main themes covered in the collection. An attempt will also be made to introduce relevant additional material, which cannot be included in the collection because of copyright restriction, space constraint or unavailability in directly reproducible form. The rest of the chapter is structured by the main sections of the two volumes.

Table 1: Asian economies: Area, population, income and the incidence of poverty, 2018

Country/ country groups	Surface Area ('000sq km.)	Population (millions) 2018	GDP (US$ billion)[1] 2018	GNI per capita (US$)[1] 2018	Share in world total (%)		
					Surface area	Population	GDP[1]
Japan	378	126.5	5231.3	41340	0.3	1.7	6.2
Northeast Asia	9700.1	1475.4	15711.9	10920	7.2	19.4	18.6
China	9563	1392.7	13184.1	9470	7.1	18.3	15.6
Hong Kong	1.1	7.5	374.9	50310	***	0.1	0.4
South Korea	100	51.6	1580.1	30600	0.1	0.7	1.9
Taiwan[2]	36	23.6	572.8	24984	***	0.3	0.7
Southeast Asia	10586.7	654.6	2908.4	3439	7.9	8.6	3.4
Brunei	6	0.4	13.3	31020	***	***	***
Cambodia	181	16.8	22.5	1380	0.1	0.2	***
Indonesia	1910	267.9	1026.8	3840	1.4	3.5	1.2
Laos	237	7.1	17.4	2460	0.2	0.1	0.0
Malaysia	331	31.5	329.9	10460	0.2	0.4	0.4
Myanmar	6777	53.7	70.2	1310	5.0	0.7	0.1
Philippines	300	106.7	408.8	3830	0.2	1.4	0.5
Singapore	0.7	5.6	331.4	58770	***	0.1	0.4
Thailand	513	69.4	458.7	6610	0.4	0.9	0.5
Vietnam	331	95.5	229.4	2400	0.2	1.3	0.3
South Asia	4479	1743.4	3468.3	1955		23.0	4.1
Bangladesh	144	128	282	1750	14.8	1.7	0.3
Bhutan	38	0.8	2.3	3080	1.5	***	***
India	3288	1352.6	2733.5	2020	21.2	17.8	3.2
Maldives	0.3	0.4	2.9	6950	---	---	---
Nepal	147	28.1	27.0	960	13.4	0.4	0.0
Pakistan	796	212.2	335.6	1580	3.9	2.8	0.4
Sri Lanka	66	21.7	87.9	4060	0.8	0.3	0.1
Asia[3]	25143.8	3999.9	27319.9	6750	---	52.7	32.4
Momo item: World	134,325	7,594	84,303	11,101	100	100	100

Notes: --- Data not available *** Less than 0.05 percent.

(1) local currency price of GDP at current price converted into US$ based on the World Bank's atlas method.
(2) Data for 2017.
(3) Japan and the countries in Northeast Asia, Southeast Asia and South Asia.

Source: Compiled from World Bank *World Development Indicators* database and Republic of Taiwan, Council for Economic Planning and Development, *Taiwan Statistical Yearbook* (various issues), Taipei: Executive Yuan (www.cepd.gov.tw (for data for Taiwan).

HISTORICAL PERSPECTIVE

A clear understanding of the initial political, economic, and social conditions is needed in order to study the post-World War 11 growth and development of these countries from a comparative perspective. The four chapter in Part 1 of Volume 1 aims to provide this necessary background.

Japan and China were self-governing, unified states for hundreds and thousands of years. In the first half of the twentieth century, there were brief interludes of Japanese rule in Korea (1895-1945) and Taiwan (1905-1945), but Japan ruled the two countries mostly local rulers working with indigenous institutions. Self-rule within reasonable defined borders presumably provided nationals with political aspirations in Japan, China, Korea and Taiwan with the opportunity to test their governance skills. By contrast, Hong Kong, countries in Southeast Asia (except Thailand) and South Asia (except Nepal) were colonies of European powers for a century or more. Under colonialism there were few opportunities for local elite to become involved in governing their own people (Perkins 2013).

During the colonial era, India, Pakistan and Bangladesh formed one administrative entity – called the British India or the British Raj - governed by Great Britain. At independence in 1947, an eastern and a western region of India were carved out to form a new country – Pakistan, the world's largest Muslim state. There were wide socio-economic differences between the two halves of Pakistan, other than the common bond of Islam. Separated at birth, India and Pakistan have fought ever since over the disputed region of Kashmir. The uneasy coexistence of East and West Pakistan ended in 1971 with the emergence of East Pakistan as the independent nation of Bangladesh. The coastal regions of Sri Lanka Sri Lanka (commonly called Ceylon until 1972) had experienced Portuguese and Dutch suzerainty for over two centuries before the arrival of the British at the end of the 18th century, who extended rule over the entire country in 1815. Only Nepal remained independent of British rule. But, as a land-locked state with strong economic dependence on India, by and large, its destiny too was shaped by colonialism (Blaikie *et al*, 1980).

Countries in Northeast Asia each shared a common culture based to an important degree on Confusion values. There were also largely homogeneous in ethnicity and language. This socio-cultural homogeneousness made it easier for large parts of the populations of these countries to have a sense of 'shared growth', to see development efforts as benefitting the entire nation. Thailand, Vietnam, and to a lesser extend Burma (later renamed Myanmar) come closer to Northeast Asia in terms of culture and language. By contras the other Southeast Asian countries and countries in South Asia are characterized by significant socio-cultural heterogeneity (Farmer 1993, 1.4, Perkins 2013, 1.2).

Over the long run there has been a dramatic change in the relative position of the Asian economies in the global economy. According to GDP data constructed by Angus Maddison starting from 1 AD, Asia was the dominate region in the world until about the late thirteenth century (Maddison 2007). Until at least the mid-thirteenth century, China's was a far greater civilization in both size and accomplishment than all countries in the contemporary medieval Europe. Since then there was widening divergence between Europe (and subsequently the European offshoots) and Asia for reasons widely debated by economic historians.[2] There was already a big income per capital gap in 1820 between Asia and Europe when the Industrial revolution was just warming up in the latter. The gap widened during the rest of the 19th century.

Following the Meiji Restoration in 1868, Japan laid the foundation for modern economic growth by negotiating diplomatic recognition and opening the economy to foreign trade (Okazaki and Okuno-Fujiwara 1999). Japan had become a modern Industrial economy in the first four decades of the twentieth century. By 1940, Japan's per capita income has reached 32% of that of the USA compared to 14 percent in the early 1870s. The war destruction had reduced this to 17 per cent by the early 1950s (Table 2). For over two centuries until the Communist victory in 1949, China remained virtually isolated from the ongoing process of economic modernization in the West. The Communist regime radically transformed the economy to fit the Soviet model (Putternman 1992, 1.3; Perkins 2013, 1.2). India had had a century-long history of industrializations. However, colonial economic setting was not generally conducive for industrialization (Basu 2018, Joshi 2017).

DEVELOPMENT POLICY

During the American occupation following the Pacific War (August 1945 to April 1952), Japan had no sovereignty required for designing its own development strategy of diplomatic relations (Dower 1999). However, American occupation helped setting the stage for rapid economic recovery by drawing on US technology and accessing the world's largest market (Beckley et al 2018). The amicable way the Japanese people embraced defeat and the American occupation helped forging a strong link between the two countries. Because the victors had no linguistic or cultural entrée to the losers' society, they had little choice but to govern 'indirectly' through existing organs of government. Therefore the

[2] On the 'great divergence' debate, see Pomeranz (2009) and the work cited therein.

unique Japanese institutions and business practices[3] evolved during the war period (from the 1930s to 1945) remained largely intact (Okazaki and Okuno-Fujiwara 1999).

Table 2: Asian Countries: Per capita GDP relative to the USA [1], 1940-2016, two-year averages (%)

Country/ country group	1940-41	1950-51	1960-61	1970-71	1980-81	1990-91	2000-01	2010-11	2015-16
Japan	31.6	17.1	30.1	54.7	67.6	74.1	72.3	71.2	68.6
Northeast Asia	---	5.7	5.3	6.3	7.0	9.3	12.4	23.6	26.8
China	---	5.3	4.8	5.5	5.6	6.8	9.2	19.9	23.0
Hong Kong	---	24.4	27.6	41.8	55.1	76.9	85.8	90.3	88.6
South Korea	5.1	6.9	8.3	11.4	19.3	36.4	50.5	65.2	67.7
Taiwan	15.6	9.0	12.0	19.4	32.8	52.8	68.3	77.2	79.6
Southeast Asia	---	7.4	8.0	6.8	8.8	9.2	9.2	16.3	18.9
Cambodia	---	3.5	4.2	3.2	3.1	2.8	2.9	4.9	6.1
Indonesia	13.6	7.7	8.4	5.7	8.8	8.9	7.6	16.4	19.5
Laos	---	4.0	3.8	3.2	3.3	4.0	4.4	8.3	11.7
Malaysia	17.8	16.4	14.1	15.4	23.8	23.8	26.2	37.4	42.4
Myanmar	---	3.8	4.4	3.6	3.5	2.6	3.2	7.3	11.3
Philippines	7.6	8.3	9.9	9.2	10.3	10.1	9.1	11.4	13.3
Singapore	---	15.1	13.4	19.7	32.0	42.8	81.4	124.8	127.2
Thailand	---	6.5	7.6	9.4	11.4	15.1	15.3	26.2	26.8
Viet Nam	---	5.8	6.0	4.1	3.6	3.4	5.0	9.3	11.1
South Asia	---	8.6	7.3	5.3	4.1	4.0	4.5	8.8	10.4
Bangladesh	---	7.1	6.6	5.6	3.8	3.8	3.0	5.2	6.0
India	12.6	9.1	7.7	5.1	3.8	3.5	4.5	9.2	11.0
Nepal	---	3.6	3.8	3.1	2.6	3.0	2.9	4.3	4.9
Pakistan	---	7.5	6.1	6.7	6.5	6.7	5.6	8.7	9.8
Sri Lanka	12.2	9.4	8.3	7.1	7.4	8.6	9.5	16.9	20.7
Memo item USA, US$	12076	15684	18117	24177	29835	36723	45883	49471	52803

Note: --- Data not available (1) Calculated using per capita GDP in $ at 2011 purchasing power parity adjusted prices.
Source: Data compiled from Bolt et al (2018), Maddison Project Database, version 2018.
(https://www.rug.nl/ggdc/historicaldevelopment/maddison/releases/maddison-project-database-2018

[3] These included life-time employment system, enterprise-based labour unions and interrelations among affiliated firms in *keiretsu* groupings, indirect corporate financing centred on bank lending, and a management system directed to benefit employees rather than shareholders.

From the beginning, the post war development strategy of Japan placed emphasis on outward orientation with private enterprise and property rights, but with the government identifying and promoting strategic sectors/industries. The industrial policy of the Ministry of International Trade and Industry (MITI) was designed with the aim of creating a cutting-edge economy while eliminating the 'social dumping' of cheap exports that enabled prewar Japan to penetrate and disrupt foreign markets (Dower 1999).

Hong Kong continued to remain a laissez-faire economy with the government performing the traditional functions of governance while permitting the private sector to do what comes naturally (Glassburner and Riedel 1973). All other countries, even the tiny Singapore pursued import-substitution industrialization, promotion of industries oriented toward the domestic market by using import restrictions, or even import prohibition, to encourage the replacement of imported manufactures by domestic products. This policy choice was much in line with the climate of 'development' opinion at the time - there was a broad consensus in the economics profession that the basic strategy for development should be based on 'import substitution'.[4] However, Singapore, Korea and Taiwan soon swiftly changed policy direction towards export orientation. Korea and Taiwan followed the Japanese example (World Bank 1993, Ranis 1995; Kohil 1994). Singapore's export-led development strategy had the unique feature of placing heavy emphasis on the role of multinational enterprises (Huff 2007, 1.31), whereas Japan, Korea and Taiwan had a greater emphasis on promoting domestic entrepreneurship, with selective approval of MNE participating in the domestic economy (Athukorala 2007). China gradually opened the economy foreign trade and investment starting in the late 1970s. It provided virtually free trade status for foreign firms operating in special economic zones (SEZs) in coastal regions while maintaining significant government intervention in the economy though state-owned enterprise enterprises (Putternman 1992, 1.2; Ling and Naughton 2016, Lau et al 2016).

Both the timing of policy transition from import-substitution to export oriented strategy and the nature and degree of government intervention varied notably among the other Southeast Asian countries (Khan 2018, Haggard 2004). While the Japanese and the East Asian successes seems to have had a significant demonstration effect on policy reforms in these countries, the significant influence

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[4] There is a vast literature on trade and development policy is the early post-war decades. For excellent surveys, see Bruton 1998, Diaz-Alejandro (1975) and Krueger (1997)).

the MNE-led development strategy pioneered by Singapore (Hobday 2003) is vividly observable across all these countries.

The role played by government intervention in the process of growth and structural transformation in Japan, Taiwan and Korea remains an unresolved issue in the Asian development policy debate (Chang 1993, Khan 2018, Perkins 2004, Haggard 2004). A contentious issue is whether the governments' role took the form of interventionist (regulatory) industrial policy (picking winner policy) or whether the governments intervened in order to strengthen the market forces ('development type intervention), not to combat them (regulatory). Also, it is open to question whether industrial policy interventions have been sufficiently far-reaching, and future directed to validate the industrial policy argument (Johnson 1982, Little 1999, Riedel 1988). However, there is unanimity among the analysts that incentives and/or trade protection provided to specific firms/industries were mostly time bound and strictly subject to the market discipline of successful export performance.

From the inception of their independent nationhood and well into the 1970s, all South Asian countries vigorously pursued import substitution industrialization (ISI) as the basis tenet of the national development strategy. Among these countries, India showed the most rapid transition to a highly interventionists policy regime, characterized by stringent trade and exchange controls, pervasive state interventions in all areas of economic activity and monopoly of public sector enterprises in key industrial sectors (Chakravarti 1987, Bhagwati and Desai 1970, Bhagwati and Srinivasan 1979). Apart from the ideological consensus of the day, import substitution also had a natural appeal to the strong nationalistic and anti-colonial sentiments that naturally accompanied the attainment of independence. There was a strong perception that the ex-colonial powers had enforced the primary commodity-dependent status on the developing countries and thereby had become economically stronger. The desire for 'development' as a way of achieving 'equality' with industrialized countries was therefore a powerful political motive (Nehru 1946). The highly publicized 'success' of the Soviet Union in achieving rapid industrialization under a command economy was also a major factor in this policy emphasis (Krueger 1993).

Despite her small economic size (which essentially limited the rational for import substitution), the road to dirigisme followed by Sri Lanka was not different from that of India. As part of the industrialization drive, from 1952 Pakistan too resorted to stringent import controls and licensing. But the encroachment of public sector on conventional private sector activities was relatively mild in Pakistan, though considerable by the developing country standards (Bose 1983). However, the newly liberated Bangladesh attempted to build a socialist framework for its economy: The constitution of

Bangladesh laid down that the economy shall be built up on socialist lines, with many publicly owned and managed productive and trading enterprises (Ahmad 1993).

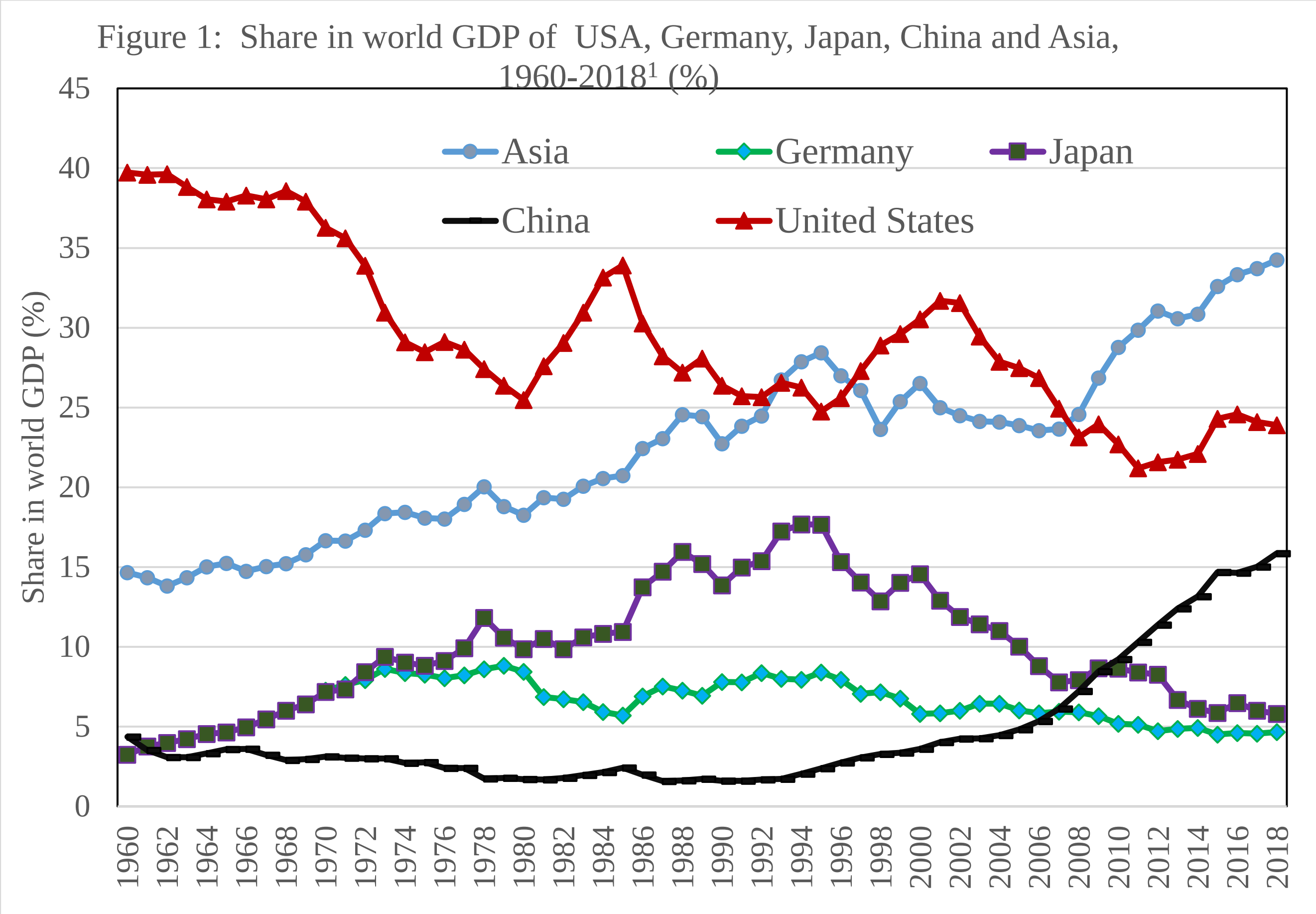
In 1977, Sri Lanka responded to the dismal economic outcome of the closed economy era by embarking on an extensive economic liberalization process, becoming the first country in South Asia to do so (Athukorala and Jayasuriya 2015). In India, partial liberalization of trade barriers started in the mid-1980s., but reforms followed a tortuous route in the late 1980s. In 1991, India initiated a decisive break from the protectionist past, following a massive balance of payments crisis (Basu 2018; Panagariya 2018). The Bangladesh government began economic liberalization reforms in the early 1980s and made significant, albeit slow, progress in unshackling the economy in subsequent years (Ahmad 1993).

GROWTH AND STRUCTURAL CHANGE

Following the American interlude (Dower 1999), Japan's economy had recovered fully by 1955, and growth acceleration during the subsequent years raised it to first world economy status by the early 1970s (Pilat 2002, 1.22). However, from about the late 198)s, Japans growth has slowed down considerable, with an annual growth rate of closer to 1 percent or even lower (Bayoumi 2001, 1.22; Krugman 2014, 1.23).

China's per capital income has risen more than ten-fold over the past there decades. It has already caught up with or passed most dynamic economies of Southeast Asia, except for Singapore (Table 2). In terms of the share in world GDP (measured at current US$ based on the World Bank atlas method), China is now the world's largest economy after the USA, after surpassing Germany is 2007 and Japan in 2011 (Figure 1).[5] The combined share of Asian countries' in world GDP has surpassed that of the USA since 2008.

[5] When GDP is measured in purchasing power parity terms (US$ GDP PPP), China has been the world's largest economy since 2014. In 2018, China's share in world GDP PPP was 18.6 percent compared to 15.1% of the USA. However, whether US$ GDP PPP, which economists use to compare welfare (living standards) among countries, is appropriate for measuring relative position of an economy in the global economy is debatable (Nye 2015).



Note 1: Based world GDP estimated by summing up on local currency price of individual-country GDP at current price converted into US$ based on the World Banks's 'atlas' method.

Source: Based on data compiled from World Bank, *World Development Indicators* database.

According to the World Bank's income-based (per capital GNI based) country classification, in 2018 there was only one low-income country (Nepal) in Asia. This is in sharp contrast to the situation at the dawn of the new millennium when there were 11 low income countries in the regions (Cambodia, Indonesia, Laos, Myanmar, Vietnam, Bangladesh, Bhutan, India, Nepal, Pakistan, Sri Lanka). Among the Southeast Asian countries, the Philippines standards out as a laggard compared to the other major economies in the region (Hill 2017). Its per capita income was comparable to that of Malaysia in the early 1960s, but amounted to less than half of that of Malaysia five decades later. Myanmar, is perhaps the most spectacular development failure in Asia when judged against early prognoses (Findlay et al 2016).

Compared to economic stagnation in the pre-independence era, economic performance in India and Pakistan in the 1950s and 1960s appeared respectable. However, during the ensuing decades both countries lagged the dynamic East Asian economies. The Indian economy began to notably deviate from the previous decades of slow growth following the policy reforms began in the early 1990s (Basu 2009, 1.34; Panagariya 2018). Nevertheless, even by the mid-2010s, India's per capita income amounted to only one-tenth of that of China. Sri Lanka has turned out to be a conundrum for the development analyst as it has failed to failed to live up to these promises. There has been a notable increase its per capita income relative to the USA following the policy reforms initiated in late 1977, in spite of the disruptive effects of a civil war (ethnic conflict) for nearly three decades (form the early 1980s to 2009) (Athukorala 2016).

POVERTY AND INEQUALITY

Rapid growth in Japan and the Northeast Asian countries has lifted the absolute income levels of their poorest citizens to a level undreamed in most developing countries. The incidence of poverty measured by the international poverty line of ('US$1.90- a– day) had virtually disappeared from Japan from the early 1970s, and from the Northeast Asia countries and Singapore for over two deiced now (Table 3). The record of poverty alleviation is also impressive in Malaysia, Thailand and Indonesia. The rate of poverty in China declined dramatically from nearly 50 per cent to less than 0.7 based on the '1 dollar-a-day' international poverty line by 2015 or 7% by the more stringent '3.1 dollar a day' benchmark. However, the incidence of poverty still remains high in countries in northern Southeast Asia and in South Asia (other than Sri Lanka).

Japan, Taiwan and Korea started post-war development low levels of income inequality, and have been highly successful in maintaining these low levels during the high-growth phase. The fact that inequality did not rise during the growth process, which run counter to the predictions of received growth theories, has attracted significant attention as much as the extraordinary growth itself (Moirguchi and Saez 2008, Ohtake 2008, Ranis 1978). However, interestingly, this pattern has not been replicated in the other high-performing countries in the region. For instance, in terms of the standard Gini index and the relative income share of the top 20 percent income –earning household to that of the bottom 20 percent, China has one of the most unequal income distribution in the region. The degree of income inequality in terms of these indicators much higher in the other high-performing Asian countries in Asia.

Table 3: Asia: Poverty and Income Distribution[1]

	Poverty rate (%)		Income distribution			
	Bellow $1.90-a-day[2]	Bellow $3.20-a- day[2]	Gini Index (%)	Income share of bottom 20% of households	Income share of top 20% of households	Top20% to bottom 20% ratio
Japan	0.2	0.5	32.1	7.4	39.7	5.4
Northeast Asia						
China, PRC	0.7	7.0	38.6	6.4	45.4	7.1
South Korea	0.2	0.5	31.0	7.3	39.0	5.3
Taiwan	0.0	0.2	…	6.6	40.2	6.1
Southeast Asia						
Indonesia	5.7	27.3	38.6	6.9	45.8	6.6
Lao PDR	22.7	58.7	36.4	7.6	44.6	5.9
Malaysia	0.0	0.2	41.0	5.8	47.3	8.2
Myanmar	6.2	29.5	38.1	7.3	45.7	6.3
Philippines	7.8	32.6	40.6	6.6	47.3	7.2
Thailand	0.0	0.5	36.9	7.3	44.5	6.1
Vietnam	2.0	8.4	35.3	6.9	42.5	6.2
South Asia						
Bangladesh	14.8	52.9	32.4	8.6	41.4	4.8
Bhutan	1.5	12.0	38.8	6.7	46.1	6.9
India	21.2	60.4	35.7	8.1	44.4	5.5
Nepal	13.4	29.6	32.8	8.8	41.5	4.7
Pakistan	3.9	34.7	33.5	8.9	42.8	4.8
Sri- Lanka	0.8	10.1	39.8	7.0	47.6	6.8

Notes: --- Data not available.
(1) Time coverage: Japan 2008; Nepal 2010; India 2012; Korea, Laos and Bhutan 2012; China, Malaysia, Myanmar, Pakistan, Philippines and Taiwan 2015, Bangladesh, Indonesia, Thailand and Vietnam 2016.
(2) At 2011 purchasing power parity rate.
(3) Gini index measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. Thus a Gini index of 0 represents perfect equality, while an index of 100 implies perfect inequality.

Source: compiled from World Bank *World Development Indicators* database and Republic of Taiwan, Council for Economic Planning and Development, *Taiwan Statistical Yearbook* (various issues), Taipei: Executive Yuan (www.cepd.gov.tw (for data for Taiwan).

Table 4: Poverty rate and share of world poor population by major regions, 1990-2017.

	1990	1993	1996	1999	2002	2005	2008	2010	2011	2012	2013	2015
Poverty headcount ratio[1] (%)												
Asia	55.5	50.0	40.6	39.7	33.6	25.5	21.7	17.3	13.7	12.2	9.3	7.8
East Asia & Pacific[2]	61.3	53.7	40.9	38.5	29.7	18.9	15.3	11.2	8.6	7.2	3.6	2.3
South Asia	47.3	44.9	40.3	41.3	38.6	33.7	29.5	24.6	19.8	18.2	16.1	15.8
Europe & Central Asia	6.1	5.2	7.3	7.9	6	4.9	2.8	2.4	2.1	1.9	1.6	1.5
Latin America & Caribbean	14.8	14	13.7	13.5	11.8	9.9	6.9	6.1	5.7	4.7	4.6	3.9
Middle East & North Africa	6.2	7	6.2	3.8	3.4	3.1	2.7	2.3	2.7	2.7	2.6	4.2
Sub-Saharan Africa	54.7	59.6	58.9	58.3	55.3	50.8	48	46.5	45	43.7	42.4	41.0
World	35.9	34	29.4	28.6	25.5	20.7	18.2	15.7	13.7	12.8	11.2	9.9
Share of total world poor population[1] (%)												
Asia	80.1	76.5	72.0	71.2	69.0	64.3	62.1	56.9	51.7	49.5	43.3	37.1
East Asia & Pacific[2]	51.9	47.7	41.7	40.0	34.3	26.6	24.1	20.2	17.6	15.9	9.1	6.4
South Asia	28.2	28.8	30.3	31.2	34.7	37.8	38.0	36.7	34.1	33.6	34.2	30.6
Europe & Central Asia	0.9	1.3	2.0	2.1	1.7	1.7	1.1	1.0	1.0	1.0	0.9	1.0
Latin America & Caribbean	3.5	3.4	3.9	4.0	3.9	4.1	3.2	3.3	3.5	3.2	3.5	3.3
Middle East & North Africa	0.7	0.9	0.9	0.6	0.6	0.7	0.7	0.7	1.0	1.0	1.2	2.1
Sub-Saharan Africa	14.8	17.6	20.8	22.0	24.4	28.8	32.4	37.4	42.1	44.7	50.3	56.5
Total wold poor population	100	100	100	100	100	100	100	100	100	100	100	100
Million	1,897	1,885	1,707	1,729	1,601	1,351	1,229	1,091	963	908	803	731

Note

1. Measured based on the '$1.90 a day' poverty tine, at 2011 purchasing power parity exchange rate.
2. Including Japan, Northeast Asia, Southeast Asia and some pacific island economies.

Source: World Bank, *World Development Indicators* database (http://datatopics.worldbank.org/world-development-indicators/)

Among the main geographic regions in the world, South Asia has the second highest poverty rate (15.8 per cent) after the Sub-Sahara Africa (41 percent) (Table 4). Nearly a third of total world poor people live in South Asia, with India alone account for nearly 20 percent. In a sharp contrast, the rest of Asia accounts for a mere a 6 percent of world poor. Sri Lanka still receives wider attention as a success story in poverty reduction and income inequality. However, in reality but this has largely been the outcome redistribution policies vigorously during the first three decades or of the post-independence era of the country (Dunham and Jayasuriya 2000).

FINANCIAL FACTORS IN ECONOMICS DEVELOPMENT

In Japan growth was funded largely from domestic saving, with foreign resources resource foreign aid an foreign direct investment) paying only a merging role and even that only at the early stage of economic expansion (Hrioka 2017 and 2010). From about the early 1980s, Japan has been a net capital exporter with Japanese firms shifting production based to other low-cost destinations countries mostly in the region in face of rapid increase in domestic manufacturing. Korea and Taiwan have closely followed the Japanese patterns, becoming a net capital exporter from about the early 1990s (Park and Rhee 2005, Deaton and Paxon 2000). China's domestic saving rate in the rapid growth phase has been even higher, reaching 44 percent of GDP in some years (Ge et al 2018, Modigliani and Cao 2004, İmrohoroğlu and Zhao 2018). Over the past two decades China has been the world's largest capital exporter. Among Southeast Asian countries saving rates of Singapore, Malaysia and Thailand have been comparable to those in the Northeast Asian countries. However, the role of FDI in domestic investment in these and other Southeast Asian countries have been much larger compared to their Northeast Asian counterparts.

In India, domestic saving rate (around 15 percent) was much larger in the 1960s compared to almost all other Asian countries except Japan. However, it remained stagnant or even decline in some years during the slow growth phase of under import substitution development strategy (Athukorala and Sen 2004). There has been a notable increase in the Indian saving rate over the past two decades, reaching 25% by the mid -2010s. The other South Asian countries have continued to remain low savers by the East Asian standards.

DEMOGRAPHY AND HUMAN RESOURCE

In Japan, Korea, Taiwan and high-performing countries in southeast, rapid growth has been aided by the 'population dividend' – rapid population growth with bulging of the population in working ages (Breton 2015, Bloom and Williamson 1998, Chung 2002, 2.30). Growth in Hong Kong was manned inflow of workers from the Chinese mainland. However, all these countries have begun to experience slowing of population growth and aging of the population over the past two decade. This has significant implications for saving and investment patterns of these countries and their international competitiveness in world trade (Muto et al 2016, Horioka et al 2007).

China started with a huge labour pool locked in the rural economy and an artificially low rate of population increase dictated by the 'one-child' policy (Putterman (1992, Meng 2012). China's emergence as a manufacturing powerhouse in the world economy was associated with massive migration of workers from the rural economy to urban centers. However, in recent years there have been reported cases of labour shortages and rapid increase in wages in coastal areas. Whether the reported labour shortages and wage increases simply reflect depletion of the surplus labour pool combined with the decline in the population growth rate and aging of the population, or due to remaining restrictions on restriction on internal labour mobility has been a subject of debate in recent discussion on the sustainability of high growth in China (Meng 2012; Garnaut 2010, Athukorala and Wei 2018).

Unlike China and the other Northeast Asian countries, India, Pakistan, Bangladesh, Cambodia and Vietnam have entered the phase of demographic transition involving bulging of population in early working age backs (the phase of population dividend) only in recent years. With ample supply of labour at highly competitive wages, these countries, therefore, have the potential to expand labor-intensive manufacturing for exports, depending of course other preconditions for export success are met. Sri Lankan experienced the stage of population dividend much earlier than the other South Asian countries. This was brought about a combinations of naturally high birth rate at the early stage of demographic transition and a dramatic improvement in health care facilities unusual for a country at the same level of economic growth. Over the past two decades, population of growth rate of Sri Lanka has been below the replacement rate, with the total population bulging in higher age brackets.

INTERNATIONAL DIMENSIONS: FOREING TRADE AND INVESTMENT

Asia growth dynamism has been underpinned by a rapid increase in its role in world trade. Asia's share in world merchandise exports increased from 11 percent in the early 1960s to over 33 percent in the mid-2010s (Table 5). The rate of export market penetration has however varied significant among countries and the sub-regional level. China has achieved the most spectacular rate of market penetration, from about 2%, when reforms started three decades ago, to 14% in 2015-16. In 2002 China surpassed Japan to become the third largest exporter exporting country in the world after the USA and Germany and surpassed Germany and the USA in 2005 to become the largest exports (Figure 2). Japan accounted for 4.5 percent of world exports in 2015-16, down from about 9 percent at the dawn of the new millennium. Meteoric rise of China in world trade has raised concerns in the other developing countries in the region and beyond whether China competition would crowed their opportunities for export expansion (Eichengreen and Tong 2006).

India's export share, which renamed around 1 percent for over three decades, has continuously increased following the reforms in the early 1990s. However, India still accounts for only 1.5 of world exports, which is only comparable to the first-tier Southeast Asian countries (Table 5). At the sub- regional level, Japan and Northeast Asia now account for 72 percent of total Asian exports, followed by Southeast Asia (22 percent) and South Asia (6 percent).

Export expansion in all countries has been underpinned by a palpable shift in the product composition from primary products to manufactured good. Over the past three decades, global production sharing (international fragmentation of production), a pattern of specialization under which a given countries specializes in a specific tast/slice of the production process of vertically integrated global industries, the prime mover export manufacturing export expansion of countries in East Asia (Athukorala and Hill 2011, Athukorala and Kophaiboon 2014). Trade within global production networks accounts for over 60 percent of total manufacturing exports from China and over 70 percent in combined exports for the other Northeast and Southeast Countries. Relatively slow export expansion from the South Asian countries is mainly due to their lesser degree of involvement in specialization within global production networks (Athukorala 2018).

Table 5: Asian countries’ share in world merchandize exports, 1962-2019[1] (%)

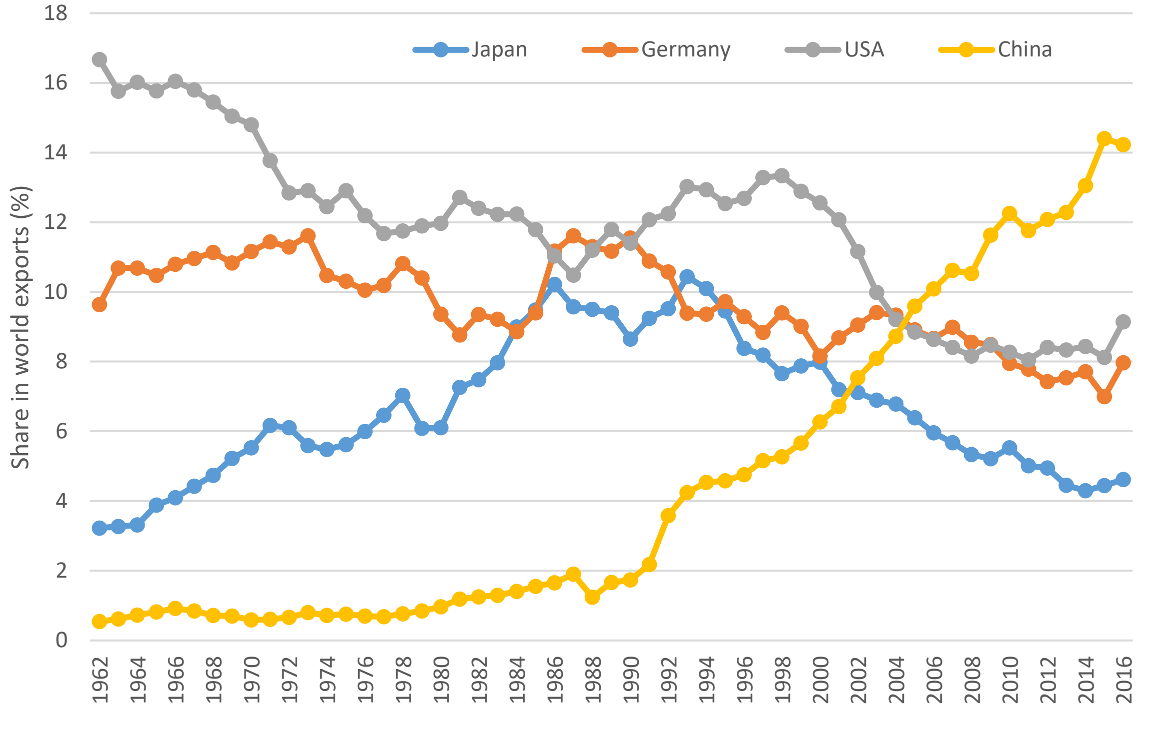
	1962-63	1970-71	1980-81	1990-91	2000-01	2010-11	2015-16
Japan	3.25	5.86	6.68	8.95	7.60	5.25	4.53
Northeast Asia	1.34	2.26	4.03	7.12	12.13	17.37	19.87
China	0.58	0.60	1.07	1.96	6.49	11.98	14.32
Hong Kong	0.55	0.80	0.88	1.09	0.85	0.49	0.49
South Korea	0.06	0.29	0.90	1.75	2.61	3.09	3.28
Taiwan	0.15	0.58	1.18	2.32	2.18	1.80	1.79
Southeast Asia	4.94	2.93	4.61	4.18	6.42	6.83	7.42
Cambodia	0.05	0.01	0.00	0.00	0.03	0.04	0.10
Indonesia	0.69	0.48	1.30	0.82	1.02	1.24	1.08
Lao	---	---	---	---	---	0.01	0.03
Malaysia	0.86	0.54	0.76	1.10	1.80	1.72	1.61
Philippines	0.58	0.42	0.36	0.30	0.70	0.46	0.49
Singapore	0.22	0.26	0.76	1.17	1.49	1.46	1.32
Thailand	0.38	0.25	0.34	0.73	1.15	1.36	1.48
Vietnam	2.15	0.98	1.09	0.04	0.23	0.54	1.32
South Asia	1.47	1.02	0.81	0.80	1.08	1.91	1.99
Bangladesh	---	---	0.03	0.05	0.11	0.15	0.24
India	1.05	0.59	0.40	0.52	0.74	1.55	1.53
Nepal	---	0.01	---	0.01	0.01	---	---
Pakistan	0.20	0.34	0.33	0.16	0.14	0.15	0.14
Sri Lanka	0.22	0.09	0.05	0.06	0.08	0.06	0.07
Asia[2]	11.00	12.07	16.14	21.04	27.23	31.35	33.81
Memo item: World exports , US$ billion	249	616	3,609	6,199	12,754	32,760	31,586

Note: --- Less than 0.05 percent.

1. Two-year averages 2. Sum of Japan, Northeast Asia, Southeast Asia and South Asia.

Source: Compile from UN *Comtrade* database.

Figure 2: Share in world merchanside exports of Japan Germany, China and the USA, 1962-2016 (%)



Source: Compiled from the UN Comtrade database (https://comtrade.un.org/pb/)

Foreign direct investment played a much smaller share in export-led industrialization in Japan, Hong Kong, Taiwan and Korea compared to China and all Southeast Asian countries (Papezychi and Fukao 2008). South Asian countries seems to follow the Chinese and the Southeast Asian patterns, though with significant intercountry differences depending on the nature and timing of the reform (Athukorala 2017). Whether the low dependence of Japan, and Hong Kong, Taiwan and Korea on FDI reflected these countries' own policy choice or the very nature of export-oriented manufacturing in which MNEs played a much lesser role compared to the new era of global production sharing remains an unsettled issue. However, given the increase in global production sharing in world trade, significant MNE involvement in export expansion is likely to be an important structural feature of latecomer countries to export-oriented oriented industrialization.

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