

ASIA'S JOURNEY TO PROSPERITY

Policy, Market, and Technology over 50 Years



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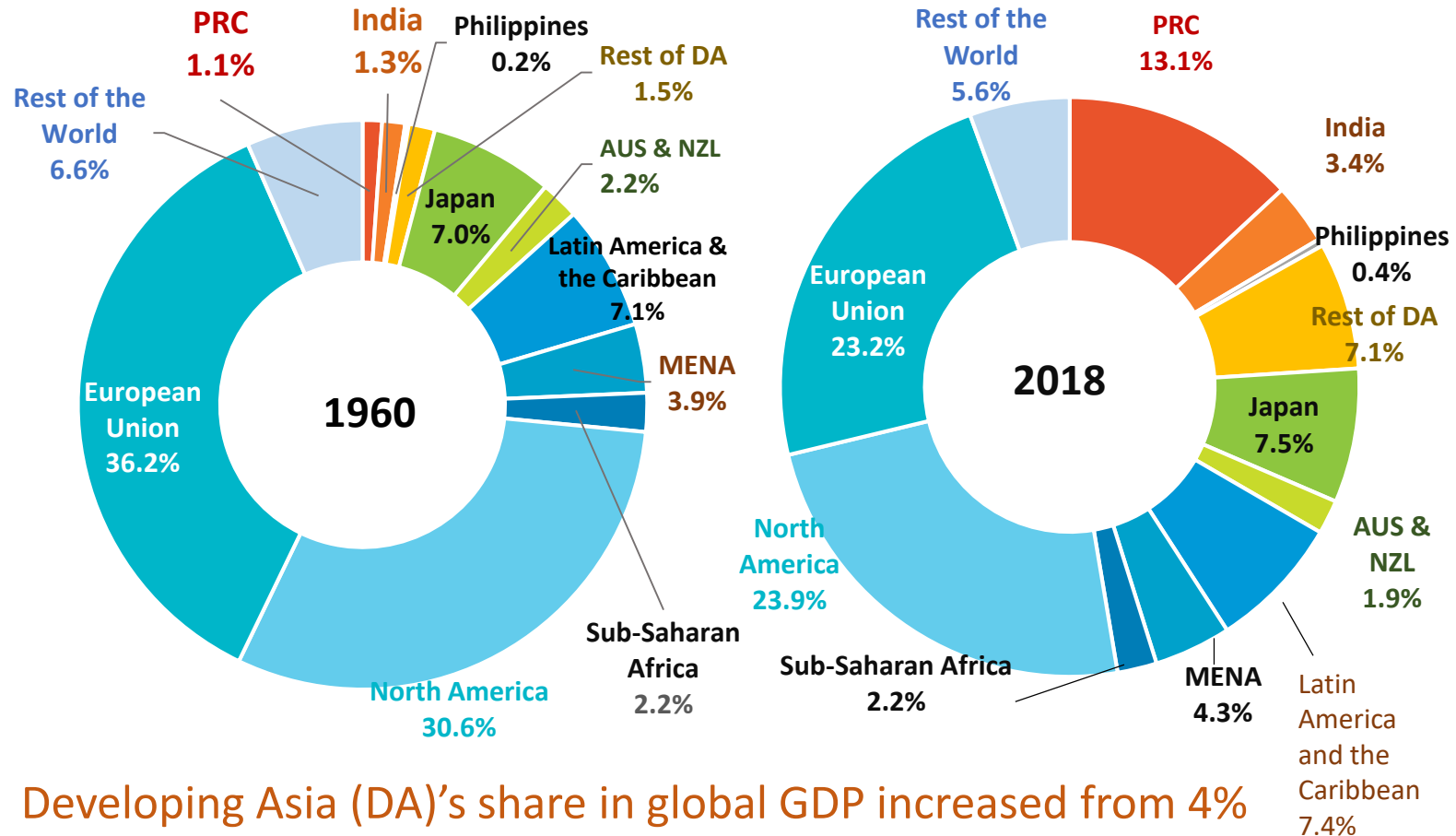
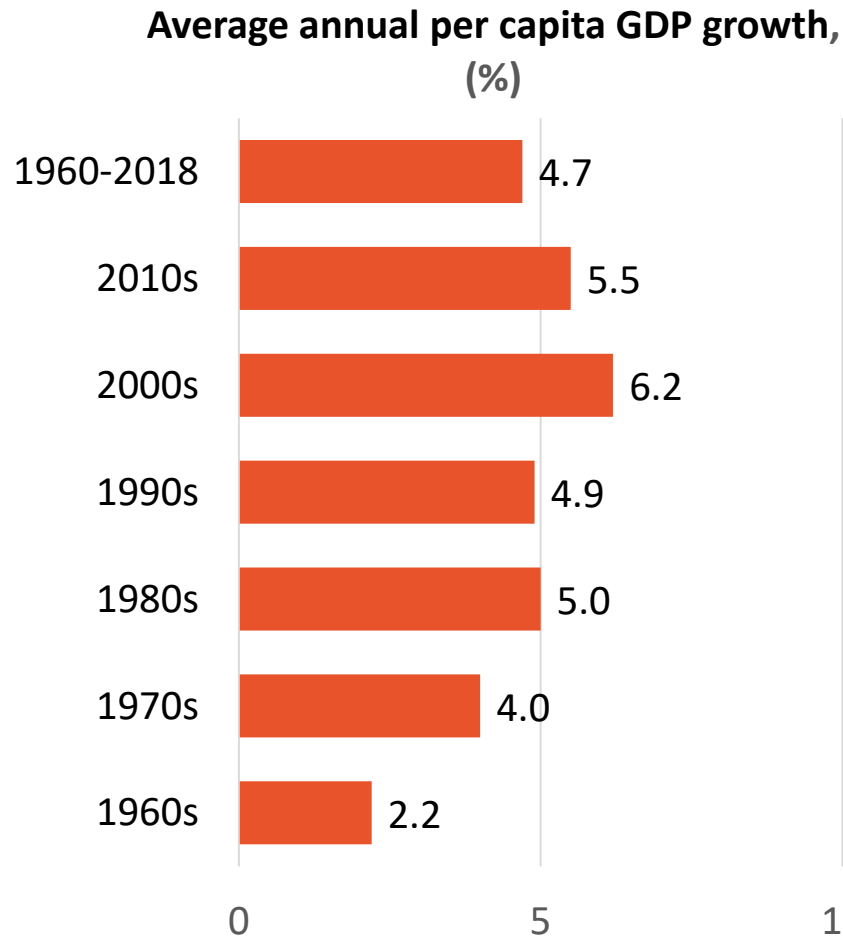
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Outline of the presentation

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3. Issues subject to extensive debate
 - a) Is Asian development unique?
 - b) The role of industrial policy
 - c) Can industrialization be bypassed?
 - d) Importance of institutions
4. Asia's challenges ahead

Asia's key development achievements

- Rapid economic growth led to rising share in global GDP...



Developing Asia (DA)'s share in global GDP increased from 4% to 24% in 1960-2018; including Japan, Australia and New Zealand, Asia's share rose from 13% to 34%.

Asia's key development achievements (cont.)

- ... and improvement in broad development indicators.

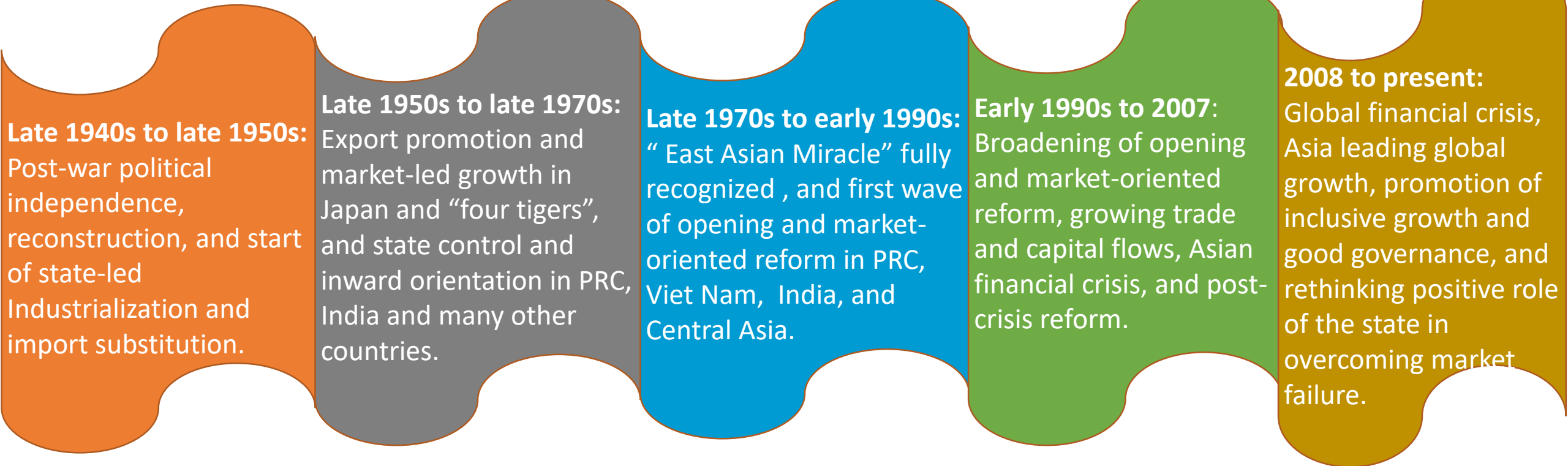
	Developing Asia			
	1960	1980	2000	2018
Per capita GDP (constant 2010 US\$)	330	647	1,762	4,903
Extreme poverty rate (% of population)	...	68.1	33.1	6.9
Life expectancy at birth (years)	45.0	59.3	65.8	71.8
Infant mortality (per 1,000 live births)	137.8	80.1	48.1	26.2
Mean years of schooling (age 20-24)	3.5	6.0	7.7	8.9

What explains Asia's economic success?

- Peace and stability, especially after the Viet Nam War
- Favorable demographic conditions
- Free trade and investment policies in advanced countries
- A low-income level providing potential to catch up
- **Critically, Asia's economic success owes much to creating better policies and stronger institutions.**

(1) Relying on markets and private sector as engines of growth, with proactive state support to address market failure

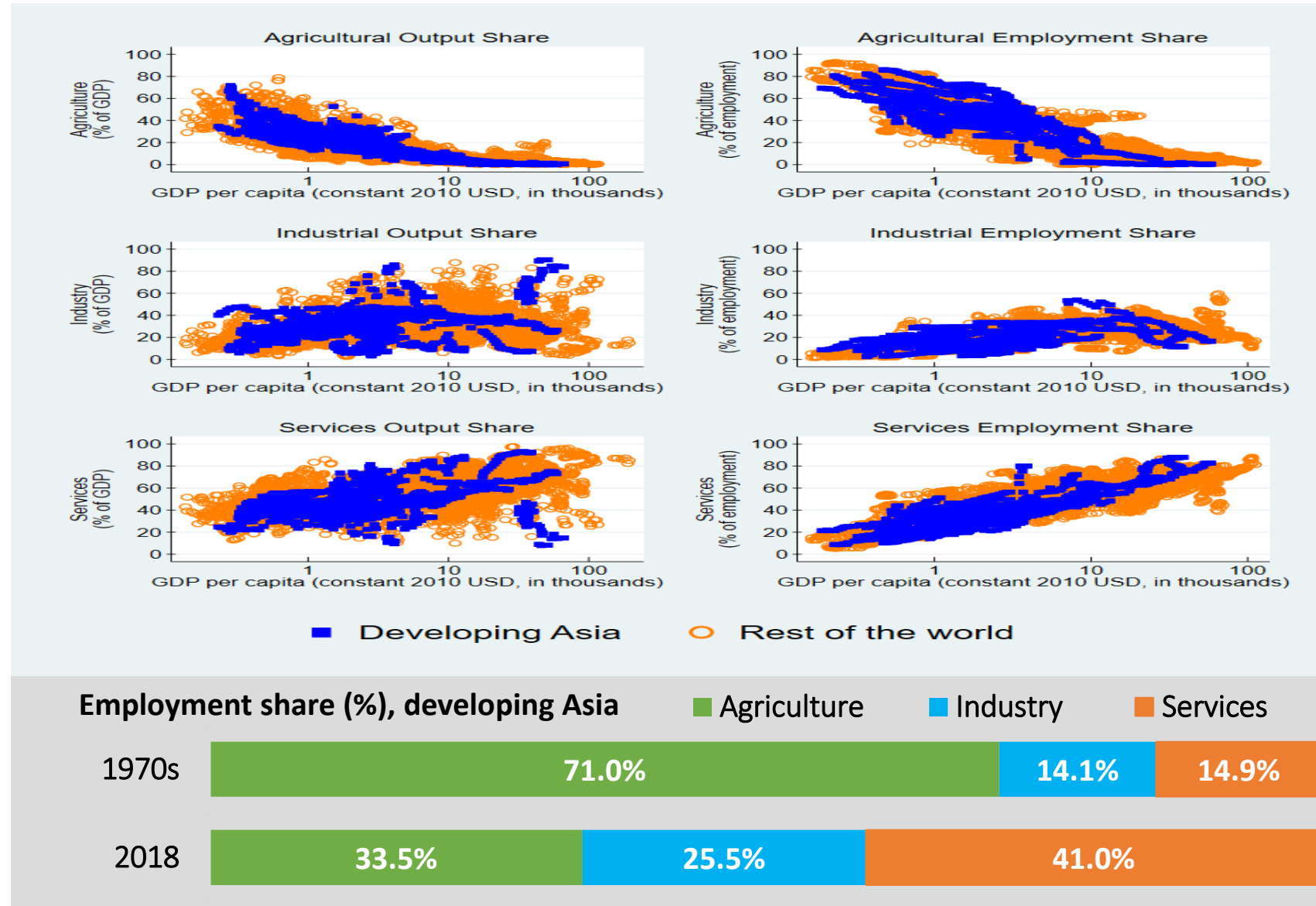
- In the last half century, Asian development policy shifted from state-led industrialization to market-oriented growth



- Review of these experiences suggests, first, market-oriented reforms and opening to the outside world were always followed by rapid economic growth; second, while markets and private sector were engine of growth, the state remains proactive in promoting development. Sustained growth and poverty reduction require efficient markets, an effective state, and strong institutions

(2) Promoting structural transformation

- Structural transformation (ST) is the primary driver of growth across the world.
- A stylized fact about ST: over time, resources are transferred from agriculture to industry (up to a certain level) and services, and, within each of the three sectors, from low- to high- productivity production.
- Asia is no exception, but with a faster pace.

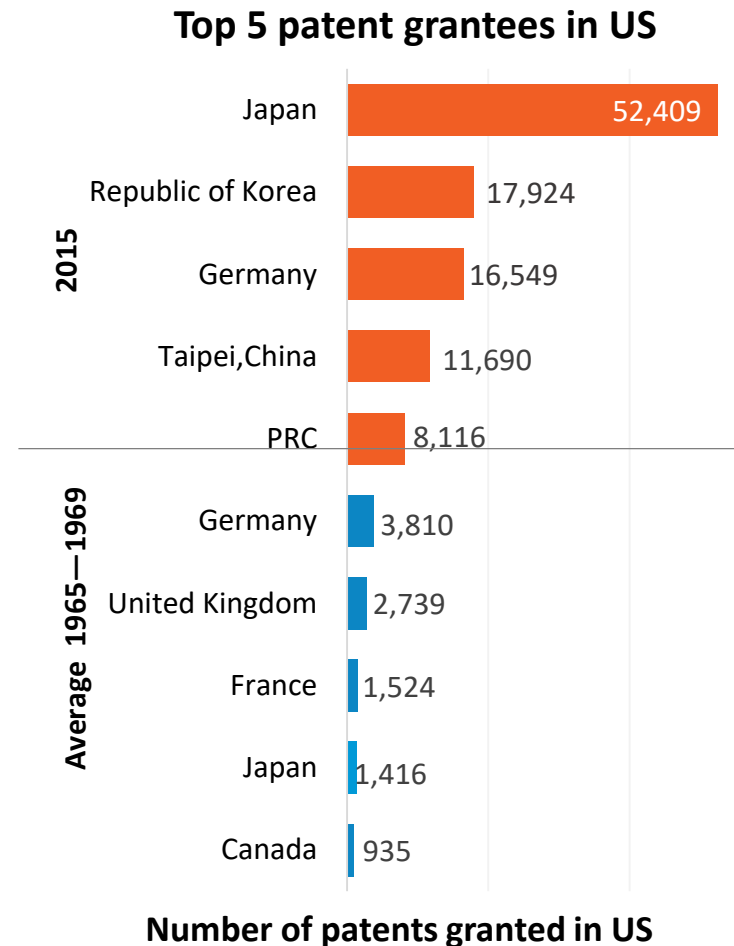


(2) Promoting structural transformation (cont.)

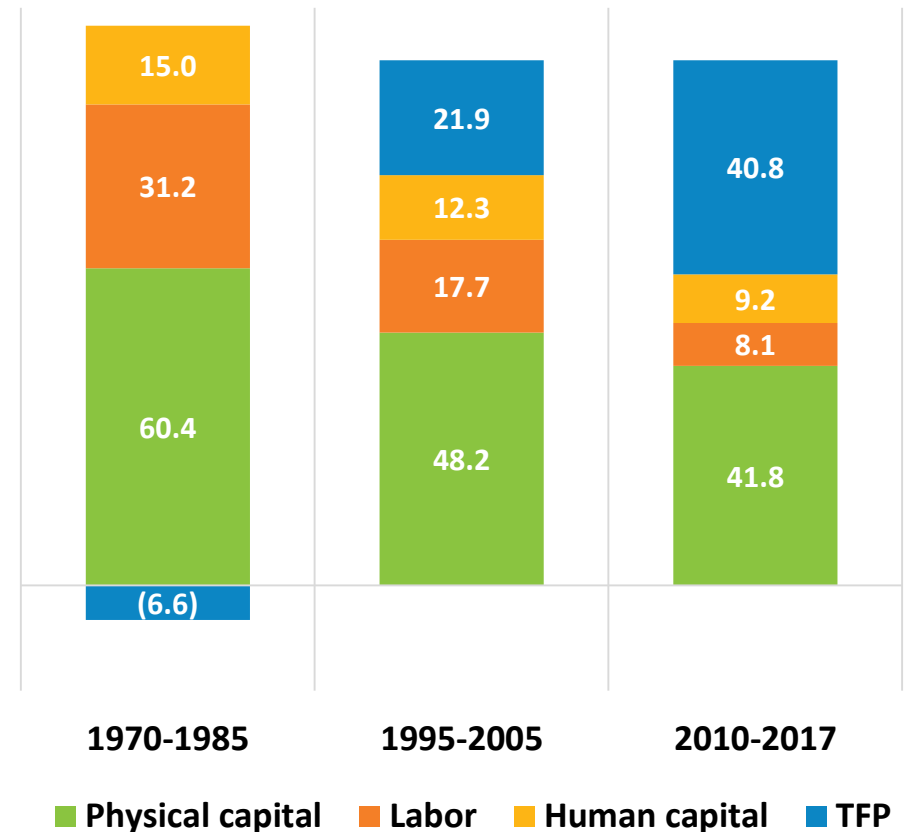
- ST also involves move from low- to high-productivity production within each of the 3 broad sectors, through technological progress

❑ Asian economies first adopted foreign technologies, then began to innovate their own, using a variety of ways:

- ❖ inviting experts and sending students abroad;
- ❖ buying foreign licenses;
- ❖ importing machinery;
- ❖ promoting trade and FDI
- ❖ conducting reverse engineering;
- ❖ investing in R&D.



Contribution to Asia's GDP Growth (% of total)

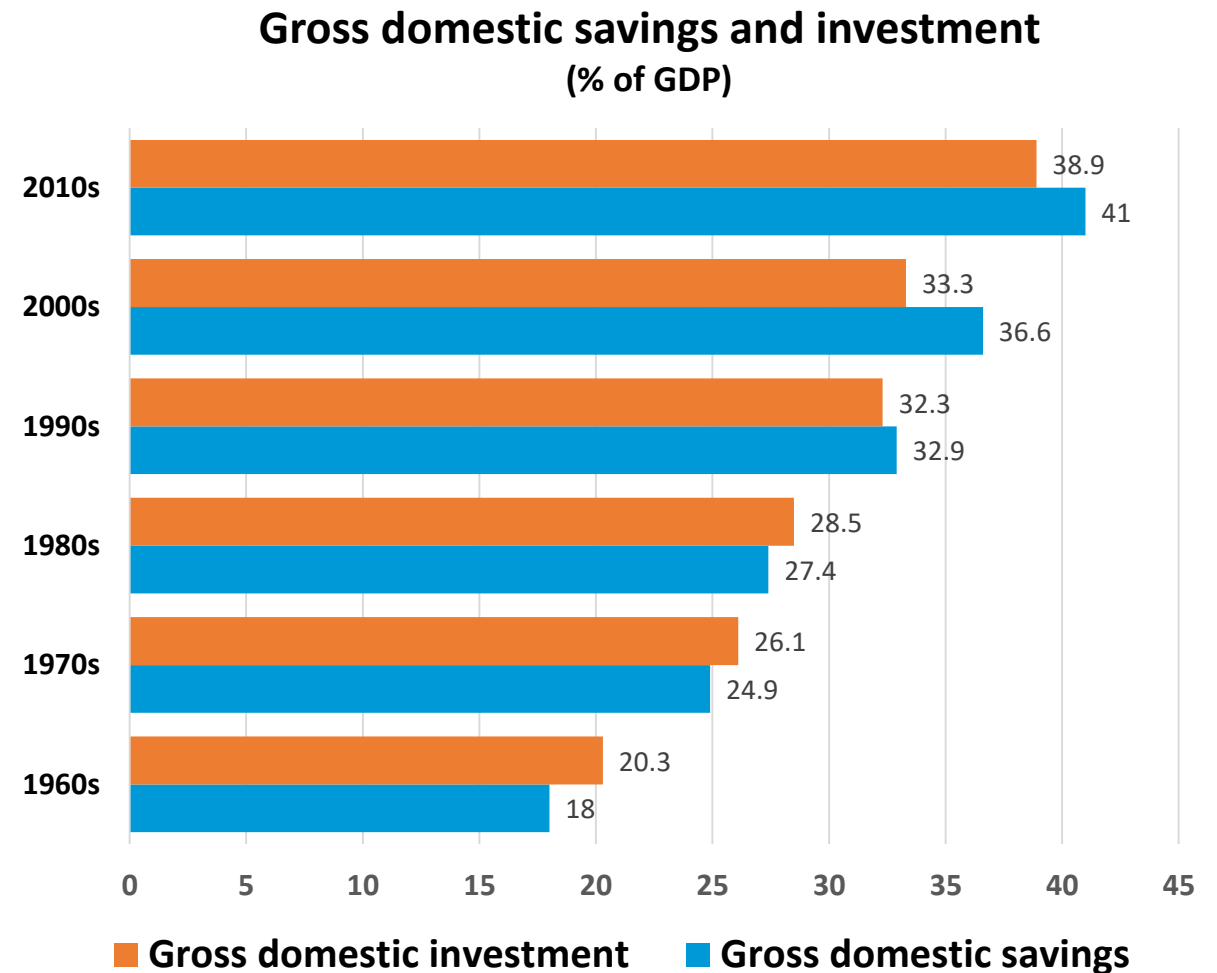


TFP = Total factor productivity

(3) Investing in productive capacity

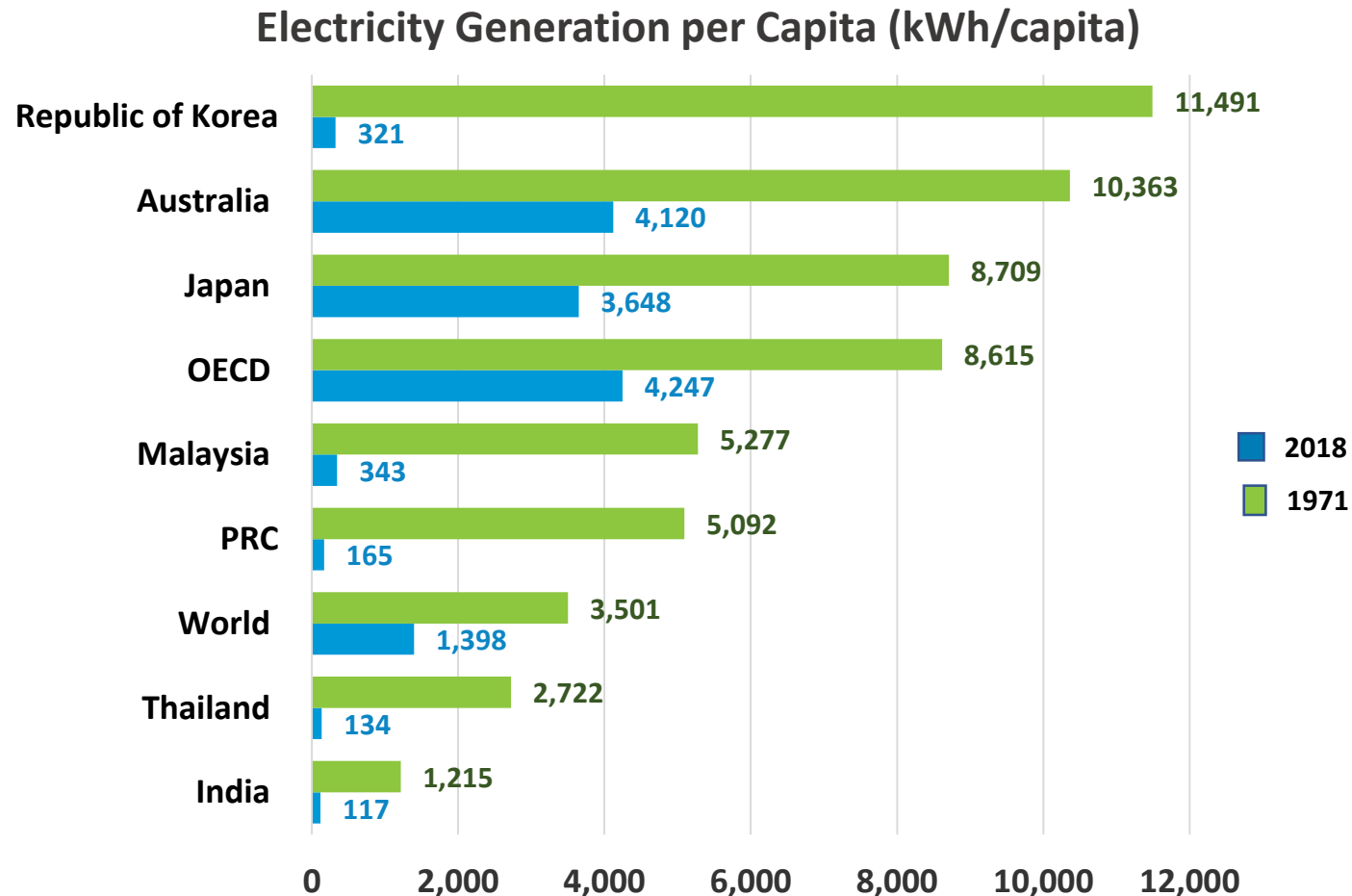
- High-growth Asian economies made large investment in physical capital, financed largely by domestic savings

	Physical capital stock (2011 constant \$, trillion)		Capital stock Growth (%)
	1960	2017	1960–2017
Developing Asia	3.9	176.0	6.9
Central Asia	-	2.4	-
East Asia	1.3	108.2	8.1
PRC	1.0	94.9	8.3
South Asia	1.4	34.8	5.7
India	1.2	29.9	5.9
Southeast Asia	1.1	30.5	6.0



(3) Investing in productive capacity (cont.)

- A key part of physical capital investment was for infrastructure - transport, power, water & sanitation, and telecommunications.

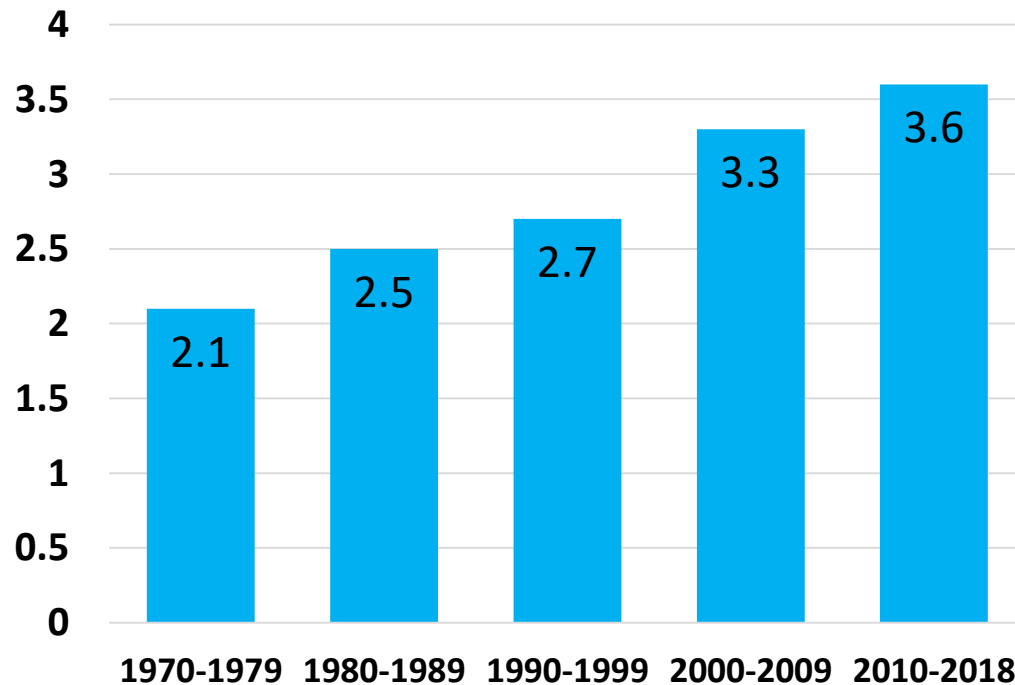


- During 1971-2018, per capita electricity generation increased by 35 times in Korea, 30 times in China, 19 times in Thailand, 14 times in Malaysia, 9 times in India.
- In comparison, it doubled in OECD countries and tripped for the world as a whole.
- Large infrastructure investment alleviated production bottlenecks and improved living standard.

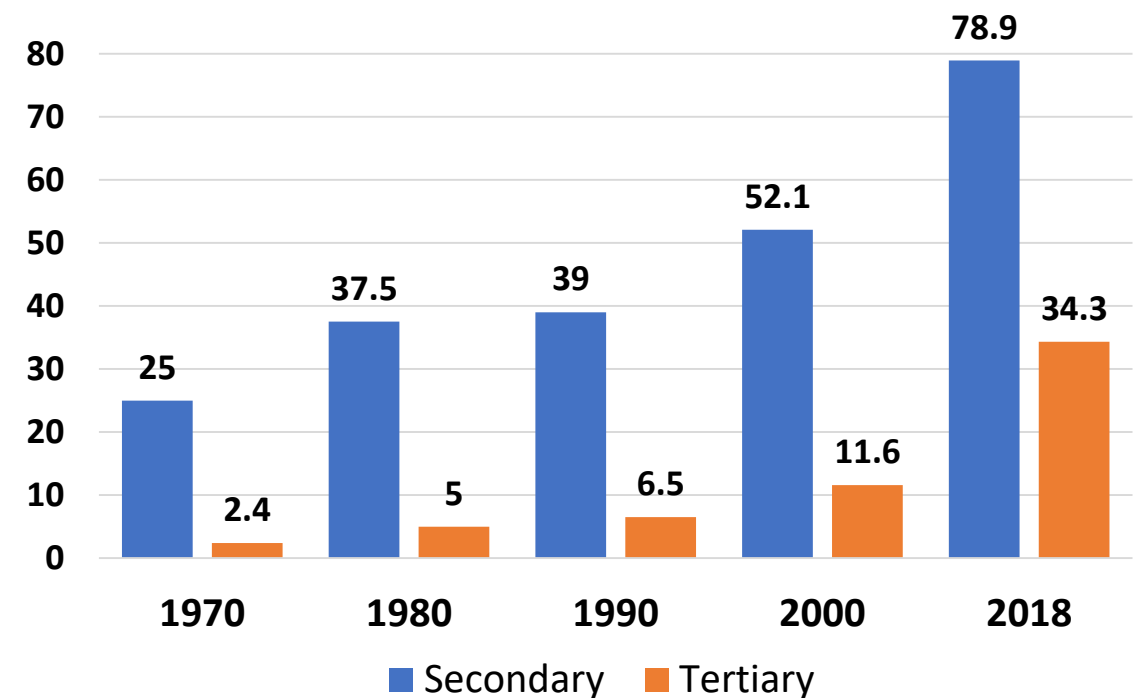
(4) Building human capital

- Many Asian economies made efforts to build human capital, by making education a basic right and through compulsory education, investment in schools and education reform.

Public Spending on Education (% of GDP)



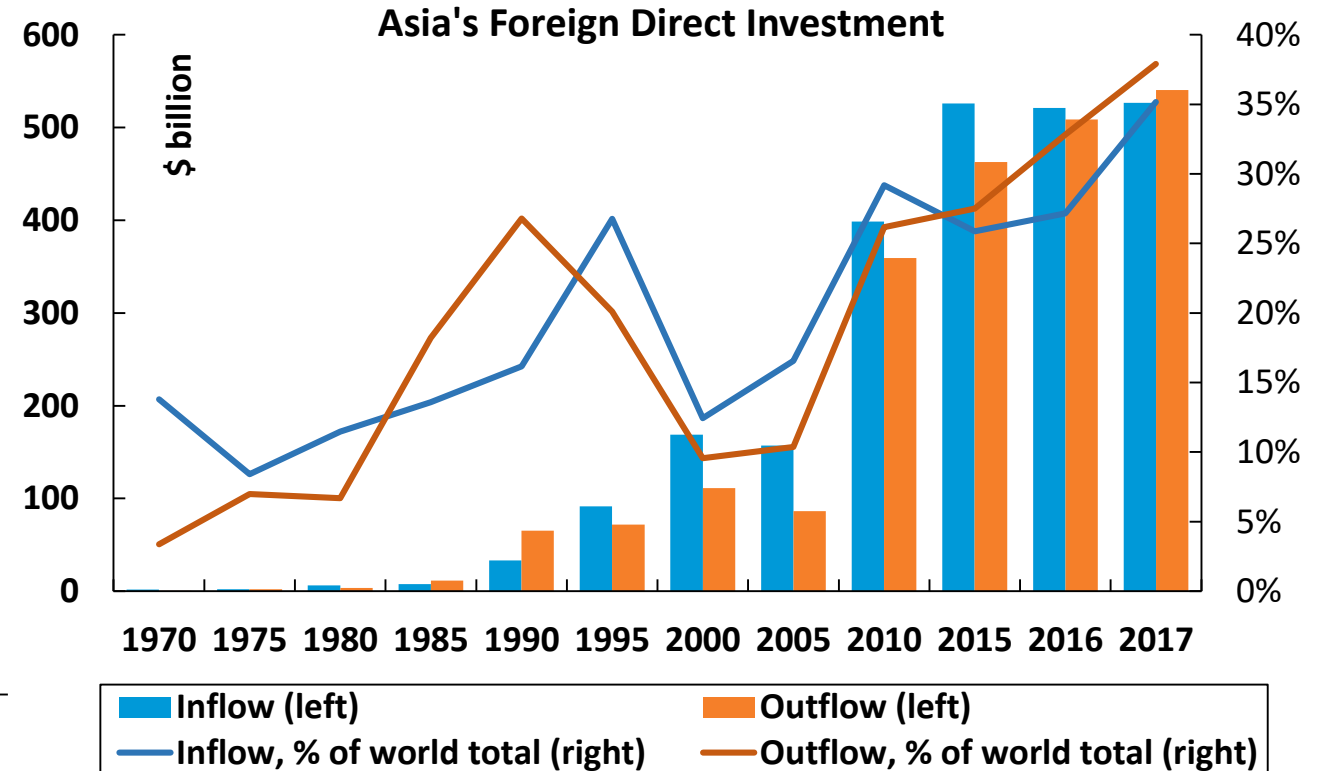
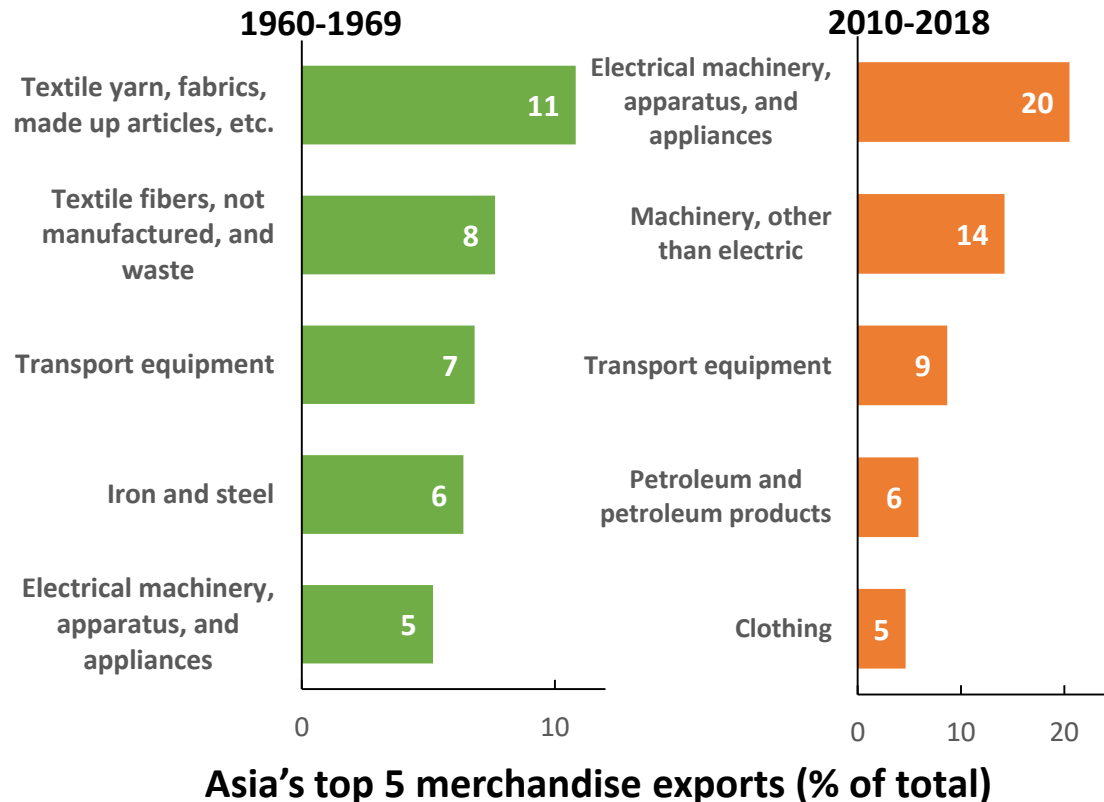
Gross Enrollment Ratio (%), Both Sexes



- During 1970s-2010s, developing Asia's public spending on education increased from 2.1% of GDP to 3.6% of GDP.
- Public spending on education contributed to rising school enrollments at all levels.
- Expanding education boosted productivity and improved people's well-being.

(5) Opening trade and investment

- High-growth Asian economies all maintained open trade and investment regimes, making Asia a center of global manufacturing production and value chains.

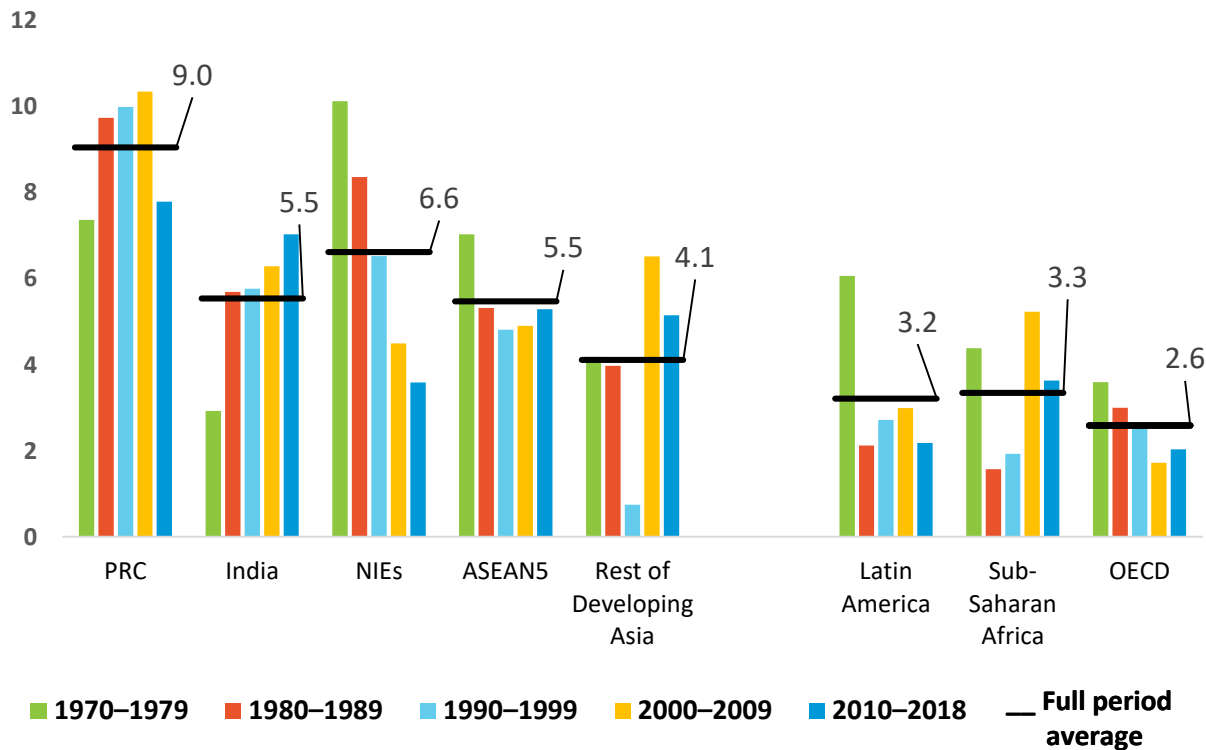


- They initially promoted exports of labor-intensive manufacturing products, and over time, moved up to export more sophisticated products such as cars, electronics and machines. In the last 2-3 decades, they participated in GVCs.
- To attract FDI, they set up SEZs and provide tax incentives, making developing Asia one of the most attractive FDI destinations, accounting for 35% of the world total in 2017.

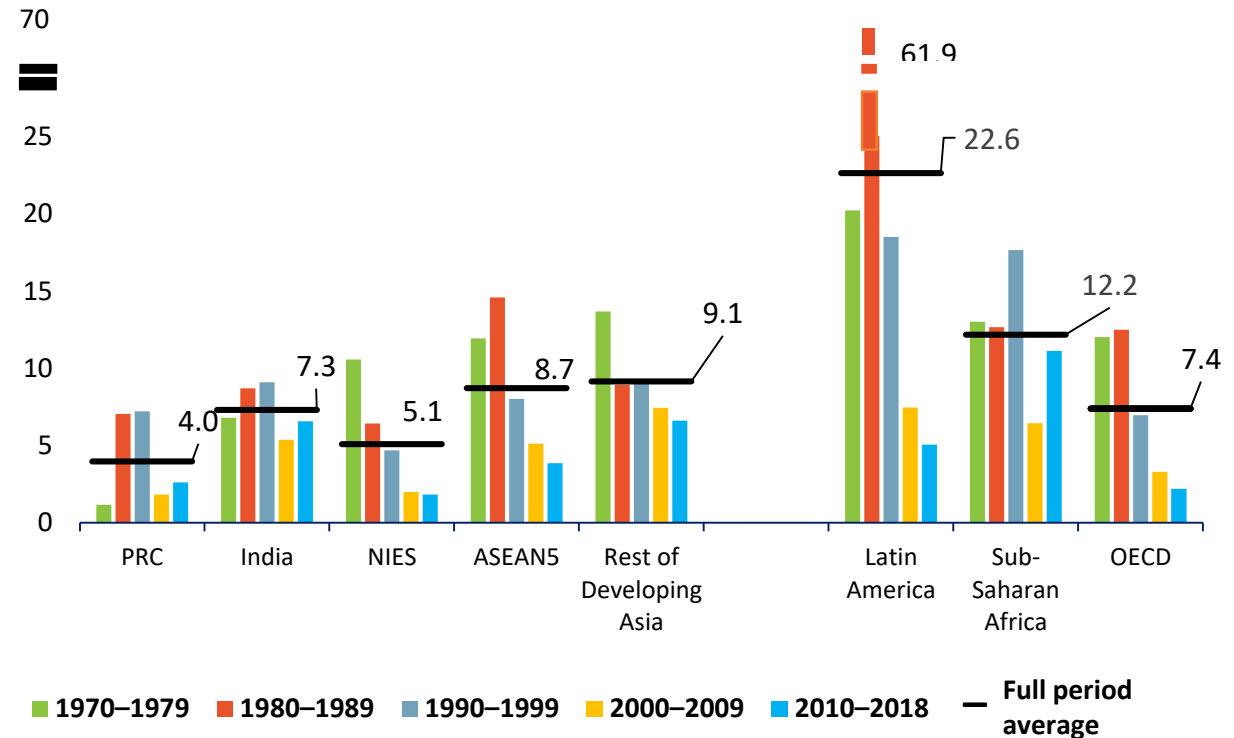
(6) Maintaining macroeconomic stability

- Compared with other developing regions, Asia did better in macroeconomic management, whether looking at growth fluctuation, inflation, or frequency of economic crises

Average annual GDP growth by decade (%)



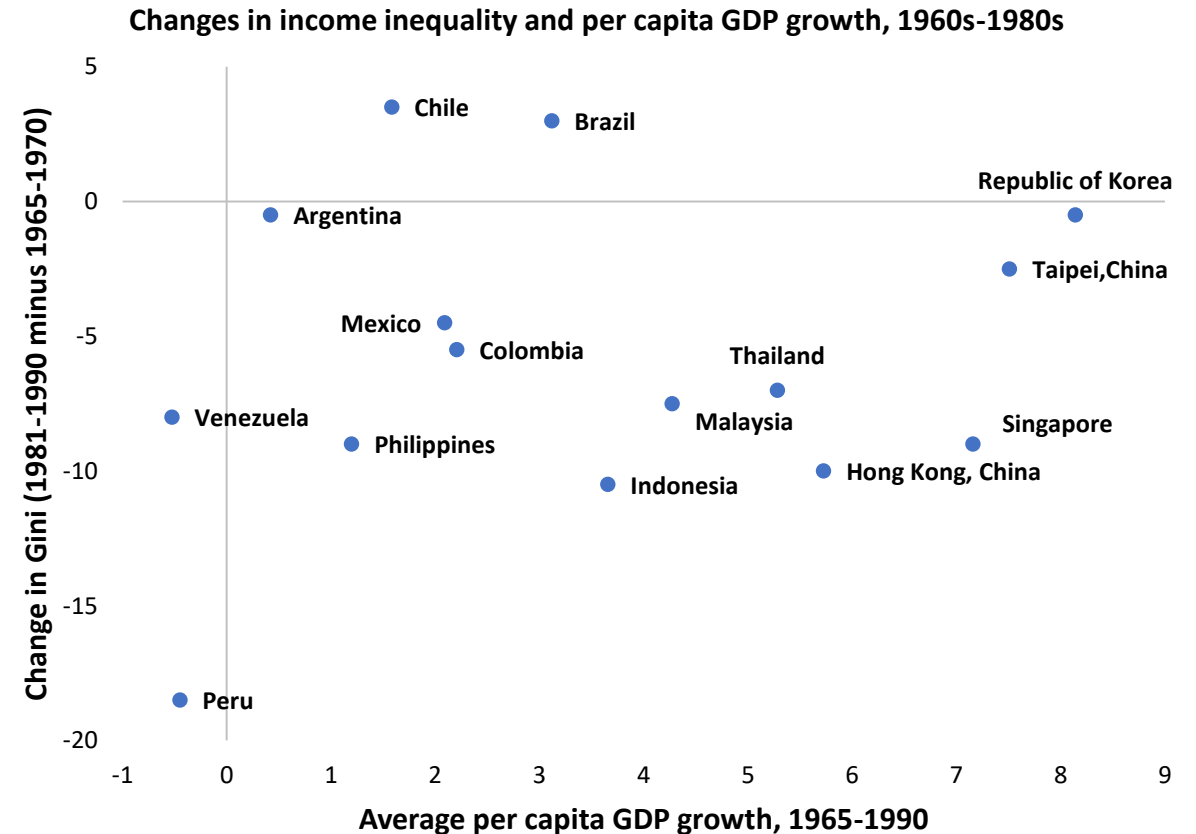
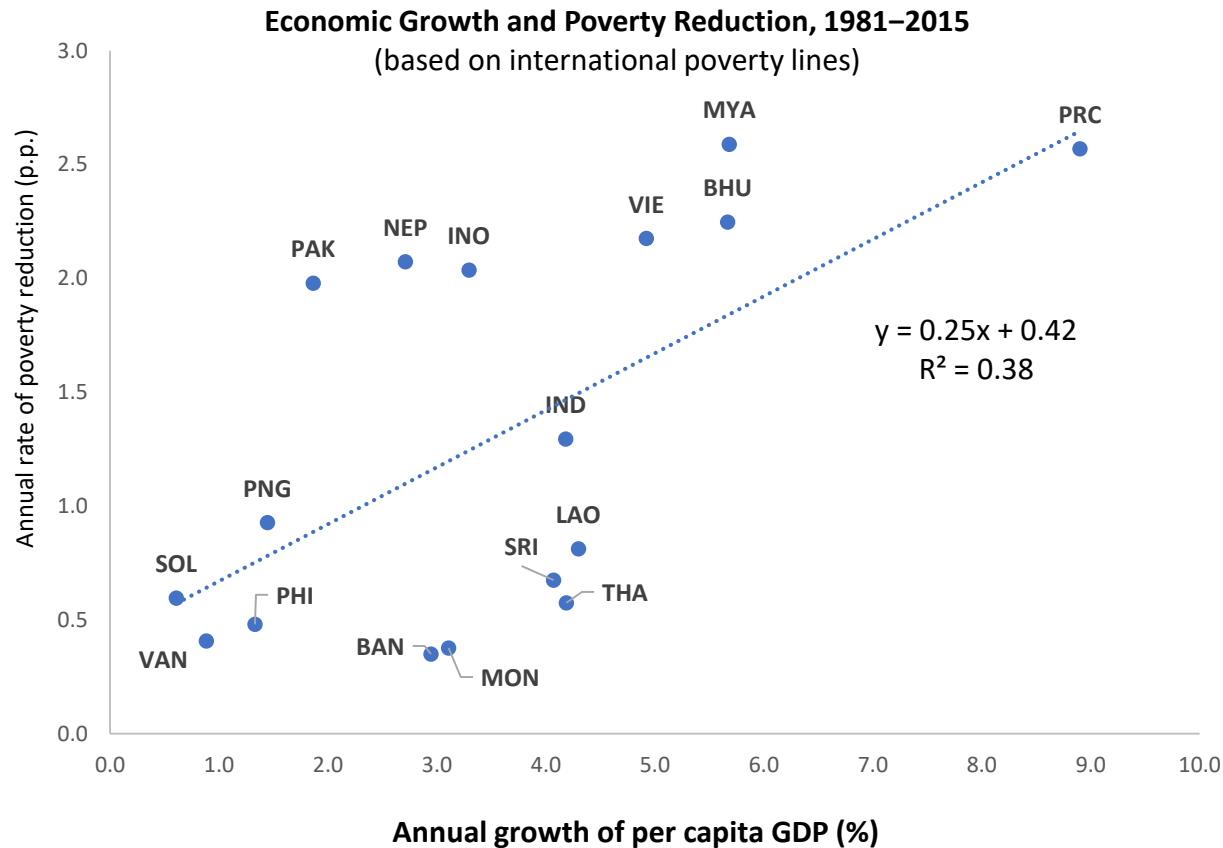
Average Inflation by decade (%)



- Good macro management provided basis for sustained growth, and reforms in response to the Asian financial crisis laid foundation for future resilience.

(7) Promoting social inclusiveness and gender equality

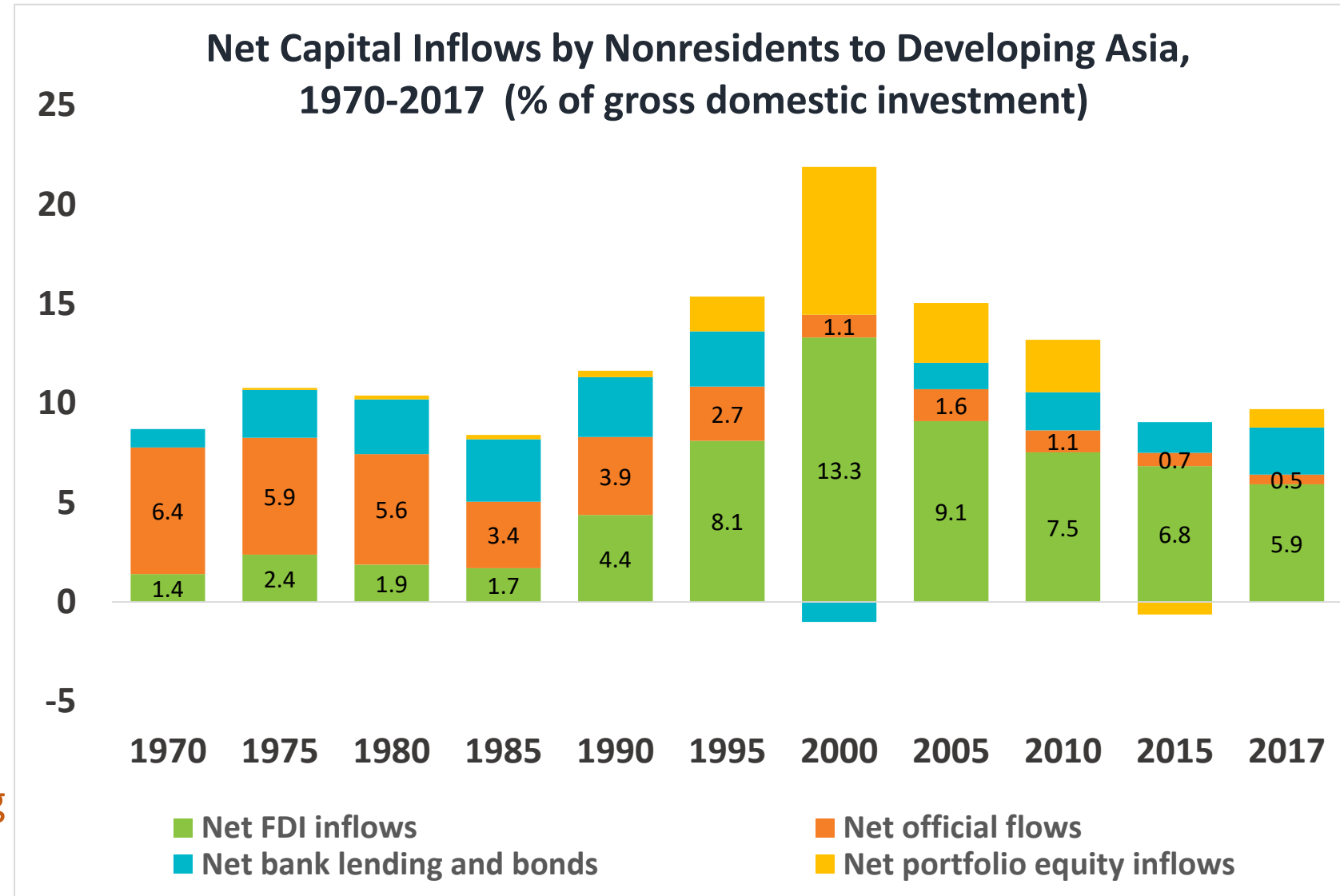
- Rapid economic growth and targeted policies led to rapid poverty reduction.



- Asia had stable inequality in 1960s-1980s, a pattern known as “growth with equity” in East Asia; since 1990s, growth has been accompanied by rising inequality in some economies.

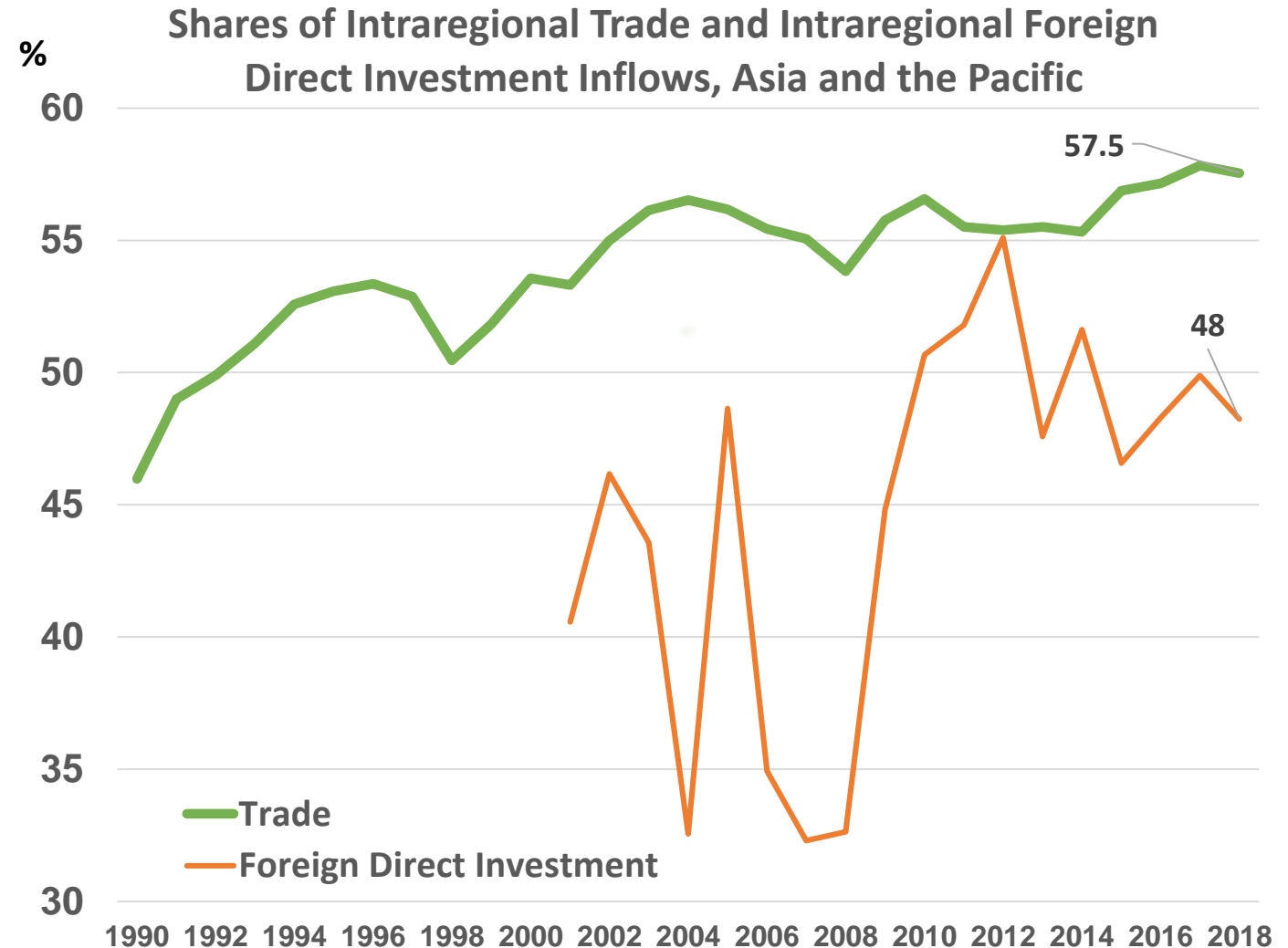
(8) Engaging with development partners and promoting RCI

- Asia benefited from engaging with bilateral partners and MDBs in implementing development projects, especially infrastructure, education, and health.
- In South Asia and Southeast Asia, development assistance financed 10-20% of gross domestic investment in the 1970s and 1980s.
- Such partnerships remains relevant to Asia's changing needs, providing responsive support by combining financing with policy advice.



(8) Engaging with development partners and promoting RCI (cont.)

- Regional cooperation and integration (RCI) has played an important role in supporting Asian development by contributing to
 - peace and security;
 - intraregional trade and investment;
 - provision of regional public goods.
- In 2018, close to 60% of Asian trade were among Asian countries and 50% of FDI inflows were from within Asia and the Pacific region



Issue one: Is Asian development unique?

10 policy recommendations of the Washington Consensus

Fiscal discipline

Public expenditure reform

Tax reform

Financial liberalization & market-determined interest rates

Competitive exchange rates

Import liberalization

FDI liberalization

Privatization of state-owned enterprises

Deregulation

Protection of property rights

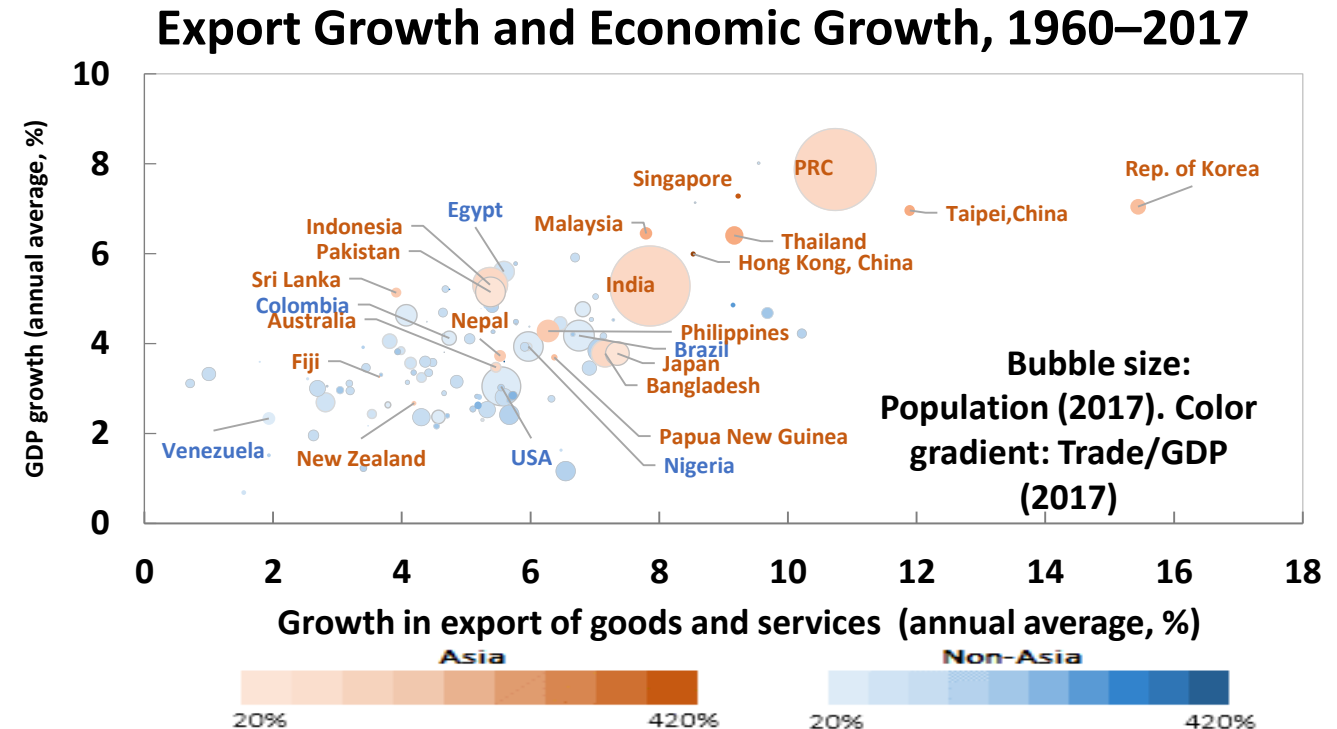
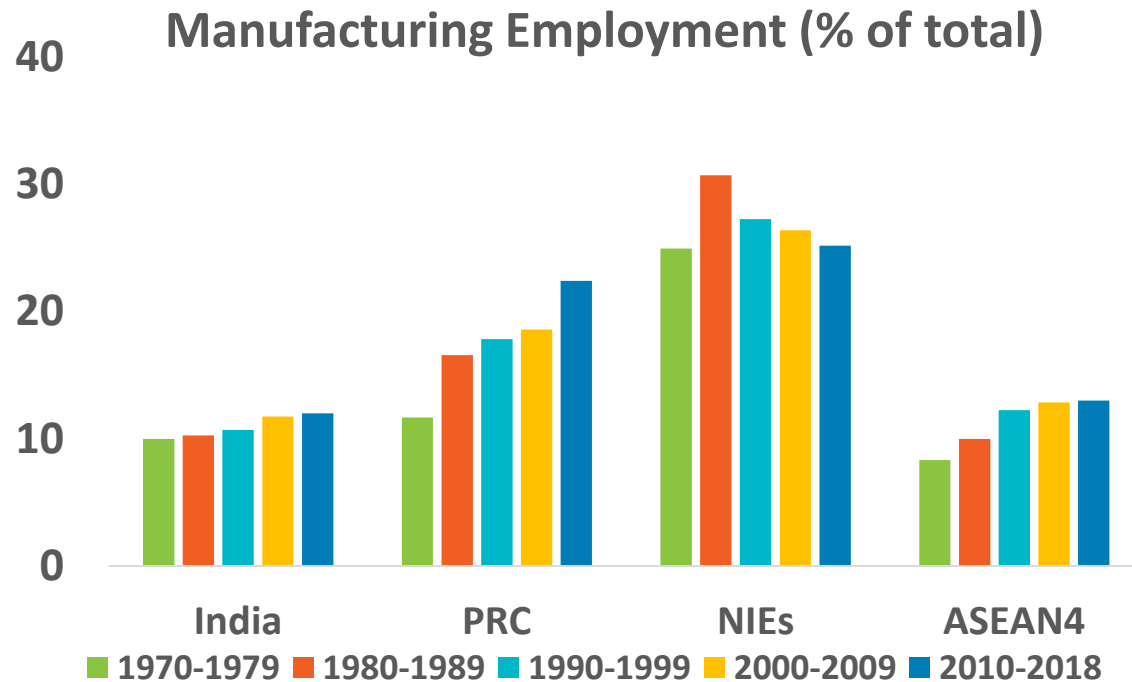
- Some studies considered Asian experience unique, or there is an “Asian development model”, which emphasizes the role of state interventions, as opposed to the so-called “Washington Consensus”, which follows more closely with standard economic theory of market economies.
- The book argues that Asian economies implemented policies and reforms that are not very different from standard economic theories of market economies – in this sense, Asian development is not unique.
- What made many Asian economies unique is their gradual approach and pragmatism in implementing policy reforms, including the practice of testing or piloting major policy changes before full-scale implementation and careful sequencing.

Issue two: The role of industrial policy

- Many Asian economies have used industrial policies (IP) to promote development. “Horizontal” IP has worked by improving business environment. But targeted IP has been more controversial and outcomes mixed.
 - ❑ Targeted IP was discredited after Asian financial crisis but received renewed attention in recent years.
- The book argues that targeted IP, if used badly, can lead to rent-seeking, unfair competition, and inefficiency; but if used wisely, it can be effective, especially in areas with strong positive spillovers and coordination problems.
- Targeted IP is more likely to succeed when it is performance-based and promotes competition, with clear targets, sunset clauses, and transparent implementation rules.
- As a country becomes more developed, IP should focus more on supporting R&D to promote technological innovation that are less intrusive.

Issue three: Can industrialization be bypassed?

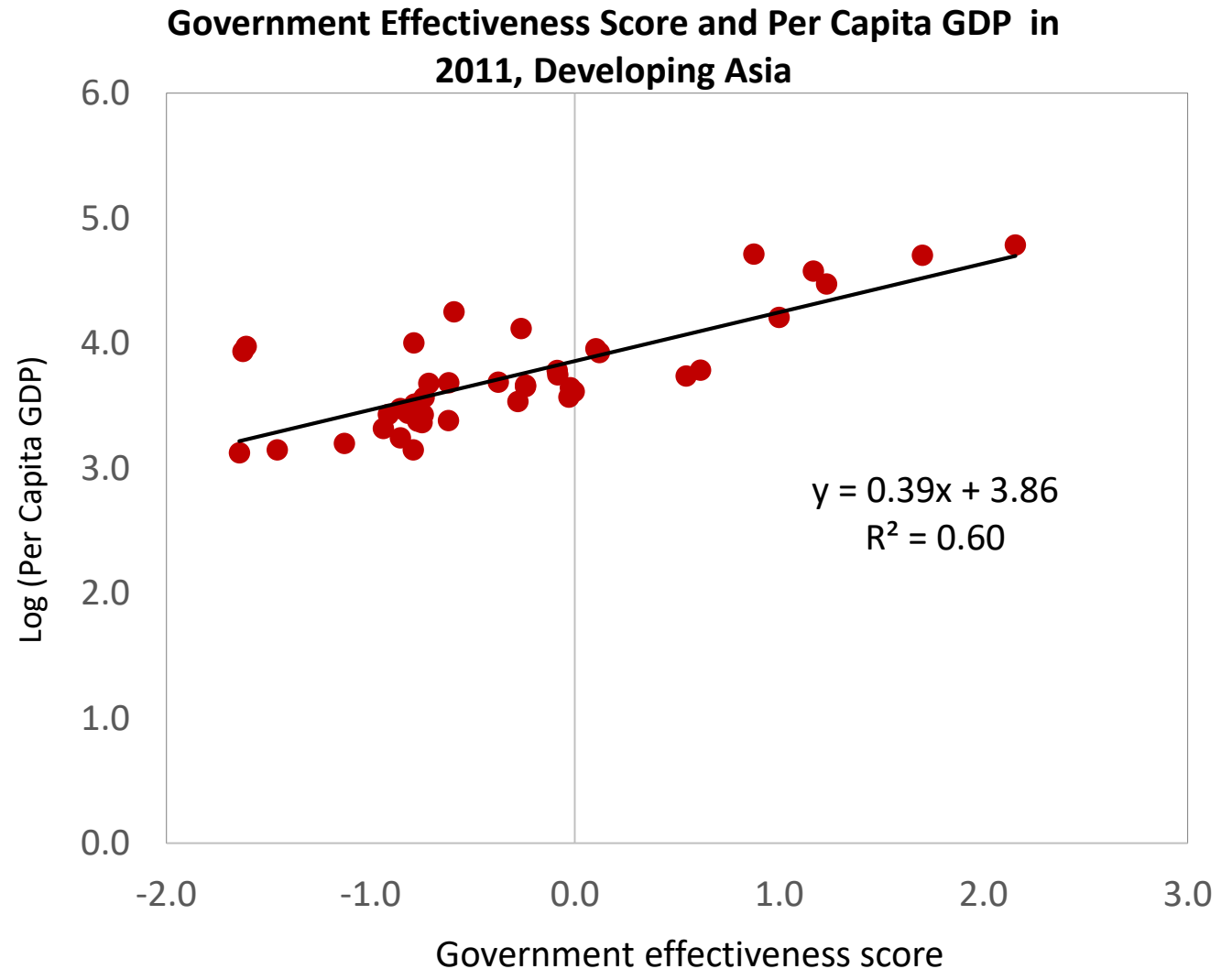
- Many Asian economies achieved high growth by promoting manufacturing and exports.



- They used a variety of ways to promote manufacturing: large capital investment, investment in R&D, opening to trade and FDI, education and skills training, setting up SEZs.
- Historically, manufacturing was important almost in all high-income countries worldwide before de-industrialization.
- Why manufacturing is important: tradability and generating foreign exchanges, having high income elasticity of demand, large scope for innovation, scale economy, and creating better paying jobs.

Issue four: The importance of institutions

- There is a positive association between quality of institutions and economic development, and Asia is no exception. But this correlation may vary across different dimensions of institutions and depends on a country's stage of development.
- At a low-income stage, igniting growth is a priority, and government effectiveness, regulatory quality and control of corruption are important (see Figure on the right). As a country becomes more developed, the priority is sustaining growth, and accountability and wide citizen participation could become more important.
- In some Asian economies, creating a vision for the future that was shared across a wide spectrum of society and promoted by forward looking leaders, made a difference, especially when backed by a competent bureaucracy.

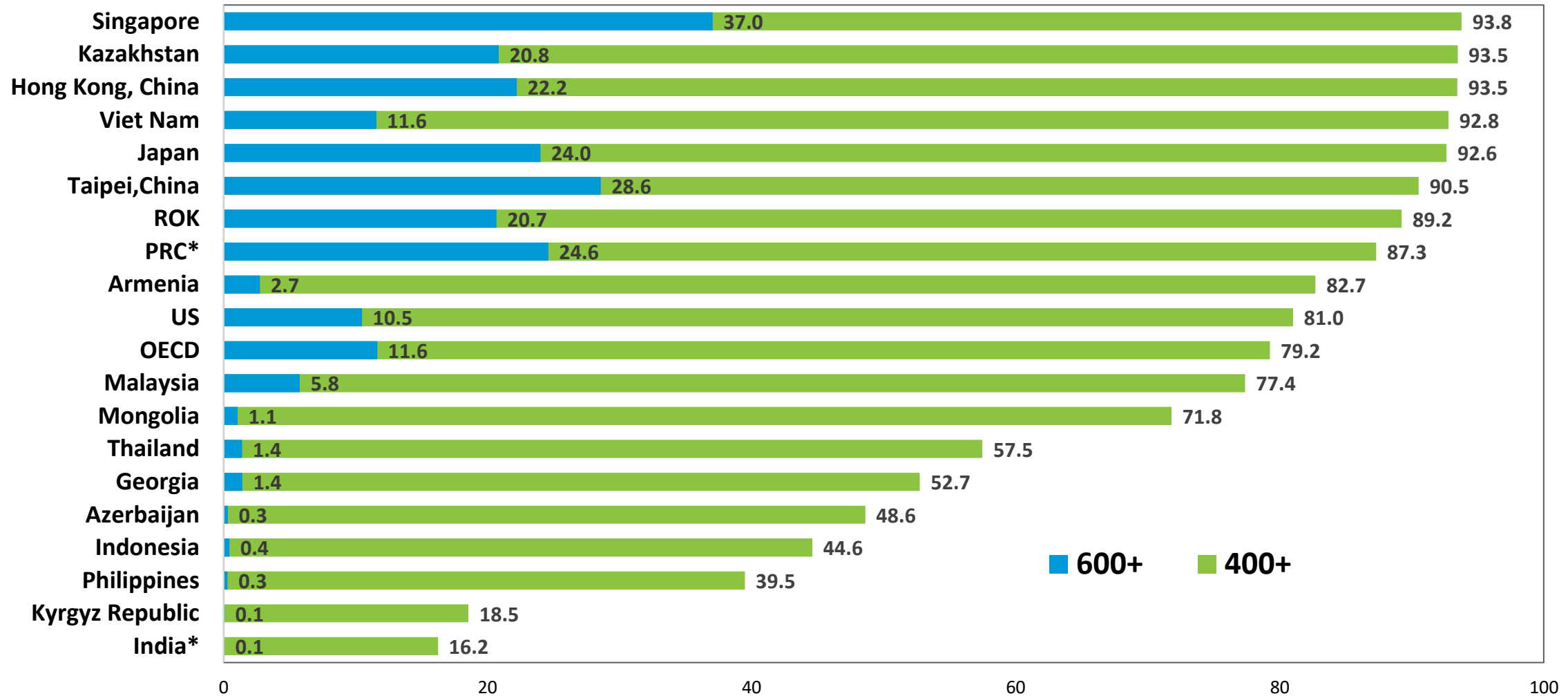


Asia's challenges ahead

- Asia's development gaps with advanced countries remain large – in 2018, developing Asia's per capital GDP was just 13% of OECD level.
- Asian economies should maintain sound policies that prove to have worked, and address remaining and emerging challenges, such as
 - Promoting innovation-based growth
 - Making growth more inclusive and narrowing gender gaps
 - Improving education quality and achieving universal health coverage
 - Reducing large infrastructure gaps
 - Protecting environment and tackling climate change
 - Responding to demographic change and population aging

Improving education quality and achieving universal health coverage (1)

Average Science/Mathematics Test Scores (% of student participants achieving 400+ and 600+)



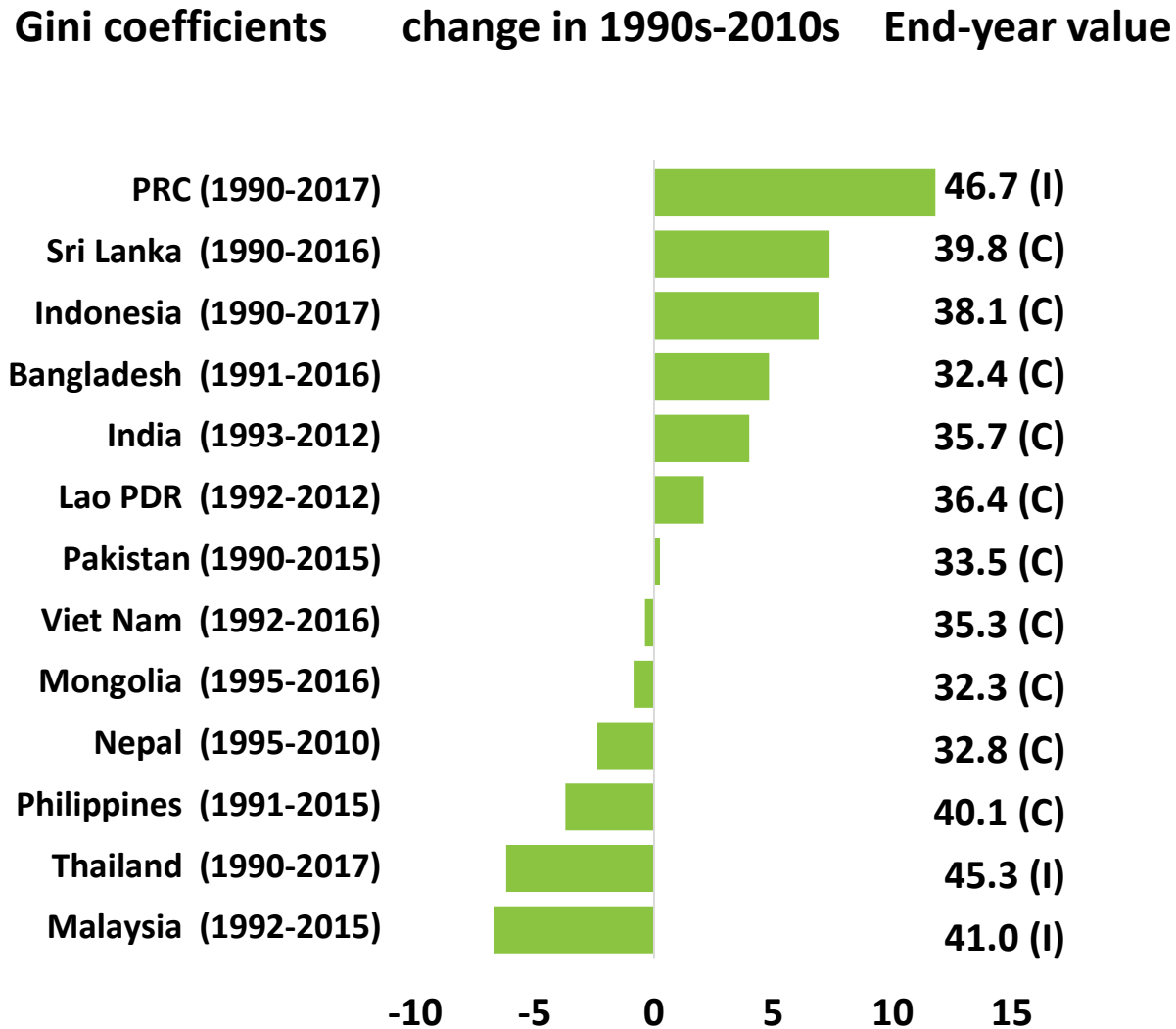
Notes: People's Rep. of China includes only Beijing, Shanghai, Jiangsu, and Guangdong. India includes only Himachal Pradesh and Tamil Nadu. The test scores are standardized to range from zero to 1,000.
Sources: 2015 PISA / TIMSS scores except for Armenia and Philippines (TIMSS 2003); Mongolia (TIMSS 2007); Azerbaijan, India, and Kyrgyz Republic (PISA 2009).

Reducing large infrastructure gaps (2)

Developing Asia's investment needs, 2016–2030 (\$ billion in 2015 prices)

	Baseline		Climate adjusted	
	Total	% of GDP	Total	% of GDP
Central Asia	492	6.8	565	7.8
East Asia	13,781	4.5	16,062	5.2
South Asia	5,477	7.6	6,347	8.8
Southeast Asia	2,759	5	3,147	5.7
The Pacific	42	8.2	46	9.1
Asia and the Pacific	22,551	5.1	26,166	5.9
Annual Average	1,503		1,744	

Addressing rising income inequality (3)

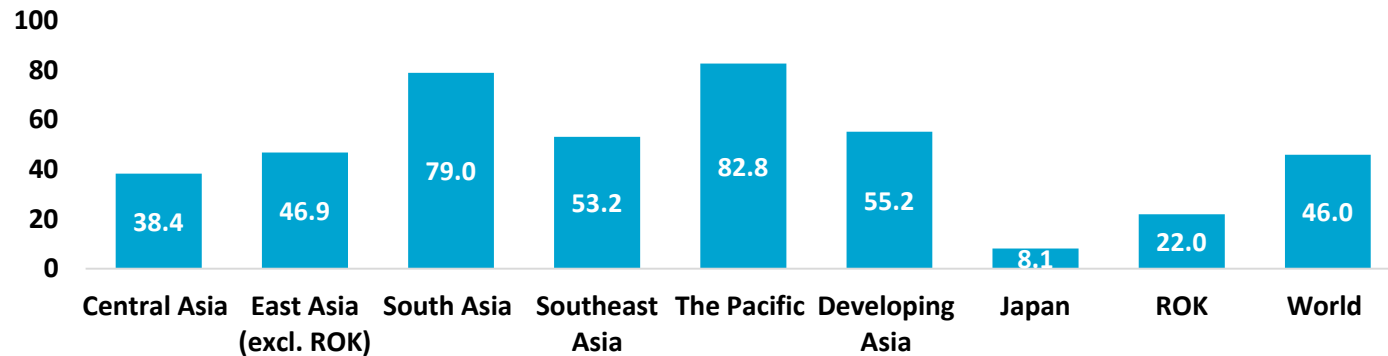


Asia's Inequality in the Global Context

Region	Pre-tax and Pre-transfer Gini (mean)	Post-tax and Post-transfer Gini (mean)	% Difference
Developing Asia	40.0	37.4	(6.3)
Japan, Australia, and New Zealand	45.7	32.6	(28.6)
Latin America and the Caribbean	47.1	43.4	(7.7)
Sub-Saharan Africa	45.9	45.0	(1.8)
European Union	46.8	29.9	(36.0)
North America	48.6	34.5	(29.1)
OECD	46.4	31.0	(33.2)

Narrowing gender gaps (4)

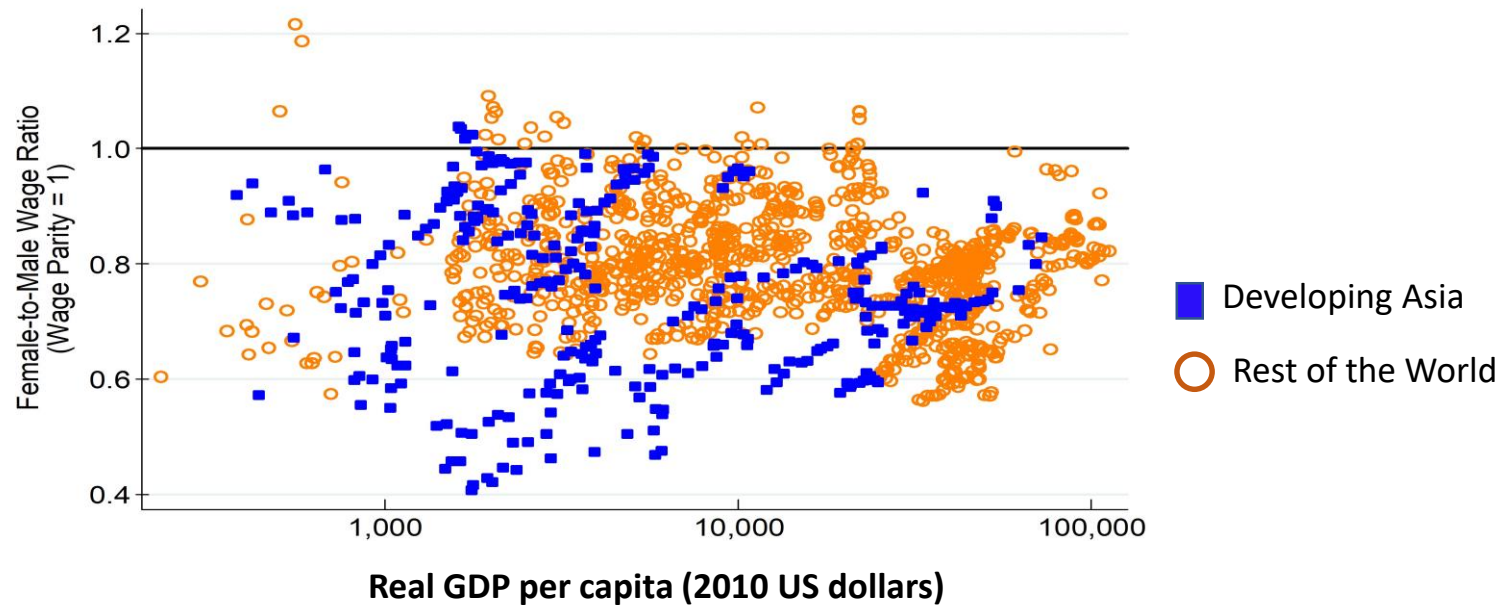
Share of Vulnerable Employment of Women (% of total female employment)



- Challenges to achieve gender equality:

- ☐ Increase women's access to the formal labor market and decent work
- ☐ Reduce women's unequal share of unpaid care and domestic work
- ☐ Increase women's public and political participation
- ☐ Eliminate gender discrimination in laws, policies and social norms

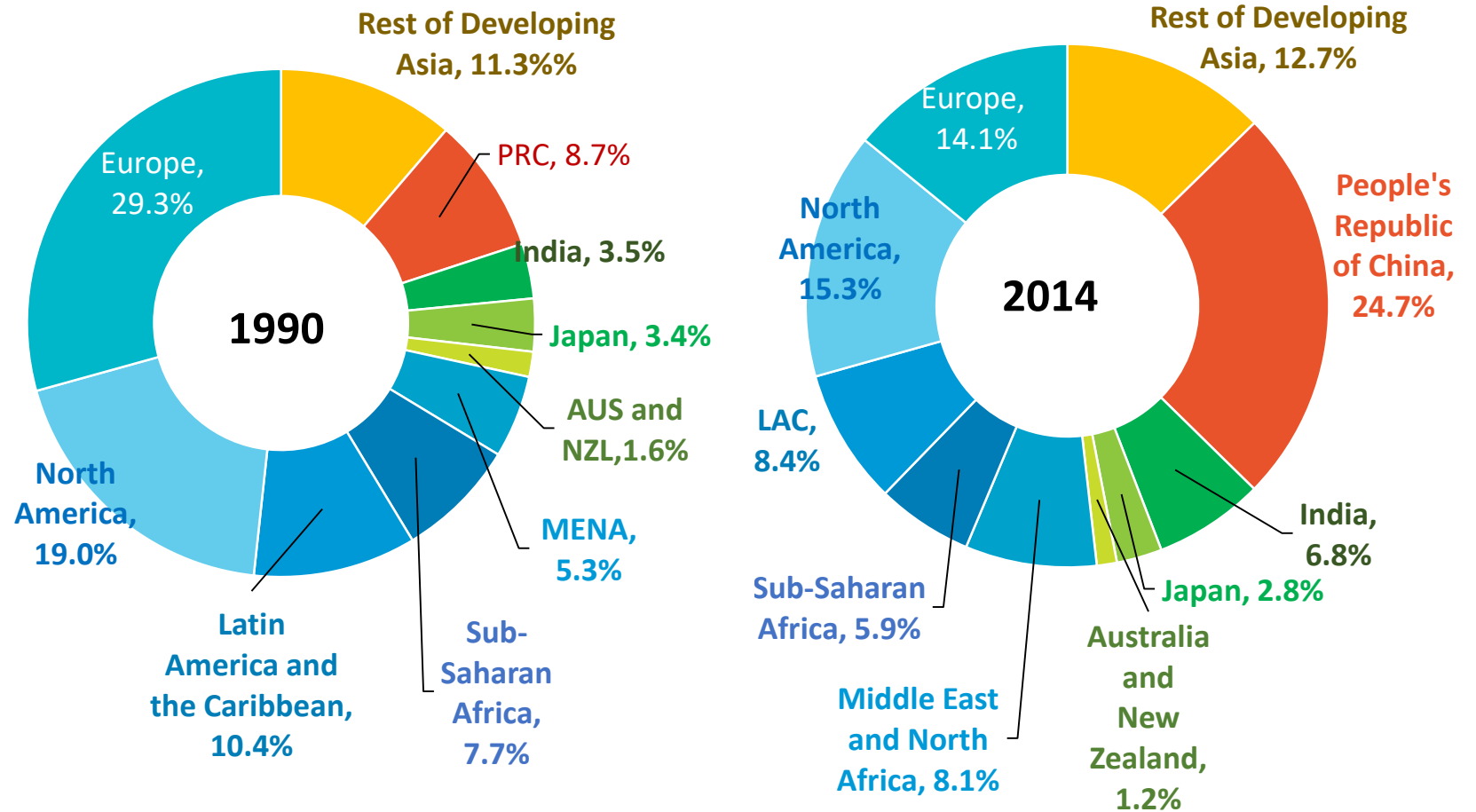
Gender Wage Gap in the World by Income Level, 1995–2015



Protecting environment and tackling climate change (5)

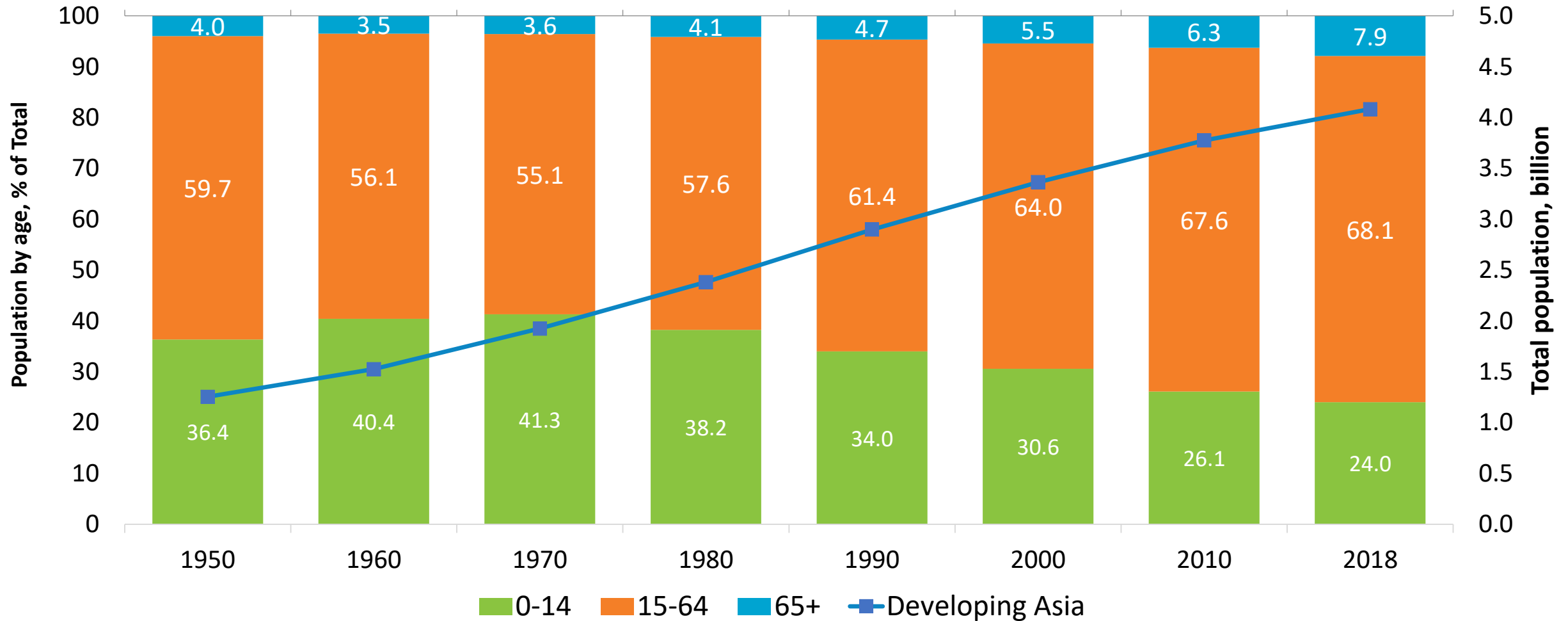
- Pressure from rapid economic development has created many environmental problems.
- Environmental policy responses were initiated and expanded in recent 2-3 decades.
- But much more action is needed to make the region's development sustainable and contribute to global efforts.

**Global Shares of Greenhouse Gas (Carbon Dioxide Equivalent)
Annual Emissions**



Responding to demographic change and population aging (6)

Total Population (billion) and Population by Age (% of Total), Developing Asia, 1950–2018



Summary

- Asia's economic success owes much to creating better policy and stronger institutions. The book highlights the following:
 - 1) relying on markets with proactive state support;
 - 2) promoting structural transformation;
 - 3) investing in productive capacity;
 - 4) building human capital;
 - 5) opening trade and investment;
 - 6) maintaining macroeconomic stability;
 - 7) promoting social inclusiveness; and
 - 8) engaging with development partners and promoting RCI.
- Going forward, Asia still faces many challenges and there is no room for complacency.
- Asia must continue to maintain good policy, strengthen institutions, and contribute to the development of science and technology and to tackling global issues.

Thank you!

The soft copy of the book can be
downloaded at

<https://www.adb.org/publications/asias-journey-to-prosperity>

