



The spectacular rise of East Asia

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What can Bangladesh learn?



Taiwan is one of the Four Asian Tigers known for their rapid industrialisation and exceptionally high growth rates between the early 1960s and 1990s.

When the history of our times is written, the spectacular rise of East Asia will be a towering landmark. In the 1950s and even into the 1960s, East Asia was a desperately poor region, recovering from the devastation of World War II. Even in 1990, the developing countries of East Asia (i.e. East Asia excluding Japan, Korea, Taiwan, Singapore, Brunei) had high poverty rates. Nearly 60 percent of the region's people lived in extreme poverty as defined internationally (living below purchasing power parity dollar of 1.90 in 2011 prices).

From that precarious position, the region reduced poverty dramatically. By 2015, developing East Asia's poverty rate had fallen to about four percent, lifting nearly 900 million people out of poverty. In 1990, the first year we could compare incomes using PPP dollars, China and Vietnam's per-capita incomes were both about 13 percent lower than India's and 17 percent higher than Bangladesh's. In the last 25 years, the picture changed profoundly as developing East Asia's per-capita income grew twice as fast as South Asian per-capita incomes. Today, East Asia's middle-class of around 1.5 billion makes up half of the global middle-class. The region has emerged as an undisputed global economic powerhouse accounting for nearly a third of the world's GDP and close to half of the global growth over the past five years.

Alongside income gains, the quality of life also improved rapidly. Life expectancy in developing East Asia increased from 45 years at the end of World War II to more than 70 by 1999, a goal which South Asia has not yet achieved—although, very creditably, Bangladesh has done so. By 1970, East Asia achieved universal primary education—30 years before South Asia. By 2000, secondary school enrolment was 60 percent. Technological progress followed whereas in 1990, developing East Asian nations supplied less than three percent of the world's exports of capital goods. This share has now increased by nearly 10 times.

Consider Vietnam. Ten years ago, it exported virtually no electrical and machinery goods, but last year Vietnam exported more than USD 77 billion's worth of these products.

What are the lessons of this extraordinary East Asian experience, sometimes called the "East Asian miracle"?

First, the countries focused on fundamentals: low deficits, inflation, and interest rates; competitive exchange rates; adequate public revenue for investment which provided economic stability and confidence for investors. Indonesia, Thailand, and Vietnam raised 20 percent of their GDP in tax revenues compared to 10 percent by India (central government) and Pakistan and eight percent by Bangladesh. They saved and invested furiously, on average, more than 35 percent of their GDP over the past 30 years. In South Asia investments were about 25 percent and savings rates were even lower.

Second, public-private partnerships played a key role. Private sector and public enterprises grew side by side, supported by high rates of public investment that were more than twice

the average of other developing countries. By 2000, 90 percent of East Asians had access to electricity, and per-capita energy use quadrupled which was three times higher than South Asia. Cities proliferated as the urban population increased by 600 million raising the urban population share to 53 percent by 2015. South Asia lagged far behind with only a third of the population living in cities.

Third, East Asians embraced globalisation by vigorously exporting to world markets and attracting a huge flow of foreign direct investment. Even as late as in the 1970s, exports and imports in both South and East Asia were similar—at about eight to nine percent of their GDP. Thirty years later, in 2006, the situation had changed completely. East Asian exports accounted for 40 percent of their GDP, while imports accounted for 33 percent of GDP compared to 20 percent and 25 percent respectively in South Asia.

Crucially, East Asian economies were also highly integrated regionally with almost half their trade taking place amongst themselves. Over the past 25 years, developing East Asian economies received six times more FDI than South Asian economies.

Fourth, East Asian development was inclusive. Although inequality has increased in these countries in recent years, growth was broadly shared over the longer horizon. Many of these economies, including Japan, Taiwan, and Korea at the end of the Second World War and later China, Vietnam and Cambodia carried out sweeping land reforms. Robust agricultural growth took place on small farms, providing food security and raising incomes of farmers, creating markets and releasing labour for other sectors.

Critically important, governments significantly invested in ensuring good health, wellbeing and education of the labour force. Per student public expenditure at the primary level in East Asia was, on average, four times higher than in South Asia. Not only that, it was even higher than what South Asian countries spent at the secondary level. One of the results was that East Asia's labour productivity grew by five times over the past 25 years. Significant real wage growth followed: manufacturing real wages doubled in China between 2000 and 2012 and also rose markedly in countries such as Vietnam and Indonesia.

A striking example of inclusion and a difference with South Asia is the role of East Asia's women. On average, during the past quarter century, more than 60 percent of working-age

women worked there, compared to less than 30 percent in South Asia. Those who have seen the armies of female motorcyclists in cities such as Bangkok, Hanoi, and Jakarta will readily appreciate this. This made a huge difference. Consider that if other things remained the same and women in South Asia worked in the same proportion as in East Asia, per-capita incomes could be about 27 percent higher.

Finally, East Asia used its demographic dividend well. As health improved and workers became more educated, dependency ratios fell sharply in the region. Labour, land, and capital markets worked flexibly to provide more new productive jobs for the more educated and healthier workforce in new industries and services that now employ more than 70 percent of workers. In South Asia, this shift has been far more gradual, with nearly 45 percent of workers still employed in agriculture.

What motivated these countries to develop so single-mindedly? One answer, perhaps surprising to readers, is that fierce political competition prompted the emergence of strong, pragmatic leaders focused on development. There was competition from powerful communist insurgencies. In China, Vietnam, and Cambodia the communists took power making leaders elsewhere aware that if they did not improve the lives of the people, they risked being overthrown.

In some countries, intense competition among sub-national governments provided the impulse to develop. East Asia stands out as one of the most decentralised regions in the developing world where some sub-national governments are responsible for as high as 80 percent of all public expenditures. The motivation for sub-national leaders is straightforward: their performance largely determines their political future.

Bangladesh's history has similarities to East Asia. Bangladesh also emerged from the ashes of war as a more egalitarian society than India or Pakistan. Independence deepened the land reforms of 1950, overthrew Pakistani oligarchy, and loosened bureaucratic inertia. In the 1970s, Bangladesh also faced significant left-wing communist insurgencies challenging the established order. As in East Asia, perhaps partly in response to these challenges, there was better economic management, higher investment in rural infrastructure and human development, greater female participation in education and work, and labour-intensive exported-oriented industry. These similarities suggest that the lessons of East Asia may have

special relevance for Bangladesh. I once witnessed a senior Japanese official assert during a discussion on global development issues that Bangladesh was more like an East Asian country than a South Asian one, and was happy to agree silently.