

East Asian Development: Foundations and Strategies*

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Dwight H. Perkins East Asian Development: Foundations and Strategies

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In many East-Asian countries, there has been spectacular progress during the past decades with an influence on all layers of local societies, resulting in an increase of the prosperity of one quarter of the world's population. By means of economic historical and comparative approach, *Dwight H. Perkins*, professor of political economy at the Harvard University, seeks an answer to the questions of how certain East-Asian countries were able to grow at a rarely seen pace, why some managed to perform better than others, and why growth in the richest states has finally slowed down.

The author emphasises that, in order to understand the economic development, one must become familiar with the historical foundations. One common feature of the examined countries is that they started to catch up from a very low income per capita level. In addition to this, they were also more homogeneous in cultural and ethnic terms, than for instance the former African colonies of European nations. Apart from few exceptions, there were no conflicts regarding the national boundaries, and a common history, culture and language of many centuries were characteristic of the peoples of the region.

However, major differences between the North-Eastern and South-Eastern region can also be identified. The South-East-Asian countries used to be European colonies, while the North-East-Asian countries maintained their independence – except for some shorter

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periods – and Confucian values were strong in that region. This cultural difference manifested itself also in the fact that in the Northern countries larger emphasis was put on education, and the ratio of literacy was high, while the South-Eastern region significantly lagged behind in respect of both the degree and quality of education. Economic research has concluded that in addition to the macroeconomic stability and strong institutions other conditions – such as education – are also required for gradual convergence. In addition to the foregoing, the Northern countries were densely populated and had a temperate climate, while the Southern, less densely populated areas were dominated by tropical climate. The initial level of development of the economies again showed the advantage of the Northern states in terms of commerce, industry and agriculture. Overall, compared to their South-Eastern peers, the North-Eastern states had a more advantageous situation also in historical, educational and business respects.

However, the author explains that even within the East-Asian region significant differences were visible regarding which economic model the individual countries followed. Although Japan was the first to experience industrial development, none of the countries simply copied the Japanese solutions. As a first step, Taiwan and South Korea aimed at boosting the export of industrial products within a wide scope of companies with significant state subsidies. In the next stage, the subsidisation of heavy industry came forth with selected large companies and industrial branches receiving targeted state aid. Finally, the third stage was characterised by the liberalisation of foreign trade and investment. Within the scope of this, market powers gained a larger role, while the government took on a greater role in the build-up of human capital necessary for the further development, for the industrial branches representing high technological level, and subsidized industrial branches of advanced technology by founding research centres, by improving the education and by enticing researchers back home. Therefore, the government played an active role in the industrialisation, however this role has changed over time. By contrast, Hong Kong and Singapore based their development more on market forces, and the role of the government was limited to creating an environment that would support the economy.

In analysing the growth performance, South-East Asia shows a more mixed picture. In the countries of the region, successful economic policy was based on quickly boosting internationally competitive labour-intensive branches. The state subsidisation of heavy industry has led to failure due to mainly the lack of required foundations (for instance skilled workforce). In contrast to North-Eastern Asia, the unfolding of growth was also occasionally hindered by political instability. As compared to North-Eastern Asia, the performance of the South-Eastern region was moderate, but compared to other developing countries in most part of the period growth was still well above the average due to the structural changes that were going on in the economy and society.

As the author highlights, in China due to the soviet-type planned economy even the initial situation differed from that of the other Eastern-Asian countries. Economic reforms launched at the end of the 1970s made their influence felt in many areas; the foreign

direct investments (FDI) that started to rise at the beginning of the 1990s ensured access to foreign markets, and the foreign companies brought along with themselves to China modern production methods and equipment. However, the author notes that at the same time China's results were not the outcomes of a thoughtful economic strategy: the economic model was shaped by the economic policy responses given in succession to the arising problems. Besides the abandonment from the planned economy, a significant role was given to the economic-political environment, and later on to the economic policy addressing the strengthening of the economy and supporting the foreign direct investments.

After having analysed the historical roots of economic development, the author finally mentions the tendencies that can be expected in the future. Based on the experiences so far, it seems that as soon as a high income level is reached, the growth of each economy slows down over time. There may be both fundamental reasons as well as factors that are more difficult to measure behind this. Due to China's weight, it is an important issue when it will enter a slowing stage. Looking forward, the source of productivity growth may be research and development, which on the other hand is a slow and uncertain process, and therefore the previous productivity pace appears difficult to maintain. From the demand side, the shrinking weight of investment may be offset by the gradual increase of consumption. However, deceleration in the double-digit growth will not mark the end of the convergence process.