

FOREWORD

In 1966, when the Asian Development Bank (ADB) was established, the Asia and Pacific region was very poor. At that time, feeding a large and growing population was one of the most important challenges. Half a century later, Asia has emerged as a center of global dynamism.

Fifty years ago, there was pessimism about the prospects of industrialization and broad development for Asia. Japan, which began its modernization in the late 19th century, was in the midst of postwar high growth, but it was regarded by and large as an exception. The People's Republic of China was entering the turmoil of the Cultural Revolution. Growth in India was constrained by socialist ideas of central planning and "import substitution" policies. In Hong Kong, China; the Republic of Korea; Singapore; and Taipei, China—which later became known as the newly industrialized economies (NIEs)—growth started to pick up, but their future was still unclear. The Association of Southeast Asian Nations (ASEAN) was launched in 1967 by its original five members as a grouping for promoting regional peace. Yet, ASEAN economies had not initiated the strong growth based on reforms and the "flying geese" model. Central Asian countries were under the Soviet system. Many countries in the region suffered from conflicts and political instability.

The region's performance in its journey to prosperity over the past 50 years surpassed expectations by any measure—be it economic growth, structural transformation, poverty reduction, or improvement in health and education. In 1960, developing Asia's per capita gross domestic product (GDP) was \$330 (in constant 2010 United States dollars). By 2018, it had risen to \$4,903, a nearly 15-fold increase, while global per capita GDP tripled over the same period. As a result, the region's share of global GDP jumped from 4% to 24%; it increased from 13% to 34% when Japan, Australia, and New Zealand are included.

What were the reasons for the region's postwar economic success?

As discussed in Chapter 1, this book's position is that *there is no such thing as an "Asian Consensus."* The policies pursued in Asia can be explained by standard economic theories. And these policies are not so different from those prescribed by the so-called "Washington

Consensus.” What made the difference was that many Asian countries took a pragmatic approach to implementing these policies.

Asian countries implemented import liberalization, opening up of foreign direct investment, financial sector deregulation, and capital account liberalization in a more gradual and sequential way. For instance, they learned that the liberalization of capital inflows should be preceded by adequate development of the domestic financial sector.

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In the past half century, rapid population growth allowed many Asian countries to enjoy a “demographic dividend” due to the increasing share of the working-age population. During this period, Asia had a favorable external economic environment in terms of open trade and investment regimes of developed countries. Asian countries benefited enormously from rapid technological progress and globalization, particularly in recent decades. Moreover, the “convergence” process offered low-income economies an opportunity to grow fast.

However, even with favorable demographic and external conditions, the process of economic growth is not automatic. This book argues that Asia’s postwar economic success owes much to creating effective policies and strong institutions. It was supported by governments’ pragmatism in making policy choices, ability to learn lessons from their own and others’ achievements and mistakes, and decisiveness in introducing reforms. In many countries, a clear vision for the future, which is often championed by forward-looking leaders and shared across a wide spectrum of social groups, made a difference—especially when backed by a competent bureaucracy.

While there were variations across countries on policy mix and timing, with occasional setbacks and reversals, successful Asian economies pursued policies needed for sustained growth. Over time, they adopted open trade and investment policies, facilitated agricultural modernization and industrial transformation, supported technological progress, invested in education and health, mobilized high level of domestic savings for productive investments, promoted infrastructure development, pursued sound macroeconomic policies, and implemented policies for poverty reduction and inclusiveness.

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I have long felt that discussions about Asian economic success were often too simplistic. Many scholars, especially from outside Asia, tend to overemphasize the role of strong state intervention and guidance. But Asia's success essentially relied on markets and the private sector as engines of growth. Economies started to grow faster when policies shifted from state intervention to market orientation, while governments continued to play some proactive roles.

Market-oriented policies had the backing of a long tradition of commerce and technologies in many Asian countries. During Japan's Meiji modernization period (1868–1912), while the government created modern institutions following Western models and piloted industries, many railway lines were built by the local private sector. Electricity has always been provided by private companies in Japan. In China and India, in the early 20th century, industries led by domestic capitalists prospered in such sectors as textiles, paper, pharmaceuticals, steel, and shipbuilding.

Many Asian countries pursued “targeted industrial policy” to support industrialization, using tariffs, subsidies, preferential credit, and tax incentives. Some policies were successful, while others were not. Over time, industrial policies in Asia have evolved to become less intrusive, such as those promoting research and development. Targeted industrial policy, if used badly, can lead to “rent-seeking,” unfair competition, and inefficiency. However, today, many agree that industrial policy can be effective if used wisely, especially at the early stages of development. This was the case for many of today's developed countries including France, Germany, and the United States. Industrial policy may more likely succeed when it promotes competition and if it is implemented transparently with clear policy targets and sunset clauses.

Export-oriented trade policies are also often overemphasized and misunderstood. Japan and the NIEs adopted export-oriented policies from early on. However, such policies should be rather called “outward-oriented,” as they promoted exports to earn the foreign exchange needed for enabling more imports, including natural resources, capital goods, and technology. In fact, Japan incurred constant current account deficits until the mid-1960s and had to occasionally tighten macroeconomic policies. Many other Asian

developing countries followed the NIEs, departing from import substitution. The import substitution strategy had been widely adopted by developing countries in the postwar period. It was influenced by socialist ideas and the desire for self-reliance after achieving independence from colonial powers. But under this strategy, trade protection, the lack of competition, and overvalued exchange rates led to serious inefficiencies and even triggered balance of payments crises at times, especially in Latin America.

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I thought reflecting on the reasons for Asia's postwar success based on experiences of member economies would be a major task for ADB. When we started preparing the book of ADB's own history in 2015, *Banking on the Future of Asia and the Pacific*,¹ we already had an idea to write a companion volume about the development history of Asian economies.

Actual writing of this book, *Asia's Journey to Prosperity*, started in 2017 after ADB's own history book was published, and it has taken almost 3 years to finish the work. It depicts the 50 years of Asia's multifaceted development and transformation based on 14 themes. It emphasizes the importance of policy, market, and technology in achieving development. It covers the experiences of ADB's 46 developing member economies in the Asia and Pacific region, including the NIEs (which borrowed from ADB in the past). It discusses the experiences of Australia, Japan, and New Zealand, whenever necessary. Chapter 1 works as an executive summary for the following 14 chapters.

Compared with many other studies on Asian economic development, such as the well-known 1993 World Bank publication, *The East Asian Miracle*,² this book has several distinctive features.

First, it provides an overview of Asia's rapid transformation beyond the NIEs and several Southeast Asian countries (Indonesia, Malaysia, and Thailand), covering the time horizon from the immediate postwar period to the present. It captures the transition from centrally planned systems to market-oriented reforms, and the strong growth

¹ McCawley, P. 2017. *Banking on the Future of Asia and the Pacific: 50 Years of the Asian Development Bank*. Manila: Asian Development Bank.

² World Bank. 1993. *The East Asian Miracle: Economic Growth and Public Policy*. New York: Oxford University Press.

in the People’s Republic of China, India, Cambodia, the Lao People’s Democratic Republic, Viet Nam, and countries in Central Asia. Many Asian developing countries, including Bangladesh and the Philippines, have gathered growth momentum since the 2000s. Developing Asia, when excluding the NIEs, maintained about a 6% annual growth (meaning doubling income in 12 years) even after the 2008–2009 global financial crisis.

Second, this book reviews emerging issues and new trends for Asia and the world. It discusses challenges such as climate change, ocean health, and population aging, as well as responses to the Asian financial crisis and global financial crisis. It analyzes the impact of global value chains, new technologies such as artificial intelligence, and the increasing importance and variety of new services.

Third, many ADB staff from a wide range of member economies in Asia, North America, and Europe joined in writing this book and helped the deep understanding of countries’ experiences and balanced views. In addition, staff engaged in operations contributed to the book’s chapters related to health, education, gender, agriculture, energy, transport, water, environment and climate, and regional cooperation and integration.

In writing this book, we tried to make the narrative in each chapter as readable and interesting as possible, avoiding overly technical discussions while including various anecdotes, data, and country examples. The book also discusses the evolution of ideas on economic development that affected policymaking across Asia.

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Many people argue that the 21st century is the “Asian century.” But I have several reservations about this idea, while encouraged by Asia’s success and its increasing economic stature. Asia has more than half of the world population, so we should not be surprised even if Asia’s GDP surpasses half of the global GDP by 2050. Developing Asia still faces many challenges including persistent poverty; increasing income inequality; large gender gaps; environmental degradation; climate change (seriously affecting the Pacific island countries); and still inadequate access to health and education, electricity, and safe drinking water. There is no room for complacency.

In the past 50 years, the region was largely at peace except for periods of wars and conflicts in some countries. Peace and stability set the groundwork for Asia's economic success. Countries must continue to make utmost efforts to promote friendship and enhance cooperation in Asia and beyond.

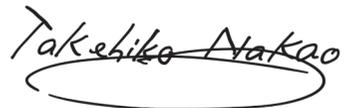
Asia's experiences and innovations have been inspiring, but it will take some more time for Asia to become as influential as the West has been for the past five centuries. Asia must continue to make efforts to strengthen its institutions, contribute to the development of science and technology, assume more responsibilities in tackling global issues, and articulate its own ideas. I hope that a larger role played by Asia will lead to a more inclusive, integrated, and prosperous global community.

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I appreciate the great contributions and hard work of the book's production team members, its management group, the secretariat, ADB staff across its departments, and consultants. I thank scholars from within and outside Asia for offering valuable comments.

Yasuyuki Sawada, Chief Economist and Director General of the Economic Research and Regional Cooperation Department (ERCD), and Juzhong Zhuang, Senior Economic Advisor at ERCD, led the production team and were main authors themselves. Niny Khor, Senior Advisor to the President, closely examined the substance and coordinated the process. Lea Sumulong of ERCD led the secretariat, which provided technical and research support. Relentless devotion by them and other contributors over the past 3 years made this book possible.

It is my wish that this work will serve the purpose of reviewing Asian development history over the past 50 years in a comprehensive manner, contributing to its greater understanding, and stimulating discussions to help address the remaining development challenges in Asia and the world.



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