

Economic Development in Pacific Asia

**Hafiz Akhand and
Kanhaya Gupta**

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Economic Development in Pacific Asia

During the period 1965–1990 East Asia was the world’s fastest-growing region. *Economic Development in Pacific Asia* provides illuminating, non-technical perspectives on key facets of the region’s economies. The text focuses on the eight countries which accounted for the majority of the economic growth: Japan, Hong Kong, Taiwan, Republic of Korea, Indonesia, Malaysia, Singapore and Thailand.

Empirical evidence is used to provide a revealing, multidimensional statistical profile of the countries as well as the region as a whole. Rather than present a statistical history of each country, the text highlights the relative performance in terms of the variables which are studied within each chapter. Akhand and Gupta examine a range of popular topics including: the relative role of factor accumulation versus technology change; factor price distortions and employment; growth, poverty and income distribution; the Asian crisis; and corruption. In addition, topics rarely covered in the current economics literature are investigated, such as urbanization, the gender gap and the digital divide.

This book provides an accessible and wide-ranging assessment of the existing evidence and current arguments on East Asian economic development. *Economic Development in Pacific Asia* highlights the lessons to be drawn and the policy implications they may lead to. This book will be a valuable addition to economists, policy makers and those interested in Asian economic affairs.

Hafiz Akhand is Associate Professor of Economics at the University of Regina, Canada. His research interests are in the areas of foreign aid and the economics of growth.

Kanhaya Gupta is Professor Emeritus of Economics at the University of Alberta, Canada. His research interests are in the areas of economic development, foreign aid and the economics of growth.

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To Cheryl and Latif
Hafiz Akhand

To the memory of my parents
Kanhaya Gupta

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1 Introduction

The so-called ‘East Asian Miracle’, the rapid growth of the Chinese economy over the past few decades and the recent spurt in the growth rate of the Indian economy, particularly in its information technology (IT) sector, have drawn considerable attention in the research agendas of academic scholars as well as other researchers and international organizations like the International Monetary Fund (IMF) and the World Bank. A good deal of the research work is widely scattered and, as one might expect, tends to be quite technical and at the same time cover a wide variety of issues. It is our strong belief that there is a wide constituency of readers, both economists, including students, and policy makers and others interested in Asian economic affairs, who would be interested in a rigorous though not necessarily technical, accessible and wide-ranging assessment of the existing evidence and arguments on some of the major issues under one roof.

If any such undertaking is to be manageable, one must make choices about countries and the topics to be covered. As for the countries, our choice is relatively straightforward. The East Asian countries have demonstrated a robust economic performance over an extended period of time. For example, considering the period 1965–1990, the twenty-three East Asian countries grew faster than any other region of the world. But the most remarkable part of even this remarkable performance is the fact that only eight of the East Asian countries accounted for most of this growth. The eight countries are: Japan, the ‘Four Little Tigers’ – Hong Kong, the Republic of Korea (from here on, also South Korea), Singapore and Taiwan, China and the three newly industrialized countries (NICs) – Indonesia, Malaysia and Thailand. And although the Philippines is sometimes included for purposes of analysis, it lagged

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behind considerably. Consequently, these eight or nine (including the Philippines) countries are the focus of this study.

As for the topics to be covered, the decision was more complicated. Our choice, as reflected in the chapter scheme, essentially reflects three considerations. First, they reflect our preferences, developed over a significant period of teaching and research. Second, many of the topics are routinely included in courses in development economics, and those which are not, are beginning to be; for example, gender gap, digital divide and globalization. And, finally, we have tried to include topics which in our view, though not fashionable, are none the less important and are likely to be even more so in future – for example, urbanization and corruption, to name just a few.

A brief outline of the rest of the chapters now follows, which should give a better idea about the contents of the book. In Chapter 2, using existing data sets, we try to provide a brief, but multidimensional, statistical profile of the countries of our sample as well as for the region. No attempt has been made to provide a statistical history of the eight or nine countries. Rather, the intention is to highlight relative performance in terms of the variables which are analysed in the rest of the chapters.

Chapter 3 takes up one of the most contentious but interesting topics in the entire book. This has to do with the relative roles of factor accumulation versus technological change. The debate has been particularly furious about the ‘Four Little Tigers’ already identified; namely, Hong Kong, South Korea, Singapore and Taiwan, China. This chapter provides a detailed survey of the literature, both regarding methodological issues as well as the empirical evidence and attempts are made to draw appropriate lessons.

Chapter 4 takes up the question regarding the role of factor price distortions. There has been much debate, no doubt inspired by neoclassical economics, that there exists significant factor price distortions in the developing countries which have serious consequences for resource allocation in general, but particularly for employment. Since these distortions are generally caused by public policies, the distortions have policy implications. After providing a brief and non-technical analytical background, the chapter tries to summarize the existing evidence on the extent of factor price distortions. An attempt is also made to summarize arguments and evidence on the causes of these distortions. Following this, a summary and assessment of the effects of these distortions are provided.

Chapter 5 takes up the theme ‘Growth, Poverty and Income Distribution’. This topic has attracted particular attention because many of the countries of our sample have been able to achieve rapid growth while at the same time achieving reductions in income inequalities and poverty. This chapter provides a survey of this evidence and also examines possible danger signals for the future.

Chapter 6 deals with an issue which continues to attract attention far beyond the East Asian region. This chapter tries to provide a brief but solid summary of the causes, implications and the reforms to deal with what is now popularly known as the ‘Asian crisis’.

Few issues have caught as much attention or aroused as much passion as corruption. This topic is taken in Chapter 7. The problem with this topic is that it is too broad, it has too broad a scope – social, political and economic. Since there already is a vast literature on corruption, we very briefly summarize a rather specific section of this literature devoted to identifying the causes of corruption, and the effects of corruption on growth and foreign direct investment (FDI). In addition, we provide some of our own estimates of the effects of corruption on growth and FDI.

Chapter 8 on ‘Urbanization’ tries to draw attention to an area which is rarely, if ever, included in books on economic development. This topic is generally included in geography, urban planning and demography. But our goal is rather limited. We aim to analyse the data on urbanization given in the *World Development Indicators* and provide a preliminary analysis of this information insofar as it bears on the issue of sustainability.

Chapter 9 on the ‘Gender Gap’ is certainly an unorthodox one for a book on economic development, but not on Asia or East Asia. But our goal is quite limited, partly, as we will see, due to limitations of the data. However, this chapter offers some interesting ideas as to why we continue to have the ‘gender gap’ in these countries and what might be done to bridge the gap.

Chapter 10 on the ‘Digital Divide’ may be viewed in the same spirit as the previous chapter on the gender gap. In spite of the explosion of interest in the information technology industry, this topic does not get included in books on economic development. We offer a brief survey of this topic.

Globalization is a catchword these days and means so many things that it almost ends up meaning nothing. We try to define it very narrowly for