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## Rethinking Asian Drama

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WIDER Working Paper 2018/150

**Rethinking *Asian Drama***

Deepak Nayyar\*

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**Abstract:** Gunnar Myrdal published *Asian Drama* in 1968, a work which made important analytical contributions to our understanding of development but was deeply pessimistic about Asia's future prospects. Since then, contrary to Myrdal's expectations, Asia's development has been remarkable, although transformations have been uneven across countries and unequal between people. This paper explains the conception and design of the UNU-WIDER study on Asian Transformations, which seeks to analyse the amazing story of economic development in Asia over the past 50 years. It begins with reflections on Gunnar Myrdal, the author, and rethinking *Asian Drama*, the book, in retrospect 50 years later. It goes on to outline the rationale and objective of the study. It then discusses some critical issues and lessons that emerge—diversity in development, history and context, economic growth and structural change, wellbeing of people, markets and governments, economic openness, and institutions and policies—to serve as a teaser. It concludes with some brief reflections on Asia's future prospects over the next 25 years.

**Keywords:** Asian Drama, development, governments, Gunnar Myrdal, history, industrialization, institutions, markets, openness, transformations

**JEL classification:** B20, B31, B41, O10, O20, O53, O57, P50

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## 1 Introduction

Gunnar Myrdal published his magnum opus, *Asian Drama: An Inquiry into the Poverty of Nations*, in 1968. The 50 years since then have witnessed a remarkable economic transformation in Asia—even if it has been uneven across countries and unequal between people—that would have been difficult to imagine, let alone predict, when Myrdal and his associates completed their work. The UNU-WIDER study, in two volumes, analyses the story of economic development in Asia spanning half a century (see Nayyar 2019a, 2019b). This paper explains the conception and design of the study for the reader. It begins with a discussion on Gunnar Myrdal, the author, and *Asian Drama*, the book, as a point of reference. It then sets out the rationale and the objective of the study, to outline its structure and framework. This leads into a discussion, illustrative rather than exhaustive, of some important ideas and lessons that emerge, which might serve as a teaser. A short afterword on future prospects concludes.

## 2 Gunnar Myrdal and *Asian Drama*

Gunnar Myrdal was a man of many parts. The word polymath is an apt description, which might not suffice to describe a man who was a distinguished academic, policy practitioner, member of parliament, cabinet minister, international civil servant, political actor, public intellectual, and concerned citizen.<sup>1</sup> This diversity of experiences shaped his work and thinking.

In academia, Stockholm University was his institutional home (1933–50). He started as a brilliant theorist, a brash young academic<sup>2</sup> who went on to question the methodological foundations and ideological underpinnings of economics, returning to his ivory tower at Stockholm University (1962–67) where he founded the Institute for International Economic Studies. He was awarded the Nobel Prize in Economics in 1974. In professional life outside academia, he turned to political economy and developed the idea of counter-cyclical macroeconomic policies in the early 1930s. There was an interregnum of four years (1938–42) when he lived in the United States to study the ‘Negro Problem’. He returned home to political institutions in the 1940s when he chaired a committee that outlined the elements of the post-war Swedish welfare state, to become a member of parliament, Chairman of the Planning Commission in Sweden, and Minister for Trade and Commerce. During the Cold War era, he was appointed Executive Secretary of the United Nations Economic Commission in Europe, where he served from 1947 to 1957. The next 10 years were devoted to his study of Asia, during which he spent four years in New Delhi, where his wife, Alva Myrdal (sociologist, diplomat, and politician, who was awarded the Nobel Peace Prize in 1982), served as Sweden’s Ambassador in India from 1955 to 1961.

There was also a remarkable intellectual journey that ran in parallel, with many milestones and some landmarks. Three deserve mention for their common purpose—critique of systemic biases and implicit values in economic thinking—and for their diversity of subjects: politics in economics,

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<sup>1</sup> For accounts of Gunnar Myrdal, the person and his life, see Streeten (1990, 1998), Bok (2005), Appelqvist and Andersson (2005), Barber (2008), and Kanbur (2018).

<sup>2</sup> Gustav Cassel, whom he succeeded as Chair in Political Economy at Stockholm University (1933–39), once warned him against his brashness, ‘Gunnar, you should be more respectful to your elders, because it is we who will determine your promotion.’ Yes, the young Myrdal replied, ‘but it is we who will write your obituaries.’ After Cassel’s death, he did indeed write his obituary (Streeten 1990).

race in society, and poverty in the world. *The Political Element in the Development of Economic Theory* was published in Swedish in 1930, in German in 1932, and in English, translated by Paul Streeten, in 1953. *An American Dilemma: The Negro Problem and Modern Democracy*, for which he spent four years in the United States, was published in 1944.<sup>3</sup> *Asian Drama*, on which he worked in India for four years and in Sweden for six years, was published in 1968. Yet, the book was also influenced by the evolution of Myrdal's thinking in economics and the social sciences over a lifetime.

In this magnum opus, the fundamental point of departure from conventional thinking was the conviction that 'economic problems cannot be studied in isolation but only in their own demographic, social and political setting' (Myrdal 1968: ix). The book and its approach are best described in the author's words from the preface:

It is not an altogether pretentious metaphor when I describe my endeavour to apply an institutional approach in this study as an attempt to analyze the development problems of South Asia in a manner that Adam Smith studied England's development problems two hundred years ago... The length is abominable. The question can, indeed, be raised why I did not break it up into five or six books... But the central idea in the institutional approach is that history and politics, theories and ideologies, economic structures and levels, social stratification, agriculture and industry, population developments, health and education, and so on, must be studied not in isolation but in their mutual relationships. (Myrdal 1968: x)

The title, *Asian Drama*, was deceptive in terms of its country coverage. Its focus was on the erstwhile British India, made up of India, Pakistan, and Ceylon, the sub-continent now described as South Asia. Burma and Indonesia were paid some attention. But Malaysia, the Philippines, and Thailand were grouped together as the rest of Southeast Asia, while Cambodia, Laos, and South Viet Nam were touched upon when some information of interest was available. It is interesting, although somewhat puzzling, to note that Myrdal described all of these countries broadly as South Asia even if many of them are now seen as part of Southeast Asia.<sup>4</sup> However, Japan, Korea, China, Formosa (Taiwan), Hong Kong, and Singapore were excluded. So was West Asia. And, it is no surprise that the Central Asian economies, then part of the USSR, were also excluded.

Gunnar Myrdal set out a conceptual framework and an analytical approach to study the constraints on, and possibilities of, development in Asia at an early stage of the post-colonial era, when experience in terms of outcomes was limited. Some important points of departure from studies of development at that time, which reflected his methodological concerns, are set out explicitly in the prologue, titled 'The Beam in Our Eyes'. It begins with a plea for the sociology of knowledge, to emphasize the importance of a multidisciplinary approach in social sciences, the recognition of many biases in the study of development, the critical role of institutions, and the necessity of making assumptions, priors, and values explicit. The implicit critique of mainstream economics had three dimensions. First, the essence of the institutional approach is to use all relevant knowledge to analyse a problem, unconstrained by the boundaries of disciplines, because in an interdependent social system there are only problems that are not simply economic, social, or

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<sup>3</sup> *Economic Theory and Underdeveloped Regions*, published in 1957, was early thinking about development, while *Value in Social Theory*, critical essays on methodology written earlier, translated into English, and edited by Paul Streeten, was published in 1958. For a more detailed discussion on Myrdal's academic writings, see Kanbur (2018). See also Streeten (1998) and Barber (2008).

<sup>4</sup> This description is illustrated by a map of South Asia in Myrdal (1968), which includes all the selected countries (volume 1, 4–5). The scope and coverage of the study is also set out in the text (volume 1, 39–41).

political. Second, the garb of scientific analysis often conceals or disguises values, priors, or interests that are political, and the implied objectivity which is spurious must be replaced by explicit valuations. Third, development objectives should be formulated on the basis of the actual needs or valuations of people, instead of the narrow definitions or metaphysical concepts so characteristic of statisticians or economists.

In this worldview, development was a multidimensional process of circular causation and cumulative change in which economy, polity, and society interacted not only with each other but also with technology, history, and culture. Cumulative causation could create vicious circles through negative feedback or virtuous circles through positive feedback. This approach and conceptualization were both perceptive and correct. But his analysis of the prevalent situation in underdeveloped Asia sought to focus on output and incomes, conditions of production, levels of living, attitudes towards life and work, institutions, and policies. Taken together, these constituted a social system that represented a powerful constraint on development, which meant that poor countries and poor people would remain poor.<sup>5</sup> The interaction of these conditions, Myrdal believed, would lead to ‘either an unchanged level of underdevelopment, which is to say stagnation, or else development to a higher level or a regression to a lower level’ (Myrdal 1968: 1864). The challenge of development, then, was intervention in the form of policies and planning by governments to transform the process of cumulative causation so that it could create virtuous circles through positive feedbacks and spread effects.

In retrospect, it is clear that there were some valuable analytical insights, such as the concept of cumulative causation, that remain just as relevant now for an understanding of development processes.<sup>6</sup> The idea of operational controls over the private sector through trade policy, monetary policy, or fiscal policy, which could be positive and uniform (even if selective) or negative and discretionary—and their rational coordination—was also perceptive in its thinking about state intervention in markets.<sup>7</sup> These were its strengths. But there were weaknesses too. The role of governments was recognized in the context of planning in market economies, which was also part of the development consensus at the time. Yet, this critical importance of governments was diluted by the notion of a ‘soft state’, where governments did not have the willingness or ability to do what was necessary in the pursuit of development objectives because they could neither resist nor coerce powerful vested interests. Similarly, the possibility that economic openness could also create development opportunities was simply not recognized, because the belief in export pessimism and the absence of capital movements were accepted as characteristics of the world economy that would remain forever.<sup>8</sup>

For these reasons, perhaps, Myrdal’s assessment of the possibilities in the countries studied led him to a deep pessimism about development prospects in Asia.<sup>9</sup> In sum, economic problems were intractable and political problems were formidable, while solutions that could transform the possible into the probable or the desirable into the feasible were exceedingly difficult if not elusive.

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<sup>5</sup> For an elaboration of these ideas, see Myrdal (1968: volume 3, 1843–78). For a critical evaluation, see Stewart (2018).

<sup>6</sup> On cumulative causation, see Myrdal (1968; volume 3, 1870–78).

<sup>7</sup> On operational controls, see Myrdal (1968: volume 2, ch. 19; volume 3, appendix 8).

<sup>8</sup> See Myrdal (1968: volume I, ch. 13). The discussion on foreign trade is based on the premise of export pessimism, while the discussion on capital flows argues that international capital movements could not be a source of investment in Asia.

<sup>9</sup> For a detailed assessment of possibilities and constraints in the countries studied, see Myrdal (1968: volume 1)—on India, see chapter 7; on Pakistan, see chapter 8; on Ceylon and Southeast Asia, see chapter 9.

Myrdal's conception of drama, speeding towards a climax in which economic, social, and political tensions are mounting, captured the essence of this narrative (Myrdal 1968: 34).

The asymmetry between his optimism in *American Dilemma* and his pessimism in *Asian Drama* is striking indeed. There are three plausible reasons but only conjectures are possible. First, he might have believed that the progressive, liberal, and egalitarian values of people and democracy in the United States would support progressive change, while the mass of the population in South Asia did not share the modernization values of the elite and democracy could not suffice with a 'soft state'. Second, when he started work on *Asian Drama*, there was an unbounded optimism about India, but a decade later, when he was about to finish the work, the future of India appeared shrouded with uncertainty. Third, in a conversation over dinner, Myrdal told Streeten that when he wrote *American Dilemma* he could identify with American ideals, but when he wrote *Asian Drama*, he saw the half-naked brown bodies in an Indian textile factory, who seemed utterly alien to him, and he could not find anything in common with them.<sup>10</sup>

### 3 Rationale and objective

The reality of development that has unfolded in Asia since then has belied such pessimism about its prospects.<sup>11</sup> The significance of Asia in the world economy has undergone phenomenal change. But that is not all. Asian economies have also undergone a major structural transformation, while development indicators—demographic, social, and economic—suggest impressive progress. It is important to note that this transformative change has occurred in just 50 years, which is a relatively short timespan in history.<sup>12</sup>

Between 1970 and 2016, the share of Asia in world GDP, in current prices at market exchange rates, more than trebled from less than one-tenth to three-tenths, by as much as 21 percentage points, in almost equal parts at the expense of industrialized countries and transition economies (Eastern Europe and the former USSR). This was attributable to much higher GDP growth rates in Asia compared with other parts of the world. As population growth rates slowed down, even growth in GDP per capita was significantly higher. Over the same period, GDP per capita in Asia, as a proportion of GDP per capita in the world economy, rose from less than one-sixth to more than one-half, suggesting a significant convergence. But the ratio of GDP per capita in Asia to GDP per capita in industrialized countries, in current prices at market exchange rates, increased far less from 1:20 in 1970 to 1:8 in 2016. The wide gap, which was large to start with, narrowed a little, so that the convergence was at best modest. The catch-up was more impressive in aggregate in the spheres of industrialization and trade. The share of Asia in manufacturing value-added in the world economy soared from 4 per cent in 1970 to 41 per cent in 2016. Over this period, in current prices at market exchange rates, the contribution of Asia to world merchandise trade quadrupled, as its share in world exports rose from 8 per cent to 36 per cent and in world imports

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<sup>10</sup> The first explanation is put forward by Stewart (2018). The second explanation is hinted at by Siegel (2017). The third explanation is narrated by Streeten (1990). In fairness, it might just have been an affinity with Americans. Streeten continues this story to write, perhaps tongue in cheek, that for Myrdal 'In fact, the Americans came almost as high in the rank order of creation as the Swedes. Then came nothing for a long time; then the English, and only after them the Europeans. He called America his second home' (Streeten 1990: 1035).

<sup>11</sup> Given the focus on developing countries in this study, Asia excludes Japan and Israel, which are high-income industrialized countries.

<sup>12</sup> The evidence on Asia, cited in the following paragraphs, draws on another of the author's works (Nayyar 2019b).

from 8 per cent to 32 per cent. The share of Asia in world exports of manufactured goods almost doubled in just two decades, from 21 per cent in 1995 to 39 per cent in 2016.

The structural transformation within Asia was just as striking. During the period from 1970 to 2016, in Asia, the share of the primary sector (agriculture, forestry, animal husbandry, and fishing) in GDP fell from 27 per cent to 8 per cent,<sup>13</sup> while the share of manufacturing value-added in GDP rose from 10 per cent to 22 per cent, and the ratio of merchandise trade (exports plus imports) to GDP increased from 43 per cent to 70 per cent, all measured in current prices at market exchange rates. In 1965, almost four-fifths of the total population of Asia lived in rural areas, whereas by 2016 this proportion was just over one-half, showing how rapid urbanization has been.

The demographic and social transformation of Asia during the 50 years from 1965 to 2016 was also remarkable. In terms of demographics, the population of Asia increased from 1.75 billion to 4.24 billion. Consequently, population density in a land-scarce continent almost trebled. Yet, birth rates (per 1,000 population) fell from 40 to 17, while fertility rates (births per woman) dropped from 6 to 2. Social development in Asia was also impressive, as life expectancy at birth rose from 49 years to 72 years, while infant mortality rates dropped 160 to 23 per 1,000 live births. Literacy rates for both men and women also rose by significant proportions.

This transformation in terms of aggregates or averages might conceal as much as it reveals. It was characterized by uneven development in Asia. For one, the growth performance and rising shares in output, manufacturing, or trade were concentrated in a few countries. For another, demographic or social indicators are arithmetic averages that cannot measure the wellbeing of the poor. Development in Asia was most unequal between the constituent sub-regions and among people within countries. Consequently, the rapid economic growth was not always transformed into meaningful development that improved the wellbeing of people. Of course, there was a significant reduction in absolute poverty that would not have been possible without rapid growth. But sustained rapid growth in Asia did not reduce absolute poverty as much as it could have, in part because the initial income distribution was unequal and in part because of rising income inequality. All the same, it is clear that Asian development in this era was driven by economic growth based on high investment, savings rates, and rapid industrialization, often export-led, associated with structural change in the composition of output and employment, which reinforced the process.<sup>14</sup>

It would seem that, during the past half-century, the Asian continent has witnessed profound transformations in terms of economic progress and living conditions, even if it has been uneven across countries and unequal between people. Yet, five decades ago, such change would have been thought of as imagination running wild. Indeed, at the time, the economic prospects of Asia were perceived as dim by most observers and analysts. In this sense, Myrdal was by no means alone in his pessimism about Asia. Of course, perfect foresight exists only as an abstraction in economic theory. But the benefit of hindsight does provide a good reason for an inquiry into the economic transformation of nations. The story of economic change and social progress in Asia since then deserves exploration. It provides the rationale and the motivation for this endeavour.

The object of the study is to analyse the development experience of Asia and its associated transformations over the past 50 years. There is no such study yet. And this would be new. It

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<sup>13</sup> For East Asia, Southeast Asia, and South Asia, taken together, the share of the primary sector in GDP dropped far more, from 42 per cent in 1970 to 9 per cent in 2016 (Nayyar 2019b).

<sup>14</sup> For a detailed discussion of these issues, with supporting evidence, see Nayyar (2013, 2017). See also Nayyar (2019b).



should, at the same time contribute to our understanding of the process of development. There are, perhaps, lessons that can be drawn from the Asian experience—successes, failures, or mixed outcomes—which might help in thinking about economic prospects of countries in Asia that are latecomers to, or laggards in, development, and suggest possibilities for countries elsewhere in the developing world. In this half-century, the world has changed almost beyond recognition. Thus, it would also be appropriate for the study to reflect, even if briefly, on how the next 25 years might unfold in Asia.

It needs to be said that *Asian Drama* is no more than a point of entry or reference for this study. It is not meant to be a sequel. And it is hoped that this study will have an identity of its own. Clearly, a study in three volumes was just not feasible. A stand-alone single book would also have been a difficult, if not formidable, task, not only because it was bound to have become much too long but also because it could not possibly have had the depth in particular domains that some readers might search for. After much deliberation, I chose the middle path of a collaborative study with scholars who have expertise in their fields (Nayyar 2019a) and an authored volume (Nayyar 2019b), which work together and complement each other. Given the vast scope of the study, this is perhaps the most appropriate.

It is perhaps instructive to invoke a historical fact here. Until around 1750, Asia accounted for almost three-fifths of the world population and world income, while China and India together accounted for about one-half of the world population and world income. These two Asian giants also contributed 57 per cent of manufacturing production and an even larger proportion of manufactured exports in the world. The Industrial Revolution in Britain brought about a radical transformation of the situation over the next two centuries, culminating in the decline and fall of Asia during the period from 1820 to 1950.<sup>15</sup> The solitary exception was Japan after the Meiji Restoration in 1868. The second half of the twentieth century witnessed the beginnings of change once again. It began with the East Asian Tigers—South Korea, Taiwan, Hong Kong, and Singapore—in the early 1970s. Some Southeast Asian countries—Malaysia and Thailand—followed in their footsteps in the late 1980s. China and India came next. Rapid economic growth, led by industrialization, has enabled Asia to narrow the gap. This momentous, ongoing shift in world economic history has interested me for some time (Nayyar 2013). It needs to be explained and analysed. In this context, I was struck by the pessimism of Gunnar Myrdal in *Asian Drama*, although he cannot be blamed for not being able to foresee how reality would unfold in Asia over the next 50 years.

Asia is a vast continent, with so many countries distinctly different from each other as economies and societies. Given the enormous diversity, it was clear that such a study was well beyond the expertise of a single individual. This led me to the idea of a collaboration that could draw upon distinguished scholars with expertise in subjects, themes, countries, or sub-regions. Once the study was conceptualized, in terms of its approach and framework, I searched for and commissioned the authors for the different papers. The result is a most valuable set of specialized in-depth studies by economists and social scientists who are among the best in their respective domains. This can, of course, stand by itself as a study. Even so, while necessary, it cannot suffice because it lacks a unified overview and vision.

This is the *raison d'être* for a separate authored book (Nayyar 2019b). This book uses bold strokes on a wide canvas to sketch a picture of the economic transformation of Asia during the past 50

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<sup>15</sup> For a detailed discussion on this sequence of developments, and on the factors underlying the decline and fall of Asia in the world economy, see Nayyar (2013). For a lucid historical analysis of Asia in the world economy, see Findlay (2018). See also Nayyar (2019b).

years and to analyse the underlying factors. It also seeks to highlight the similarities and differences between countries, country-groups, or sub-regions, to focus on factors that shaped development outcomes. In this task, the collaborative study is an intermediate input, but the authored book has its own identity, as the whole is sometimes different from the sum total of the parts. More important, perhaps, it provides a cohesive analytical narrative of Asian development over five decades to reflect briefly on future prospects. It can also stand by itself as a study. Thus, the two books are best described as companion volumes which are complements rather than substitutes for each other.

The study is divided into three parts. The first part sets the stage before the play begins.<sup>16</sup> It situates the study in a broader context of ideas, space, and time. In doing so, it considers Gunnar Myrdal and *Asian Drama*, to focus on the author's work as a social scientist thinking about development at the time, and revisits his approach to examine the methodology of the book in retrospect 50 years later. And, since Myrdal considered the past only with reference to the closing years of the colonial era, it also provides a much longer-term historical perspective on Asia in the world economy.

The second part of the study comprises cross-country thematic studies.<sup>17</sup> This is necessary because there is enormous diversity among countries in Asia which is embedded in history, geographical size, resource endowments, populations, initial conditions, or income levels. It was so then; it is so now. Growth trajectories and development models have been just as diverse. Outcomes have been different across countries and uneven over time. Therefore, however difficult the task, comparative cross-country studies are essential not only for a continental perspective but also for understanding the story of Asia. In order to reduce the task to manageable proportions, it was clearly necessary to select themes, or subjects, for comparative pan-Asian analysis. In the context of Asia, 10 themes in development almost select themselves: the role of governments, economic openness, agricultural and rural transformations, industrialization, macroeconomics, poverty and inequality, education and health, employment and unemployment, institutions, and nationalism. There are, of course, other themes that could have been interesting, but a choice had to be made. This choice is inevitably based on a judgement about where the important and the feasible coincide.

The third part of the study is constituted by country studies and sub-region studies.<sup>18</sup> The reason is almost obvious. It is necessary but not enough to consider similarities among Asian countries. It is just as important to recognize the differences. Thus, analytical narratives of development experiences that are specific to each country or sub-region are essential, as a complement to cross-country thematic studies. The development experiences of countries and of sub-regions differ. And the existing literature is often shaped by the purpose of the enquiry. It would be far better if there were some questions, or an analytical approach, in common. Once again, a choice had to be made, where the desirable had to be reduced to the feasible. The three giant economies of Asia—China, India, and Indonesia—with a total population of about three billion, which is 70 per cent of the total population of Asia, select themselves for country studies. In addition, there is a country study on Viet Nam, a country of 100 million people, although medium-sized by Asian standards, which is rather different in both history and trajectory. These are supplemented by country cluster studies on each of three sub-regions: East Asia, including South Korea, Taiwan, Hong Kong, and

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<sup>16</sup> See Kanbur (2018), Stewart (2018), and Findlay (2018).

<sup>17</sup> See Evans and Heller (2018), Kozul-Wright and Poon (2018), Vos (2018), Chang and Zach (2018), Bhaduri (2018), Wan and Wang (2018), Mundle (2018), van der Hoeven (2018), Khan (2018), and Duara (2018).

<sup>18</sup> See Lin (2018), Basu (2018), Timmer (2018), Tarp (2018), Wade (2018), Montes (2018), and Osmani (2018).

Singapore (even though its geographical location is elsewhere, but these four are often studied together and described as the ‘East Asian Tigers’<sup>19</sup>); Southeast Asia, including Malaysia, the Philippines, and Thailand, plus Cambodia, Laos, and Myanmar; and South Asia, including Bangladesh, Bhutan, Nepal, Pakistan, and Sri Lanka. Japan, a high-income industrialized country, is excluded from the study but is sometimes a point of reference. Even so, two sub-regions—Central Asia and West Asia—are missing from this coverage. Central Asia would have been a very difficult task as its constituent countries were part of the erstwhile USSR for half of the 50-year period. West Asia is included in the book that complements this study (Nayyar 2019b) to complete the picture, but is not studied in depth.

#### **4 Themes, stylized facts, and lessons**

This paper does not even attempt a summary or a synthesis of the UNU-WIDER study (Nayyar 2019a). Given the space constraint, it would be an exceedingly difficult task. It would also serve little purpose as it might detract from the richness and depth of the analysis. In any case, the companion volume (Nayyar 2019b) seeks to provide a cohesive analytical narrative. Hence, the discussion that follows simply touches upon some important themes to highlight some lessons about Asian development which emerge from the study. This is, at best, selective and illustrative. It cannot claim to be exhaustive.

##### **4.1 Diversity in development**

The diversity of Asia is a recurring theme. There were marked differences between countries in geographical size, embedded histories, colonial legacies, nationalist movements, initial conditions, natural resource endowments, population size, income levels, and political systems. The reliance on markets and the degree of openness in economies varied greatly across space and over time. The politics also ranged widely from socialism through state capitalism to capitalism, from authoritarian regimes to political democracies, and from one-party states to multi-party systems. But that is not all. Outcomes in development were also diverse, ranging from success at one end, interspersed with mixed performances or muddling through, to failure at the other, which differed not only between countries at any point in time but also within countries over time. There were different paths to development, simply because there were no unique solutions or magic wands, as one size does not fit all. Hence, there were choices to be made, and even the right choices did not guarantee outcomes, which were shaped by a complex mix of economic, social, and political factors in the national context, where history matters.<sup>20</sup> Obviously, generalizations are difficult if not perilous. Even so, some stylized facts do emerge.

##### **4.2 History, context, and conjuncture**

It is clear that development trajectories of countries in Asia were shaped, in part, by their histories, while the context and the conjuncture at the outset made a difference. Initial conditions were, of course, an outcome of history embedded in the past. The legacy of Japanese colonialism in South

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<sup>19</sup> There is an extensive literature and an intensive debate on this subject. For some, their success was attributable to markets and openness (World Bank 1993). But this view was always contested. Lee (1981) was among the first to emphasize the limitations of export-led industrialization. Subsequently, it was argued that their export orientation was not the equivalent of free trade, just as the visible hand of the state was more in evidence than the invisible hand of the market. See, for example, Amsden (1989), Lall (1997), Wade (1990), and Chang (1996).

<sup>20</sup> For a lucid exposition of this argument, in a different context, see Kindleberger (1996).

Korea and Taiwan included high levels of mass education, strong traditions of state intervention, a disciplined workforce, and a nationalist zeal.<sup>21</sup> The changed context after the Second World War meant that, in both South Korea and Taiwan, land reform was carried out under the supervision of occupation forces. In fact, the United States came to exercise enormous power and influence not only in South Korea and Taiwan, but also in the other countries that were occupied by the Japanese in the war, such as Indonesia, Malaya (including Singapore), the Philippines, and Thailand. Soon after, the geopolitics of the Cold War era in Asia brought about a dramatic change in the state of affairs, transforming this into an unequal relationship of dependence on the United States for military and economic support. It began with the Korean War, followed by the Vietnam War, and continued for two decades. The *quid pro quo* for these frontline states, which often had dictatorial or authoritarian regimes with an openly anti-communist stance, was development assistance, military support, and preferential access to US markets. On the other side of the Cold War divide, China and Viet Nam carried out land reforms soon after their respective revolutions. Of course, the USSR also provided military and economic support, but communist governments in China and Viet Nam were acutely conscious of their geopolitical vulnerabilities which, together with political ideology, motivated them to address problems in their legacy of initial conditions. It is clear that embedded history together with the conjuncture in the national and international context influenced and shaped trajectories of development in many Asian countries during subsequent decades.<sup>22</sup>

### 4.3 Economic growth and structural change

The transformation of Asia was driven by rapid economic growth. Over a period that spanned almost five decades, 1970–2016, the GDP growth rate in Asia was more than double that in industrialized countries and almost twice that in the world economy. This gap widened progressively after 1990. This was associated with a dramatic change in the composition of output and employment. Economic growth drove structural change from the demand side as the income elasticity of demand for industrial goods was higher than that for agricultural goods, while the income elasticity of demand for services was even higher than that for industrial goods. Structural change drove economic growth from the supply side by transferring surplus labour from low-productivity employment in agriculture to higher-productivity employment in industry and services. Structural change was a driver of economic growth in Asia, unlike Latin America and Africa, where it was not. The transformation was associated with a sharp decline in the share of the agricultural sector in output more than in employment, with rising productivity and wages in the agricultural sector, and rapid industrialization with a marked increase in the share of the manufacturing sector, once again more in output than in employment. This was followed by a substantial rise in the share of the services sector in both output and employment in most Asian countries.<sup>23</sup>

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<sup>21</sup> Manchuria in northern China, or Manchukuo as the Japanese described it, experienced the same colonial legacy.

<sup>22</sup> The importance of these historical and contextual factors in the subsequent development of South Korea and Taiwan is emphasized by Duara (2018), Bhaduri (2018), and Wade (2018). It is also recognized by Evans and Heller (2018) and Khan (2018). This argument is developed further, in its broader Asian context, by Nayyar (2019b).

<sup>23</sup> For a discussion, with supporting evidence, on economic growth in Asia compared with other parts of the world, see Nayyar (2019b). For an analysis of structural change in Asia compared with Latin America and Africa, see McMillan and Rodrik (2011) and Nayyar (2013). On rural and agricultural transformations, see Vos (2018) and Timmer (2014). For an analysis of industrialization in Asia, see Chang and Zach (2018).

#### 4.4 Wellbeing of people

The rapid economic growth led to a sharp reduction in absolute poverty in Asia, but not as much as it could have, partly because the initial income distribution was unequal and partly because of rising income inequality. And inequality rose almost everywhere in Asia from the 1990s. Consequently, this rapid growth was not always transformed into meaningful development that improved the wellbeing of people, particularly in countries where employment creation was slow or where income inequality was high to start with. Economic growth had a greater impact on living conditions of ordinary people where employment creation was rapid or where initial income distribution was less unequal. The wellbeing of people was also dependent on the social infrastructure that supported social consumption. The spread of education in society and the delivery of health services to people contributed directly to the wellbeing of people and were thus constitutive of development. But education and health were also drivers of economic growth in so far as they increased the productivity of the most abundant resource in Asian economies—labour—and were thus instrumental in development. It would seem that employment creation, combined with a public provision of education and healthcare, characterized countries that were success stories in Asian development with sustained growth and better distributional outcomes. In contrast, countries that witnessed slow employment creation or jobless growth, with inadequate or poor public provision of education and healthcare, were laggards in Asian development.<sup>24</sup>

#### 4.5 States, markets, and governments

The development experience of Asia during the past 50 years shows that the role of governments was critical everywhere, although this role differed significantly across countries. The developmental states in South Korea and Taiwan, with their embedded autonomy reflected in their capacity to pursue strategic objectives through the use of carrots and sticks, were a special case that could not be reproduced with ease elsewhere. Among other market economies, Singapore came close. But the erstwhile centrally planned economies, China and Viet Nam, also evolved similar developmental states which came of age in their transition to market economies. Myrdal would have characterized these as ‘hard states’. However, even the ‘soft states’ in Southeast Asia managed to reach some understanding with business elites in the pursuit of national objectives. Governments in South Asia were, in Myrdal’s view, the classic ‘soft states’ that did not have the willingness or the ability to do what was necessary in the pursuit of development objectives because they could neither resist nor coerce powerful vested interests. Yet, as planning ceded space to markets, even these governments reached some ‘political settlements’ or ‘deals’ that were permissive if not causal in development.<sup>25</sup> Ultimately, efficient markets needed effective governments, so that success in development was, in important part, attributable to the effectiveness of state interventions, which varied significantly across countries.<sup>26</sup>

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<sup>24</sup> On poverty and inequality, see Wan and Wang (2018). On employment, see Bhaduri (2018) and van der Hoeven (2018). On education and health, see Mundle (2018). The sub-region studies also confirm the propositions set out in this paragraph—see Wade (2018), Montes (2018), and Osmani (2018). On pro-poor growth, see Timmer (2018) on Indonesia and Tarp (2018) on Viet Nam.

<sup>25</sup> The notion of ‘political settlements’ is developed by Khan (2018). The idea of ‘deals and development’, where understandings between governments and business explain the political dynamics underlying episodes of rapid growth in some Asian and African countries, is developed by Pritchett et al. (2018).

<sup>26</sup> Some of the papers in this study consider the role of the state in the process of development in Asia directly—see Evans and Heller (2018), Bhaduri (2018), Khan (2018), and Duara (2018). Some of the cross-country thematic papers do so indirectly in relation to their respective themes—see Vos (2018), Chang and Zach (2018), Mundle (2018), Kozul-Wright and Poon (2018), van der Hoeven (2018), and Wan and Wang (2018). Country-studies and sub-region studies

In the pursuit of industrialization and development, the role of governments in evolving policies, nurturing institutions, and making strategic interventions, whether as a catalyst or a leader, was central to the process everywhere.<sup>27</sup> For countries that relied on markets it was about minimizing market failure and the emphasis was on getting prices right. For countries that stressed state intervention, it was about minimizing government failure and getting institutions right. But success in this quest was greater in countries that recognized the importance of two propositions.<sup>28</sup> First, the state and the market are complements and not substitutes for each other. Second, the relationship between the state and the market cannot be specified once and for all, but must adapt as circumstances and times change. In the earlier stages, it was about reconstructing initial conditions through the creation of physical infrastructure, the spread of education in society, and institutional reform, particularly in the agricultural sector. In the later stages, there was a change in the nature of this role, which had three dimensions. Functional intervention sought to correct market failure, whether general or specific. Institutional intervention sought to govern the market by setting rules of the game for players in the market, to create frameworks for regulating markets and institutions to monitor the functioning of markets. Strategic intervention sought to guide the market, interlinked across sectors, to attain the broader long-term objectives of industrialization. Governments also fostered industrialization at the micro-level, through the nurturing of entrepreneurs, or through the creation of managerial capabilities in individuals or technological capabilities in firms in the private sector (Amsden 2001; Lall 1992). Governments often established large public sector firms in petroleum, steel, telecommunications, or energy, going even further into commercial banks and development banks, which became a strategic form of support for industrialization in the private sector (Nayyar 2013). In retrospect, government intervention in the earlier stages turned out to be easier than in the later stages, while functional intervention was easier than the institutional or the strategic. Countries in which states and markets were complements rather than substitutes, and their respective roles vis-à-vis each other were adapted to evolve over time, were the success stories, where the two institutions functioned in a manner that created mutual checks and balances. In this respect, East Asia was the best performer while South Asia was the worst, with Southeast Asia in the middle.<sup>29</sup> Yet, all governments in Asia were development-oriented.

#### 4.6 Economic openness

Economic openness also played an important role in Asian development,<sup>30</sup> the possibilities of which had not been recognized by Myrdal. The usual characterization of openness is in terms of international trade, international investment, and international finance. In this, there were significant differences between Asian countries,<sup>31</sup> most of which were restrictive in terms of openness until around 1970. Things began to change thereafter. The reality that unfolded since then spanned the entire spectrum from almost unrestricted openness in Singapore, through moderated openness in Indonesia, Malaysia, the Philippines, Thailand, and Turkey, or calibrated

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also discuss the role of the state—see Lin (2018), Basu (2018), Timmer (2018), Tarp (2018), Wade (2018), Montes (2018), and Osmani (2018).

<sup>27</sup> See Amsden (2001), Evans (1995), Lall (1997), Nayyar (2013), Shapiro and Taylor (1990), and Stiglitz (1989).

<sup>28</sup> This argument is developed at some length by Bhaduri and Nayyar (1996).

<sup>29</sup> This geographical classification of sub-regions is useful for analytical purposes. Yet, it is worth noting that, in some important respects, Sri Lanka in South Asia resembled Southeast Asian countries, while Myanmar and Cambodia in Southeast Asia resembled South Asian countries. In some spheres, the Philippines, with its Spanish colonial legacy, resembled Latin American countries.

<sup>30</sup> See Chang and Zach (2018) and Kozul-Wright and Poon (2018).

<sup>31</sup> The following discussion on economic openness draws upon earlier work of the author (Nayyar 2013).

openness in South Korea and Taiwan, to controlled openness in China, India, and Viet Nam. The differences are more than nuances. Unrestricted openness was almost uniform across trade, investment, and finance. Moderated openness was largely open economies with selected restrictions but with some differences between trade, investment, and finance. Calibrated openness was asymmetries in openness by design manifest in strategic trade policy that was open for the export sector, but restrictive for other sectors, with limits on openness to foreign capital and tight curbs on foreign brand names. Controlled openness was broader and more restrictive, not only in trade but also with respect to foreign investment and technology. Of course, South Korea and Taiwan have changed now, as have China, India, and Viet Nam, but openness is not quite unrestricted. For most Asian countries, openness did not mean a passive insertion into the world economy. It was strategic in a few countries and selective in most countries.

There is also a broader characterization of economic openness in terms of the relative importance of the domestic and the foreign in markets, resources, and technologies. Some countries relied heavily on foreign capital, foreign technologies, and foreign markets—Indonesia, Malaysia, the Philippines, Singapore, and Thailand—where their size ranged from small to large. This is a generalized characterization for there were domestic markets and domestic firms in these countries. South Korea and Taiwan relied on foreign markets but mobilized domestic resources and developed domestic technological capabilities.<sup>32</sup> Turkey sought a blend of domestic and foreign in markets, capital, and technology. China, India, and Viet Nam, for quite some time, relied mostly on domestic markets, domestic resources, and domestic technologies, but subsequently these countries joined the quest for external markets with a more open, yet selective, approach to foreign capital and foreign technology. These differences across countries were a function of geographical size or of strategic choice. Small countries sought to internalize external markets, while large countries sought to externalize internal markets, since exports were the beginning of the typical market expansion path for firms in the former, while exports were the end of the typical market expansion path for firms in the latter. Similarly, it was difficult for small countries to mobilize resources on a large-enough scale or develop technologies on their own while it was easier for large countries. Yet, this was also a matter of strategic choices in the pursuit of development, as South Korea and Taiwan, and also Singapore, were small countries that developed their own technological capabilities.

#### **4.7 Institutions and policies**

In *Asian Drama*, Myrdal stressed the importance of an institutional approach, and he was perhaps the first to provide a systematic analysis of the role of institutions in development with reference to Asia. Yet, for quite some time, orthodox prescriptions sought to harmonize the role as well as form of institutions across the developing world irrespective of space or time. The underlying presumption that one size fits all was wrong. There are specificities in space: institutions are local and cannot be transplanted out of context. There are specificities in time: institutions need time to evolve and cannot be created by a magic wand. Alas, this was not quite recognized. Economic reforms that sought to focus on policies but neglected institutions met with failure. Economic liberalization that moved from over-regulated to under-governed systems led to financial crises. Economic conditionality of lenders or donors who attempted to harmonize institutions across countries ran into difficulties. Since then, there has been considerable work done by economists,

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<sup>32</sup> In developing domestic technological capabilities, these countries imported technology through licensing rather than through foreign direct investment, and banned the use of foreign brand names to develop their own.

both orthodox and heterodox.<sup>33</sup> Yet, we do not know exactly what institutions and in what forms are necessary, or at least useful for development and in what contexts. Even where we understand what role particular institutions can play in development, we often do not know how to build such institutions. The Asian experience poses a further puzzle. Why did some Asian countries perform so well with unorthodox institutions, and why did other Asian countries with very similar institutions not perform well? The answer might lie in the specific context in which the distribution of organizational power affected the operation of these institutions through ‘political settlements’.<sup>34</sup> Or why were good performances not sustained over time in countries? The answer might lie in the political dynamics of ‘deals’ between governments and business.<sup>35</sup> It is clear the institutions were among the important determinants of success, muddling through, or failure at development in Asia.

The puzzle extended beyond institutions to policies. Similar economic reforms did well in some countries and did not perform well in other countries. Experience suggests that countries in Asia that modified, adapted, and contextualized their reform agenda, at the same time calibrating the sequence of and the speed with which economic reforms were introduced did well in terms of outcomes. In sharp contrast, countries that introduced economic reforms without modification, adaptation, or contextualization and did not pay attention to speed or sequence often ran into problems. This was also the reason why strategy-based reform with a long-term view of development objectives, emerging from experience or learning within countries rooted in social formations and political processes, did sustain and succeed. But crisis-driven reform, often initiated following an external shock or internal convulsion, or imposed by conditionality of the International Monetary Fund (IMF) and World Bank, was always more difficult to sustain and less likely to succeed because its preordained template was neither contextualized nor sequenced. East Asia and South Asia provide respective examples of this contrast.<sup>36</sup> Reforms apart, there was a critical role for economic policies. Asian countries that were success stories in development used heterodox or unorthodox policies for orthodox objectives, such as strategic trade, industrial, and technology policies in the pursuit of industrialization.<sup>37</sup> Similarly, they used orthodox policies for heterodox or unorthodox objectives, such as interest rates to guide the allocation of scarce investible resources in a market economy, or exchange rates that were deliberately undervalued over long periods to break into the world market for manufactured goods. And they did not hesitate to use heterodox policies for orthodox objectives, such as expansionary fiscal policies in an economic downturn despite new orthodoxy which suggested the opposite in macroeconomic crises.<sup>38</sup>

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<sup>33</sup> The original contribution in the orthodox tradition is that of North (1990). See also, Acemoglu and Robinson (2012). For the heterodox perspective, see Khan (1995) and Chang (2007). For a discussion on the role of institutions and states in development, which also provides a lucid, perceptive, critique of orthodoxy, see Bardhan (2016).

<sup>34</sup> For a detailed discussion on political settlements, see Khan (2018).

<sup>35</sup> On deals and development, see Pritchett et al. (2018).

<sup>36</sup> This distinction between strategy-based and crisis-driven economic reforms is made in Nayyar (1996). For a discussion of its implications and consequences, see Bhaduri and Nayyar (1996).

<sup>37</sup> See Chang and Zach (2018), Kozul-Wright and Poon (2018), and Wade (2018).

<sup>38</sup> For a discussion, see Nayyar (2011, 2013).



## 5 Afterword

The focus of the study is largely on the past 50 years. However, it also reflects briefly on prospects over the next 25 years. Predictions about the future are always difficult, if not hazardous. After all, the period 1968–2018 turned out to be so different from the expectations in *Asian Drama*. The analysis in this study suggests that Asia will continue to do well in terms of economic growth. There are obvious challenges within Asian countries, such as rising economic inequalities between people, emerging divergences among countries, poor infrastructure, underdeveloped institutions, inadequate education, unstable politics, or unsustainable political systems. There are also challenges in the world outside, such as the technological progress on the horizon of which artificial intelligence and robotics are mere examples, environmental consequences of rapid economic growth, the visible discontent with globalization attributable partly to the economic rise of Asia, the populist and nationalist politics that has surfaced in industrialized countries, or major changes in the geopolitical situation that are beginning to surface. The response of Asian countries to these complex challenges will shape their future. Yet, this study suggests reasons for optimism rather than pessimism about Asia.

Gunnar Myrdal described himself as a cheerful pessimist (Streeten 1998) who hoped that Asia might do better, but did not think that it was likely. In contrast, given the remarkable economic transformation of the continent over the past five decades, I could describe myself as a cautious optimist who believes that an even better world is possible for Asia.

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