THE NEWS

East Asia’s inclusive growth model [Part – II]

By Ishrat Husain
March 04, 2022

The writer is the author of 'Governing the ungovernable'.

In 1980, China was among the world’s poorest countries with 80 percent of the population having incomes less than $1 per day and only a third of all adults able to read or write. Its per capita income was identical to that of India. By the year 2000, the proportion of the poor (income less than $1 per day) had declined to around 16 percent.

Between 2008 and 2018, China ‘s GDP rose four-fold from $4.6 trillion to $18 trillion making it the second largest economy in the world (in nominal dollar terms) and today its per capita of 10,000 dollars is five times that of India. More remarkable is its achievement in lifting an astounding 700 million of population out of poverty with 500 million enjoying middle-class lifestyles. China is today the world’s largest exporting nation with the highest foreign exchange reserves in the world of $3.2 trillion – equivalent to 13 months imports.

Korea and Pakistan had identical per capita incomes of $100 in 1960. Korea has now graduated as an OECD country and reached a per capita income of approximately $27500 while we haven’t even crossed the threshold of $1600.

There was a time in the late 1960s when Pakistan’s exports exceeded the total exports of Indonesia, Malaysia, Thailand and the Philippines. Malaysia and Thailand have virtually no extreme poverty or moderate poverty. Indonesia has more than halved the share of its population below poverty. War-devastated Vietnam was able to increase its average per capita income 12 times between 1985 and 2020 with an exports/GDP ratio of over 100 percent. The poverty headcount in Vietnam sharply fell from 70 percent to 8 percent. There has been a big surge towards an economically secure middle class to almost two-thirds of the population from about a fifth two decades ago.

Two decades ago, Pakistan's exports were 10 billion dollars and those of Vietnam 14 billion dollars. In 2020, Vietnam crossed 281 billion while we are almost one tenth their level. While all these countries have moved ahead, Pakistan is still struggling with a per capita income of $1600, poverty headcount of almost 24 percent and a $30 billion export target.

What is more disturbing is that not only has the growth rate lagged behind others, but the benefits of growth have been, by and large, disproportionately captured by a small elite. Had Pakistan maintained its economic progress of the 1960s, but incorporated the salient features of an inclusive growth model, its economy would have been akin to the East Asian ones and moved into the middle income group by now. We are stuck for a long time in the low-middle-income category without much movement.

Whereas it took the UK almost a century, and the US 50 years to double their per capita incomes, most of the Asean +3 countries (Asean + Japan, China and Korea) achieved this goal in less than half a century. Japan did this in 40 years, Korea in 25 years and China in 10 years. What are the lessons from the East Asian economies which should be followed to achieve sustained and inclusive growth and graduate to the middle-income category? These are analysed below:

First, no trade-offs between growth, inclusion and sustainability: The conventional wisdom that dominated the thinking of mainstream economists and policymakers – that rapid growth is not possible without giving up the other goals of inclusion and sustainability – has been put to rest by the 50 years of experience of the East Asian economies. Not only have they increased per capita incomes manifold but approximately one billion people have been lifted out of poverty and the benefits of growth were widely shared.

In the period 1990-2005, extreme poverty was reduced by almost two-thirds as per capita incomes rose from 2 to 4 percent per year. Social mobility and equality of opportunity narrowed inequalities among gender, geography, ethnicities and family background. The 2021 Nobel Prize in Economics was awarded to researchers who demonstrated that higher minimum wages do not result in increased unemployment. The link between growth and inclusion is established through well remunerated productive jobs leading to a rise in incomes.

Empirical evidence is unambiguous that growth and poverty reduction are correlated. Preservation of natural capital and reducing climate risks can be integrated into growth strategies. New investment in clean technologies spurs growth. The popularity of ESG Funds and Green Bonds in international capital markets further testifies to the recognition of inclusion and sustainability as an integral part of this preferred growth strategy.

Second is the role of the government. The role of the government in East Asian countries has been to facilitate, guide and help the private sector in fostering economic growth and development. By maintaining macroeconomic stability, by charting out a long-term vision and strategic direction, and by pursuing consistent and predictable policies, the governments in these countries gave confidence to local and foreign investors. Political, administrative and financial powers have strengthened the local governments, allowing them to compete in attracting investment, developing infrastructure and improving the business environment.

The long-term path chosen by China in the late 1970s under the leadership of Deng Xiaoping is still being followed with suitable adaptation and modification despite changes in the leadership of the Communist Party during the last two decades. Other East Asian countries followed the example of Japan where a separate ministry called the Ministry of International Trade and Industry (MITI) was created to develop industrial strategy and vision and to assist the private sector in these industrial pursuits and export expansion. The Japan Inc model where the government and the private sector work together in a collaborative manner has been replicated in many countries of the region such as Korea, Malaysia, China etc. The continuity and consistency of policies and the level playing field created for the investors minimise rent-seeking activities in the economy.

Third comes leadership, governance and institutions: In almost all these countries, a common feature has been sound economic management manifested by the quality of civil service and its independence from political pressures, the quality of policy formulation and implementation and the credibility of the government's commitment to its policies.

When interventions were used by the state, they were designed to be consistent with market signals and incentives. Meritocratic hiring and promotion enabled the emergence of strong well-functioning institutions that could provide the helping hand and clear direction to the entrepreneurs, firms, farming community, exporters, businesses and delivering essential public services to the population at large.

In most of these countries strong leadership provided continuity while solving problems. In Korea, General Park, in Singapore Lee Kuan Yew, in Indonesia General Suharto, in Malaysia, Dr Mahatir Mohammad, in the Philippines General Ramos after Marcos – these were the shining lights in their respective countries. Whatever their faults they took upon themselves the responsibility to steer the course of economic development and produced tangible results for their nations. In the absence of strong leadership or strong institutions, the difficulties are compounded – and the time taken to reach the goal post is elongated.

To be continued