ASIA'S POST-WAR ECONOMIC GROWTH

Marcus Noland is a Senior Fellow with the Washington, DC-based Institute for International Economics (IIE), a prestigious think tank devoted to the study of international economic policy. Noland, who holds a PhD in economics from Johns Hopkins University, has published numerous books and articles on East Asia, and in 2001 won the Ohira Masayoshi Award for his book *Avoiding the Apocalypse: The Future of the Two Koreas.* Marcus Noland has also served as a Senior Economist at the Council of Economic Advisers in the Executive Office of the President of the United States, held research or teaching positions at several universities in the US, East Asia, and Africa, been a consultant for the World Bank, and has testified before the US Congress on numerous occasions. In this interview, Noland discusses aspects of Asia's twentieth-century economic development that he considers to be most relevant to high school and undergraduate history and social science teachers.

Lucien: *Marc, thanks for doing this interview. Could you inform our readers a bit about yourself and how you became interested in East Asia?*

Marcus Noland: I am a PhD economist. My primary professional affiliation is with the Institute for International Economics, a private, not-for-profit, non-partisan public policy think tank in Washington, DC.

I did not study Asia in school; my interests were more toward Africa. My professional involvement with Asia is serendipitous: my dissertation involved estimating a large econometric model of international trade. This was before the advent of low-cost computing, so I needed to have a good understanding of the properties of the data as I would be unable to afford many runs of the model in its entirety. To get a grasp of the dynamics, I broke out some individual economies in which there had been a lot of change over the sample period and ended up writing chapters on Japan, Taiwan, and South Korea. I was then hired by IIE to do the econometric modeling on a project on Asia. I began taking language lessons and eventually worked in Japan and South Korea. It is fair to say that most of what I know about Asia I learned "on the job." I ended up marrying an African, though, so I suppose that my formal education was not entirely wasted!

Lucien: *As EAA editor, I continually am in contact with social scientists who incorporate Asia-related topics into survey-level anthropology, economics, government, and sociology courses. One topic that seems to engage both social scientists and historians is the impressive post-war economic growth in Japan and other East Asian countries such as the Republic of Korea and Taiwan. As you are well aware, there is fierce debate among academics and teachers as to whether the post-war capitalism practiced in these countries was so influenced by indigenous cultures and "on the ground" specific circumstances that the propensity of many economists to apply so-called universal generalizations from micro and macro economics is not particularly helpful in understanding why these economies grew. As both a professional economist and an expert on East Asia, what is your take on this ongoing intellectual controversy?*

Marcus Noland: This is a very good question, and I spend lot of time thinking about it. In 1963, the year of her birth, per capita incomes in my wife's country, Ghana, exceeded those in South Korea. Today South Korean per capita incomes are eight times those in Ghana. Why?

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To answer such questions, one has to maintain intellectual open-mindedness. There is obviously great value in understanding "facts on the ground," yet at the same time universal phenomena do exist, and advantage can be gained by stepping back and taking a comparative perspective. So one has to strike a balance.

Clearly, the economic performance of Asia in the second half of the twentieth century is remarkable, and I think there are multiple drivers. In some sense, the three economies you mentioned were "deceptively poor"—each had been through wars or political upheavals that resulted in a situation in the 1950s where, compared with other economies in the world, there was an extremely high level of human capital relative to physical capital—that is, smart people with few tools to work with. The implication was that the relatively low contemporaneous level of income, reflecting the lack of physical capital, was a misleading indicator of underlying social capacity. In some sense, the rapid growth in Japan through the mid-1960s, and in South Korea and Taiwan through the mid-1970s, was a kind of catching up or convergence phenomenon.

A second factor was that, as an accident of history, each was led by a government with weak ties to the rural landlord class, and through American encouragement and/or competition with rival communist states, each undertook productivity-enhancing land reforms, which had profound implications for their development trajectories.

Ironically, the lack of natural resources in these three economies may also have aided their development: They were in essence forced to begin manufacturing at a relatively early stage of their development and went on to a relatively smooth process of industrial upgrading and generating "growth with equity" as opposed to "growth without development," which has occurred in some better-endowed economies.

Finally, they benefited from favorable demographics, namely a very high ratio of working age population to elderly or young dependents. What was a boon to these economies in past decades is now a source of considerable concern as that dependency ratio rises rapidly with the population aging due to longer life expectancies.

But this just scratches the surface: There is still very much that I do not know or understand.

Lucien: *Some of your most impressive recent work has been on the Korean peninsula. Looking back at the period from the signing of the 1953 Korean War Armistice to the end of the century, in your opinion what are the key reasons the Republic of Korea is now one of the more affluent nations while the Democratic People's Republic of Korea is an apparent economic basket case?*

Marcus Noland: This is another good question. People often respond to the sort of question I raised in the previous answer—namely what explains the radically different trajectories of South Korea and Ghana over the past forty years—with what might be called a culturally essentialist response: "Well, Africans are Africans and Koreans are Koreans"—end of story. Indeed, my first ever publicly-presented paper on the North Korean economy included data that indicated that in structural terms, the North Korean economy more closely resembled some in Eastern Europe and parts of the former Soviet Union than China or Vietnam. A gentleman in the audience immediately stood up, began attacking my work, predicted a rosy future for North Korea, and delivered the intended coup de grace of "those ain't no Slovaks!" Sadly, he has proven to be correct—per capita incomes in Slovakia have risen steadily while those in North Korea remain lower than those on the day he made that statement. Clearly, "being a Korean" is not a sufficient answer.

At the time of the partition, North Korea was the more industrialized, higher income part of the peninsula. But there were considerable population movements during the course of the Korean War, mostly from North to South, so it is difficult to assess relative capabilities at the time of the armistice in 1953. Both Koreas subsequently received considerable aid from their respective patrons. The conventional wisdom is that per capita incomes in North Korea probably exceeded those in South Korea into the 1970s.

The North Korean central planning model was successful at mobilizing resources during the early stages of development, but in the long run, South Korea's market-oriented model has proven superior. One of the interesting things about their divergent paths is that South Korea adopted not only a capitalist system but also a highly outward-oriented one, emphasizing international trade as a catalyst. North Korea, in contrast, not only adopted central planning but also intentionally time-phased its plans to frustrate linkages with those of other fraternally allied socialist states and in doing so created the world's most autarkic economy.

The contrast is astonishing: South Korea averaged eight percent real growth for forty years and experienced only two years of negative growth during this period; North Korea is the only industrialized country to experience a peacetime famine.

These divergent outcomes are very much related to the two countries' political systems. As remarkable as South Korea's economic performance has been, its political development has been as impressive, if not more so. In the space of a single decade between 1987 and 1997, leadership of the South Korean government went from an authoritarian strongman (General Chun Doo-hwan) to his elected but hand-picked successor (General Roh Tae-woo) to an

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elected centrist civilian politician (Kim Young-sam) to a former dissident (Kim Dae-jung).

In contrast, North Korea remains mired in a Stalinist dynasty. The famine that afflicted the country in the 1990s was very much the product of a political system that systematically denied its populace the most elemental human, civil, and political rights.

One of the curious things about South Korea is why, even in the face of the considerable security threat posed by North Korea, did General Park Chung-hee choose to legitimate his rule through economic development. In the course of writing a book on the Middle East I came across a wonderful quote from Park on the primacy of economics. I have yet to come across any similar statement from an Arab authoritarian ruler. Even Chun, whom few would describe as visionary, took economics seriously.

Lucien: *The Japanese economic malaise is now a fifteen-year-old story. Please briefly describe what you consider the major reasons for the advent of Japan's economic troubles and maybe go out on a limb and prognosticate about Japan's short- and medium-term economic prospects.*

Marcus Noland: Japan experienced rapid growth over a sustained period of time. I would interpret its experience through the mid-1960s as essentially one of catch-up and convergence back to its long-run growth trajectory, which had been disrupted by World War II. The Japanese model of financial repression and emphasis on bank finance, which is susceptible to state influence through various channels, works when the country lags in the technological frontier, and the path of industrial upgrading is fairly obvious. It must not have been that hard for government officials, financiers, and business leaders, who after all had experience constructing airplanes and aircraft carriers, to upgrade from bicycles to motorcycles to automobiles. This model begins to run into problems, however, as the country approaches the technological frontier—the path of upgrading is not so obvious—and as a consequence, managerial decision-making in the government, corporate, and financial spheres becomes more important. Moreover, the model creates its own political constituencies for its continuation, and smooth transition to a more market-oriented system has proven problematic in Japan, as well as in its former colonies, Taiwan and South Korea. All three have experienced financial crises roughly ten times bigger in relative terms than the savings and loan crisis here in the United States. It is not so hard to understand: If the model has worked well in the past, there is a tendency to discount the views of those observers who urge reform, especially when they come from a country that hasn't been performing as well. I remember a Japanese economist at a meeting in New York in 1990 essentially expressing pity for the United States, commenting "you [the US] have lost and you don't even know it." The practical implications of such hubris is that Japanese policymakers were slow to recognize the trouble that their country was in and then temporized or compounded their problems by making policy mistakes.

The problem now is that while the Japanese are much more accepting of change, the legacy of past policy errors—deflation and a terrible budget situation—together with unfavorable demographics, means that a window of opportunity to right the economy without imposing significant income losses on parts of the population has closed. The implication is that reform will continue to be highly contentious because there will be a real zero-sum element to it.

That said, a lot of ferment exists in Japan at the microeconomic level, especially among small and medium-sized firms. There is a lot of scope for the further application of information technology, and women are still not fully integrated into the workforce. As a consequence, there is a lot of potential for rapid productivity gains and increases in real income. But in terms of aggregate growth, these productivity increases will be at least partly offset by the shrinking labor force and the needs of the rapidly aging population.

Lucien: *I think most educated Americans had a sense through the last couple of decades of the twentieth century that China's overall economic situation was changing dramatically. However, it seems that the relatively impressive recent economic improvements in India caught a large majority of Americans by surprise. I know that India is not your primary area of expertise, but in your opinion, what factors during the latter part of the twentieth century came into play that resulted in significant growth in certain sectors of the Indian economy, such as telecommunications and financial services?*

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Marcus Noland: You're right—I don't know much about India! From my limited experience there, my impression is that essentially what happened is that beginning in the mid-1990s two forces—policy reform in India and the deepening application of information technology—came together to make this rapid development of international trade in white collar services possible. India had always had a large, well-educated, English-speaking elite workforce, but internal policies to a large extent hamstrung the economy. When India began to liberalize, this created increased opportunities. This coincided with the expanded use of IT, which India's numerate and English-fluent workforce was ideally situated to exploit.

Lucien: *Many of our readers teach survey world history courses at the secondary and undergraduate levels. They face the daunting task of imparting rudimentary knowledge to their students about economic developments in twentieth-century Asia within a very short time frame. What do you think are the most essential points about Asia's twentieth-century economic odyssey that teachers should keep in mind as they grapple with communicating meaningful information on this topic to students?*

Marcus Noland: This is of enormous concern to me, and it relates directly to the previous question about India. The world in which our children will function will be very different from today, with the United States and Europe playing a less central role in world economics, politics, and ultimately, military affairs than they have for hundreds of years. To my mind, there are two implications that follow directly from this observation. First, it is essential that we as Americans understand more about societies and cultures beyond Europe. Second, globalization and technological progress mean that our children will be competing in global markets, not just against their counterparts from London and Paris, but also their counterparts from Shanghai, Mumbai, and a host of other locales. Several billion new players have entered the game. And some of these are real Rocky Balboas. The intellectual standards and skill acquisition of our generation will not be adequate to ensure success in the next.

Given these concerns, looking back at the economic history of Asia over the last century, it seems to me that several critical lessons can be extracted. First, history does not consist of steady, relentless improvement—policies matter. A country that gets things right, like South Korea, can experience rapid ascent. At the same time, a country that gets it wrong can experience precipitous decline. China essentially removed itself from the world economy and in doing so made itself weak and marginal. When its policies changed, it was able to modernize and reassert its historic importance in the world system. Globalization may not be a sufficient condition for development, but it is a necessary one: No country has ever experienced sustained rapid economic development without deepening its integration into the global economic system.

The startling transformations in Northeast Asia in the latter part of the twentieth century document that these changes can occur very rapidly and that countries are not preordained to remain relatively rich or poor. While we can observe success stories like South Korea, we can also point to a country like Argentina, where 100 years ago per capita incomes equaled Canada's, but now experiences chronic financial instability, or, to a lesser degree, to Burma or the Philippines, which were once considered Asia's brightest lights but now lag behind their neighbors. Being a rich American today is no guarantee of similar status tomorrow.

Second, while economic growth may not be a sufficient condition for poverty reduction, it is almost surely a necessary condition. While obviously more remains to be done, the pickup in economic growth in China and India in recent decades has been the most effective poverty eradication program the world has ever seen.

Finally, while demography is not destiny, it comes pretty close. Countries like Japan, South Korea, and China have all had a good run but face the prospects of rapidly aging populations and rising dependency ratios. Over the next generation, the center of Asia may well shift south and west towards the younger countries of Southeast and South Asia.

Lucien: *Thank you very much for sharing your insights with our readers.*

Marcus Noland: You are most welcome. ■

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