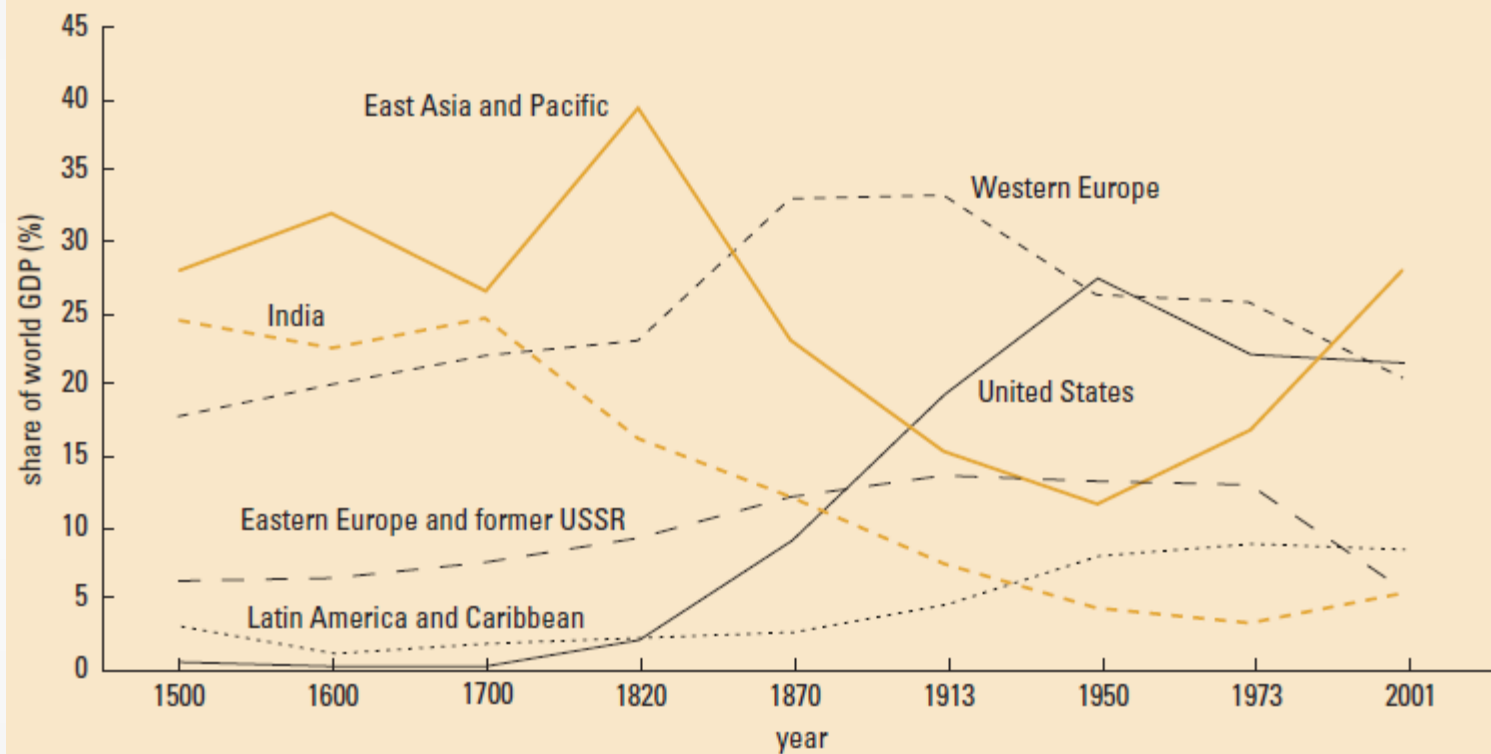


The Rise of China and the East Asian Renaissance

■ FIGURE 1.8 Regional Share of World GDP



Source: Maddison 2003.

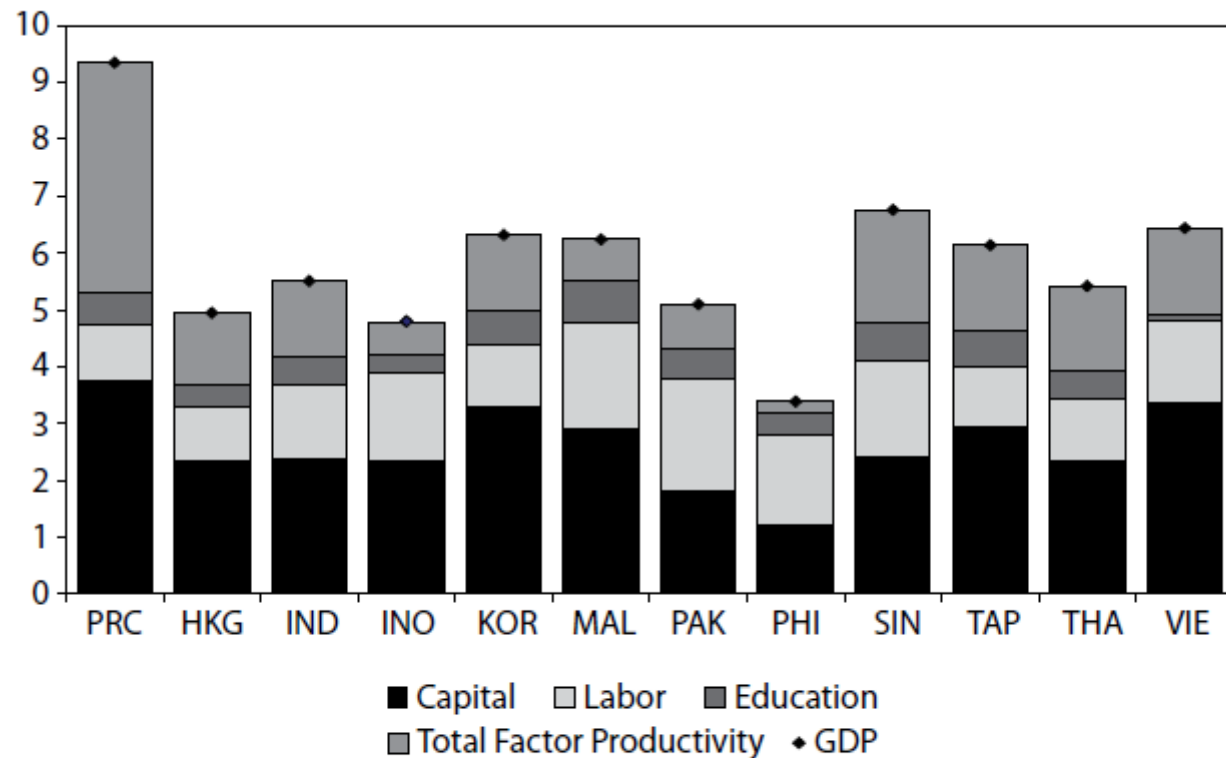
Note: The GDP figures are expressed in 1990 international Geary-Kharmis dollars.

Source: World Bank, 2007.

- What are the sources of growth for the East Asian economies after 1990s in the context of classical growth accounting?
- What are the (new) gravity for growth in East Asia after the 1990s? How to tap into new opportunities?
- What are the frictions of growth? How can we address these issues?

- What are the sources of growth for the East Asian economies after 1990s in the context of classical growth accounting?
 - macroeconomic stability and savings, openness and education;
 - Are these old drivers still working?

Figure 1: Contributions to GDP Growth, 1981–2007 (percentage points)



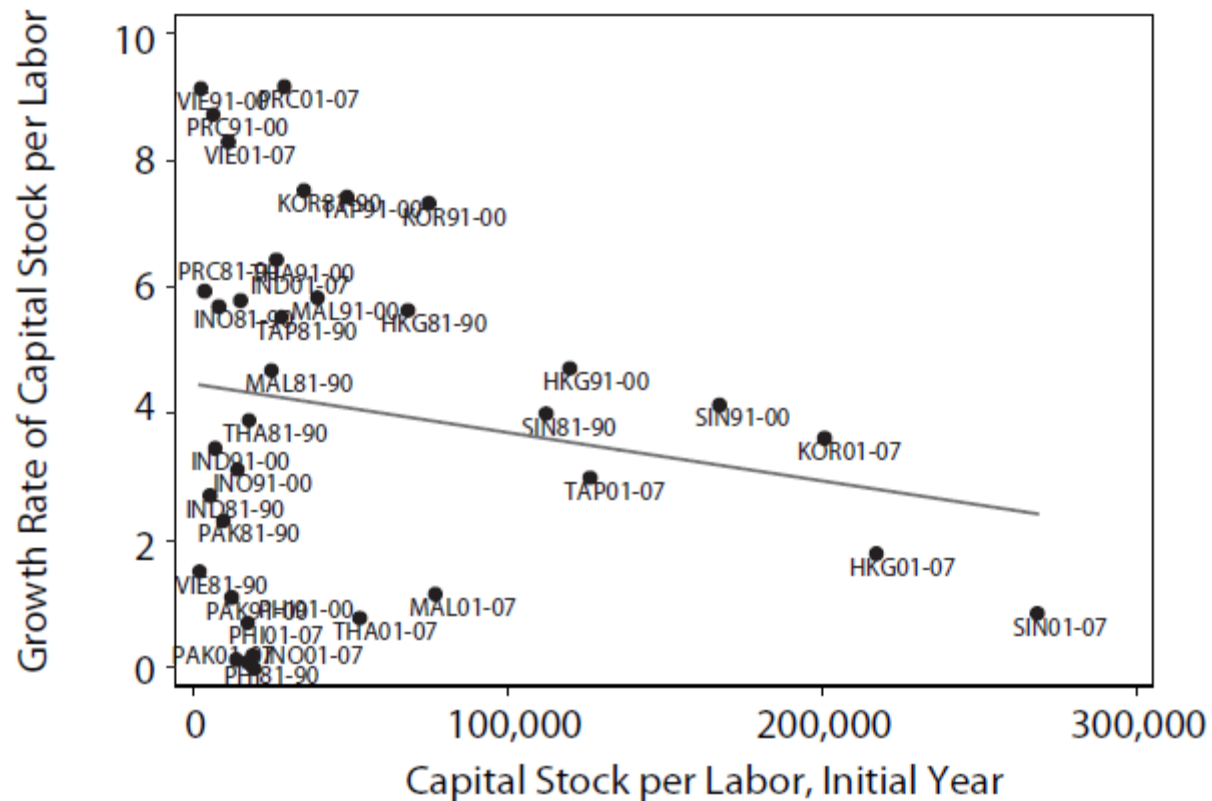
GDP = gross domestic product; PRC = People's Republic of China; HKG = Hong Kong, China;
 IND = India; INO = Indonesia; KOR = Republic of Korea; MAL = Malaysia; PAK = Pakistan;
 PHI = Philippines; SIN = Singapore; TAP = Taipei, China; THA = Thailand; VIE = Viet Nam.
 Sources: Calculations from Heston, Summers, and Aten (2009); ILO (2010); Barro and Lee (2010).

Source: Lee & Hong, 2010.

(1) Convergence in GDP per Labor

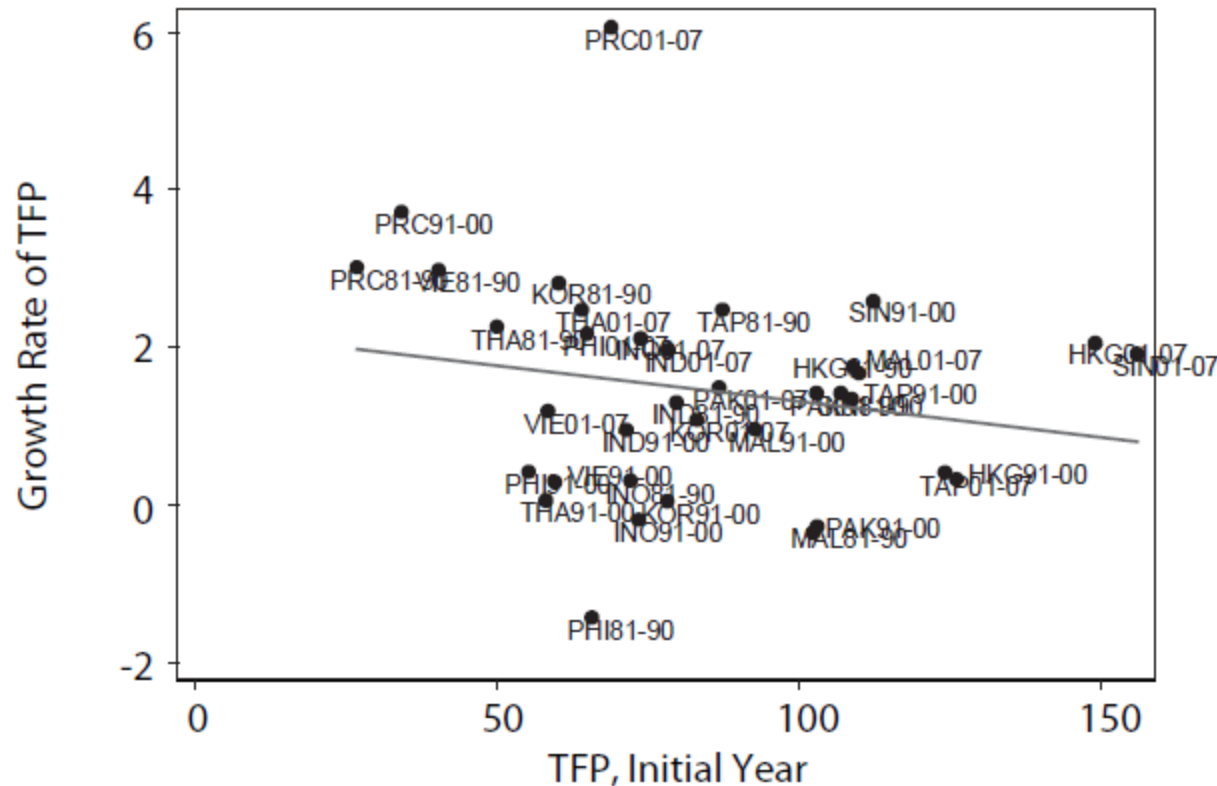


(2) Convergence in Capital Stock per Labor



Source: Lee & Hong, 2010.

(3) Convergence in TFP

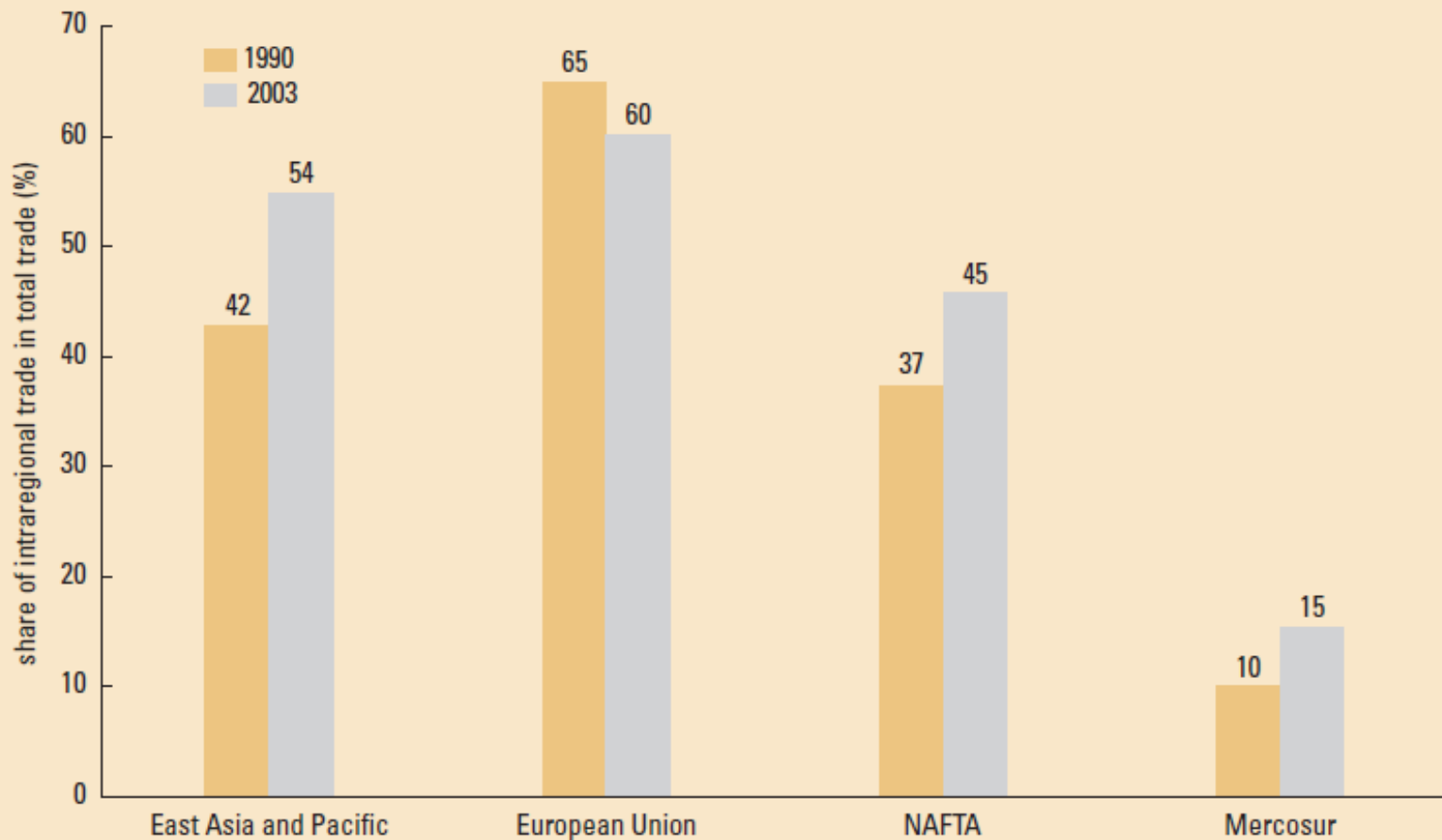


GDP = gross domestic product; TFP=total factor productivity; PRC = People's Republic of China; HKG = Hong Kong, China; IND = India; INO = Indonesia; KOR = Republic of Korea; MAL = Malaysia; PAK = Pakistan; PHI = Philippines; SIN = Singapore; TAP = Taipei, China; THA = Thailand; and VIE = Viet Nam.
 Sources: Calculations from Heston, Summers, and Aten (2009); ILO (2010); Barro and Lee (2010).

Source: Lee & Hong, 2010.

- What are the (new) gravity for growth in East Asia after the 1990s? How to tap into new opportunities?
 - Regionalization and Regionalism
 - Regional production networks
 - Regional trade agreements
 - New Trade Theory: scale economies
 - New Growth Theory: ideas
 - New Economic Geography: agglomeration; cities

FIGURE 2 More Than Half of East Asia's Trade Now Occurs within the Region

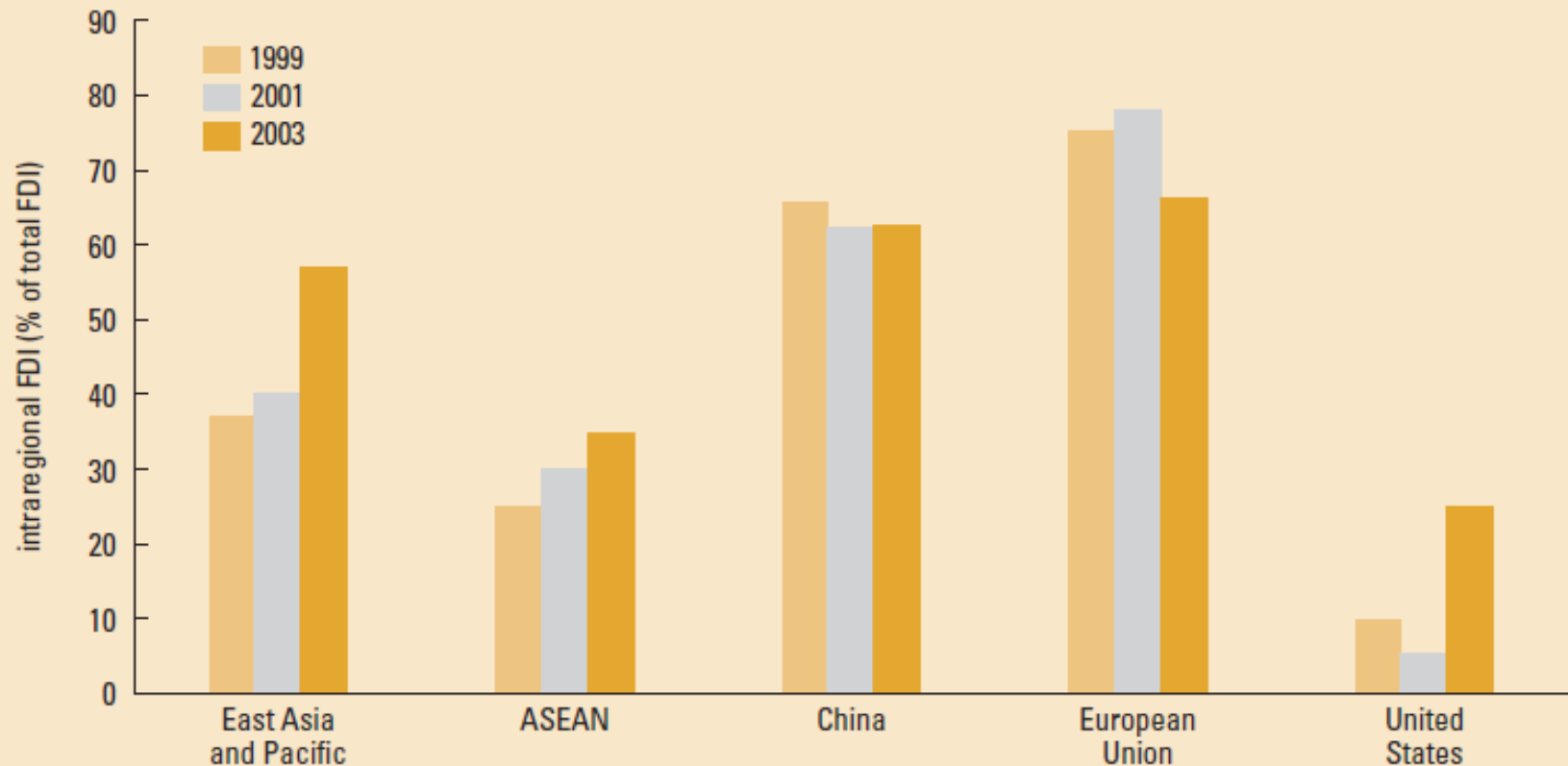


Source: Compiled by the authors.

Note: NAFTA = North American Free Trade Agreement. Mercosur = Southern Cone Common Market in South America.

Source: World Bank, 2007.

FIGURE 1.4 FDI Flows within East Asia Have Increased Since the Financial Crisis



Sources: UNCTAD 2003; Eurostat 2005; data of the U.S. Bureau of Economic Analysis (<http://www.bea.gov/>); China, National Bureau of Statistics 2005; ASEAN 2004; Rana 2005.

Note: The 2003 figure for East Asia is for 2002; figures for China include FDI from Japan; figures for the Association of Southeast Asian Nations (ASEAN) refer to FDI from East Asia to ASEAN and not strictly to intra-ASEAN FDI.

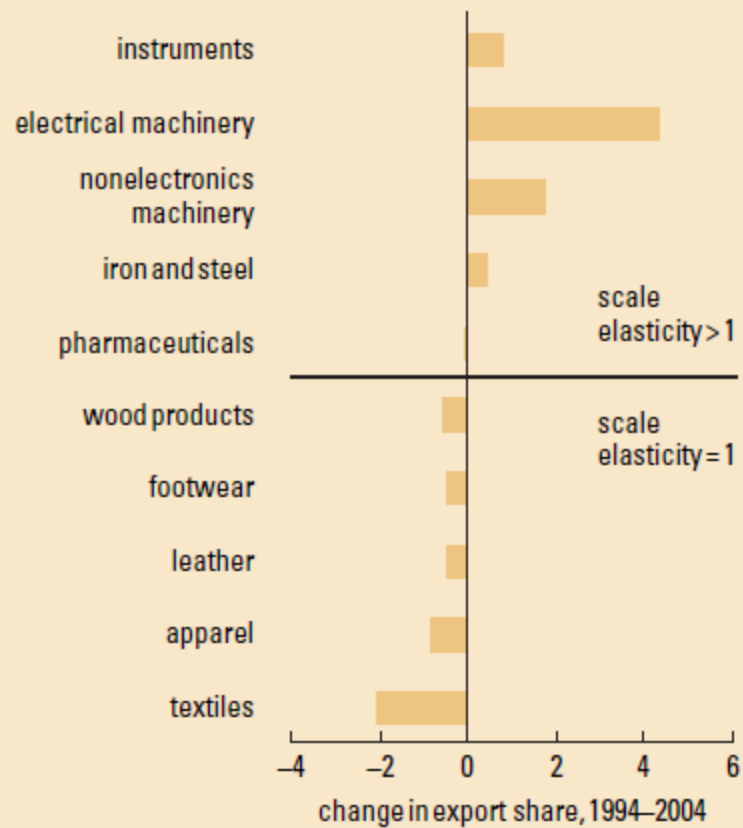
Source: World Bank, 2007.

■ TABLE 2 Gravity and Friction: Facts and Implications

	Facts	Implications
Gravity		
Trade	East Asia is the most open developing region for trade in goods	Liberalize trade in business services
	The trade in parts and components and intra-industry trade have grown rapidly	Make logistics more efficient
	China and Japan are the region's twin engines	Enhance market access through regional integration; keep rules of origin simple
Innovation	Internationally competitive firms (exporters) are driving industrial growth	Knowledge is now more easily accessible for all East Asians
	FDI and skills are driving innovation	Keep outward orientation and competitiveness
	Northeast Asia is producing more patents	Upgrade tertiary education
Finance	Bank claims on the corporate sector have fallen since the 1997–98 financial crisis	Local credit risks need to become better identified and managed
	Foreign exchange reserves have soared since the financial crisis	Regional cooperation may be a more efficient way to address the fear of floating exchange rates
	Bank-dominated financial systems do not support innovative enterprises	Develop more effective securities markets, including corporate bond markets

Source: World Bank, 2007.

■ FIGURE 4 East Asian Exports Are Growing in Sectors with Increasing Returns to Scale

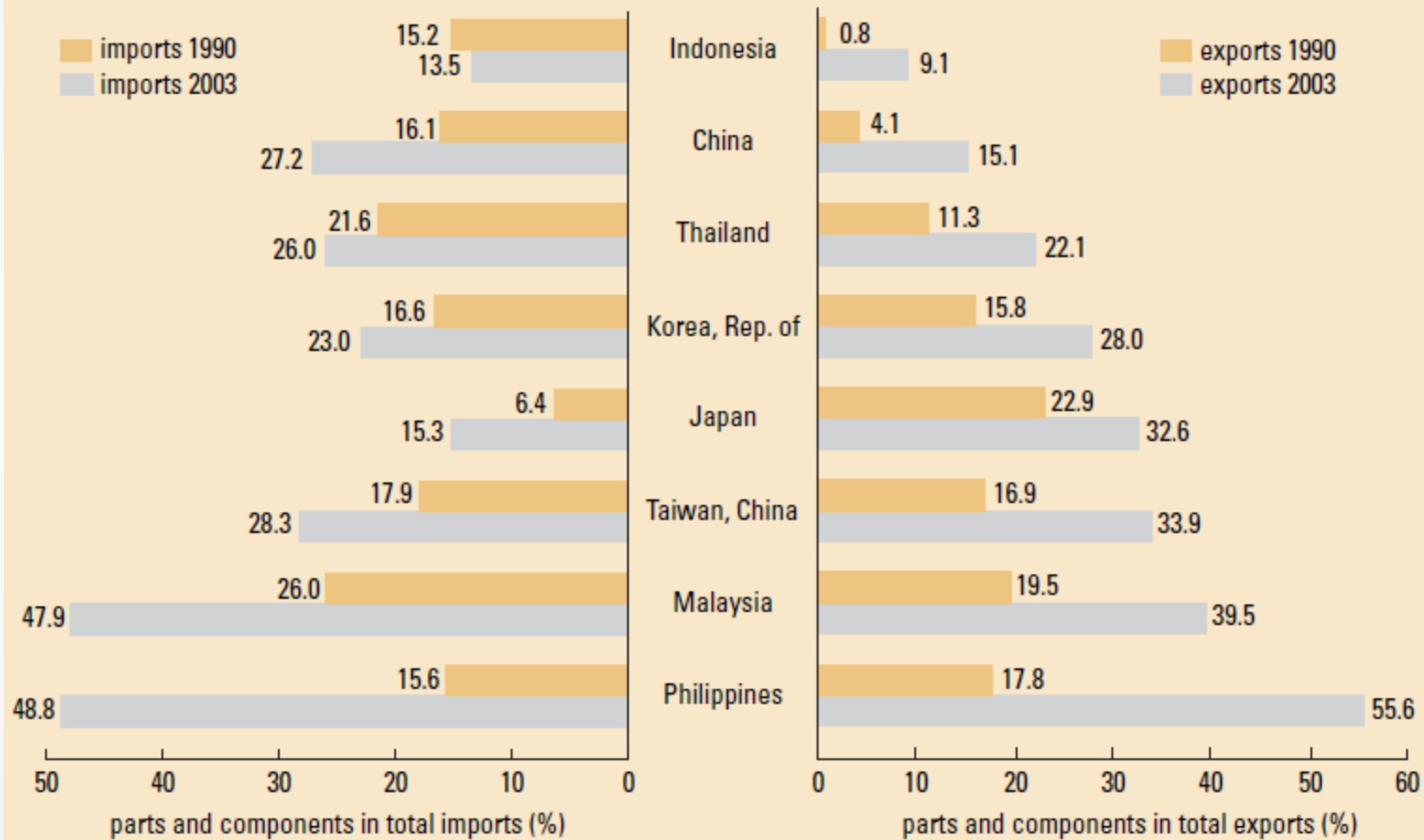


Sources: Antweiler and Trefler 2002; calculations of the authors.

Source: World Bank, 2007.

■ FIGURE 5 Intraindustry Trade Has Boomed in East Asia

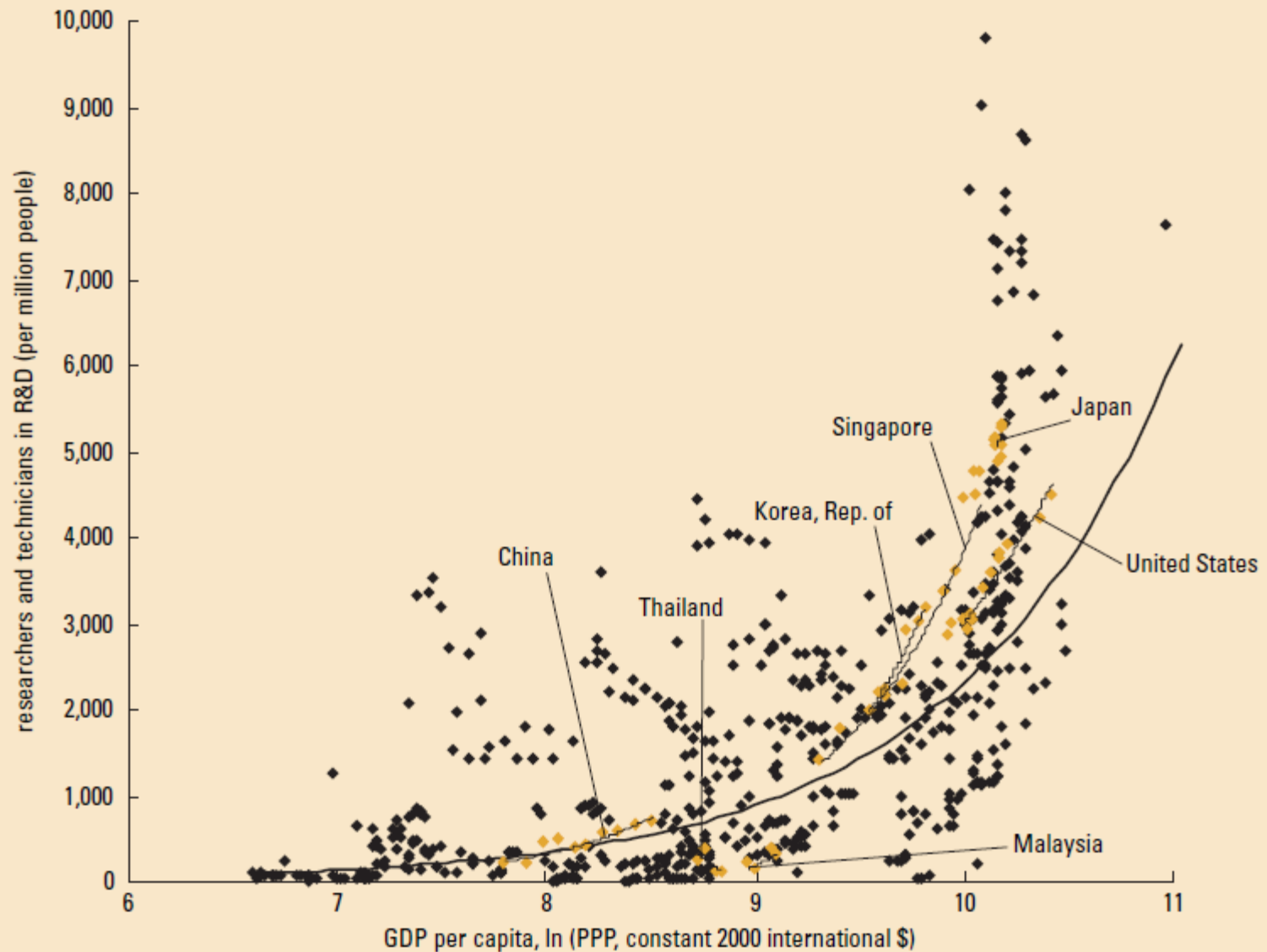
Share of parts and components in total exports and imports, 1990 and 2003



Source: Okamoto 2005.

Source: World Bank, 2007.

FIGURE 6 East Asia's Efforts in R&D Have Outpaced Those of the Rest of the World

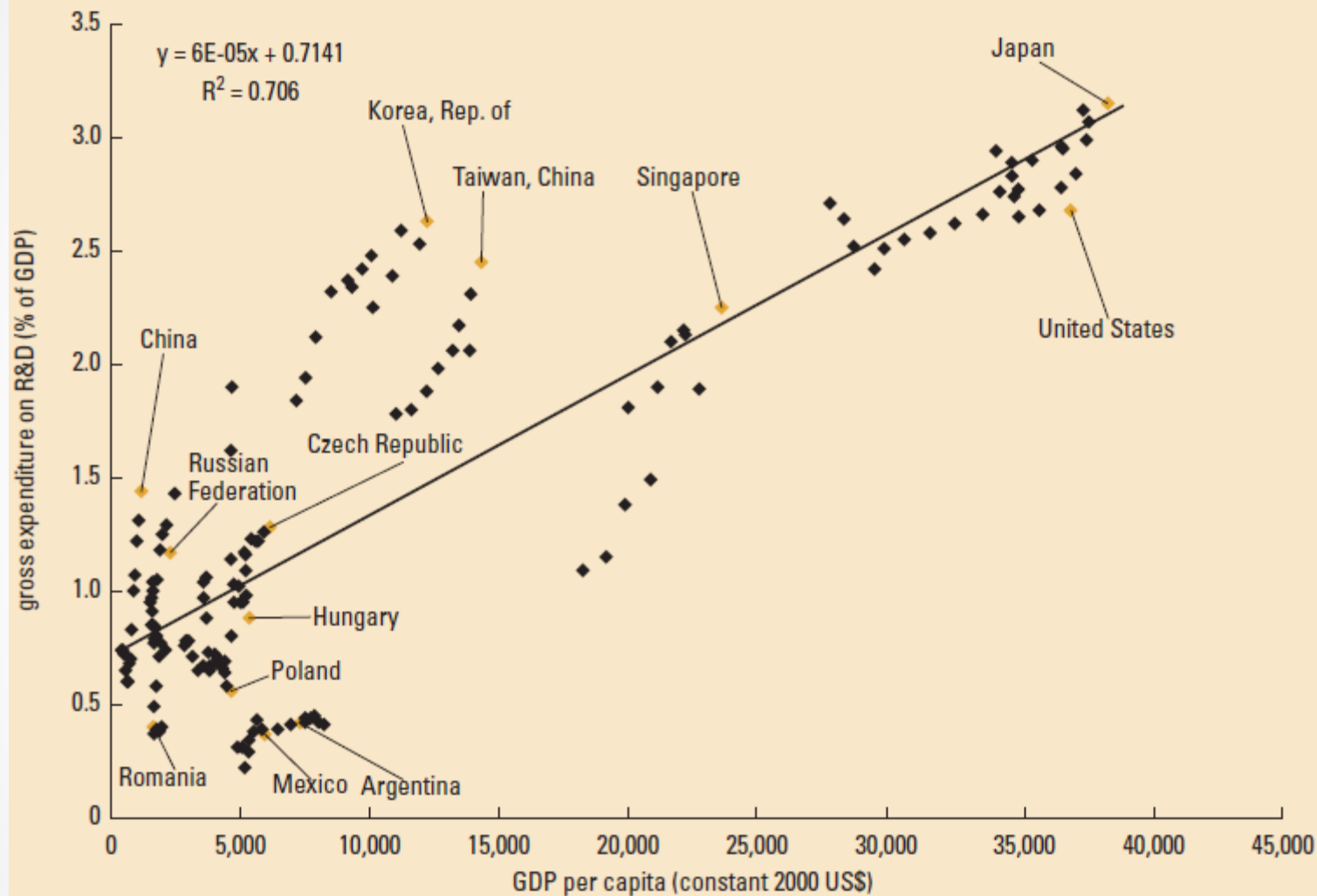


Source: Compiled by the authors.

Note: The figure illustrates the situation from the early 1980s to the early to mid-2000s.

Source: World Bank, 2007.

FIGURE 1.3 China, Korea, and Taiwan (China) Are Outperforming Their Peers on R&D



Sources: OECD 2005; World Development Indicators Database, World Bank, <http://www.worldbank.org/data/datapubs/datapubs.html> (August 2005); Global Development Finance Database, World Bank, <http://www.worldbank.org/data/datapubs/datapubs.html> (August 2005).

Source: World Bank, 2007.

■ **TABLE 3 The Growing Complexity of Development: Economies of Scale**

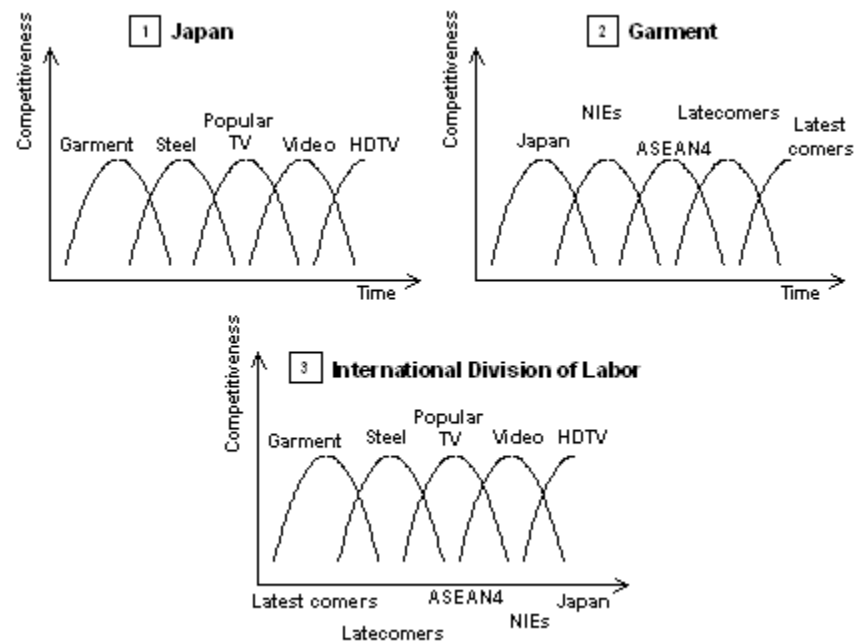
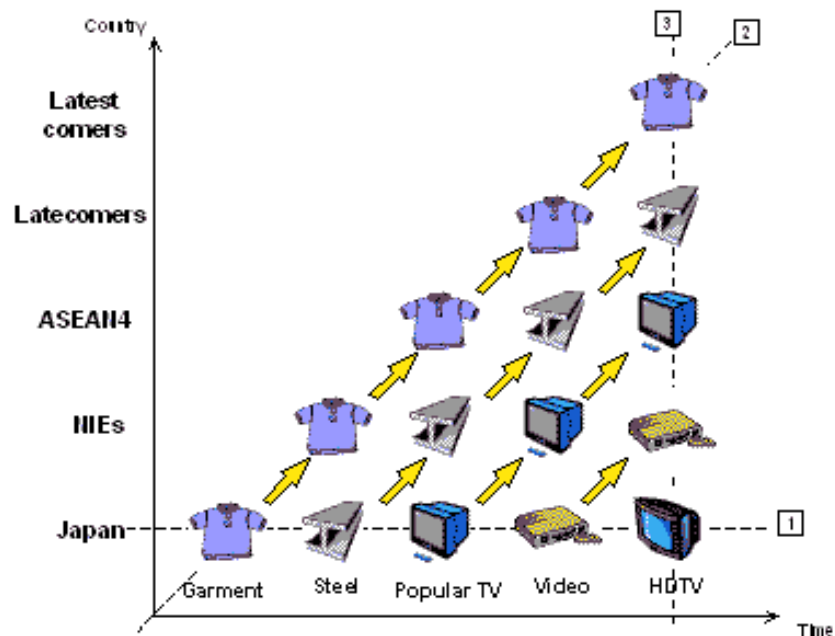
Force	Growing complexity			Strategic imperatives	
	From: Exploiting comparative advantage	+	To: Also exploiting scale economies	New opportunities	Policy priorities
Specialization	Labor-intensive exports	+	Parts and components trade	Regional production networks	Logistics
Ideas and human capital	Basic and secondary education	+	Postsecondary education	Regional knowledge spillovers	Scientists and engineers
Managing economies	High savings and low deficits	+	Risk management	Regional financial stability	Corporate bond markets

Source: Compiled by the authors.

Source: World Bank, 2007.

The Flying Geese Pattern of Development

Structural Transformation in East Asia



Source: Okita, 1985.

- What are the frictions of growth? How can we address these issues?
 - Economic rent – Distributional consequences;
 - Agglomeration vs congestion;
 - Corruption
 - Centralized vs decentralized

Friction

Cities

Cities have three times the productivity of rural areas, reflecting agglomeration economies

Large cities are coming under stress

Secondary cities are growing more rapidly

Urban growth will drive regional differences

Make large cities more livable

Improve domestic connectedness and the economic management of small cities

Cohesion

Within-country inequality is significant because of urban-rural and coastal-interior gaps

Within-country inequality is rising because of rising within-urban and within-rural inequality

Poverty rates have been falling rapidly in cities

Access to services, especially education, should not depend on location as much as it does

Labor market segmentation by space and social groups must be reduced

Rapid skill formation may be able to offset the high postsecondary wage premium

Corruption

The tolerance for corruption is falling in East Asia

East Asia's decentralization is progressing more rapidly than the institutionalization of checks and balances

The contestability of political power has grown in East Asia

Corruption is seen as a threat to growth, and the perceptions of corruption are worsening

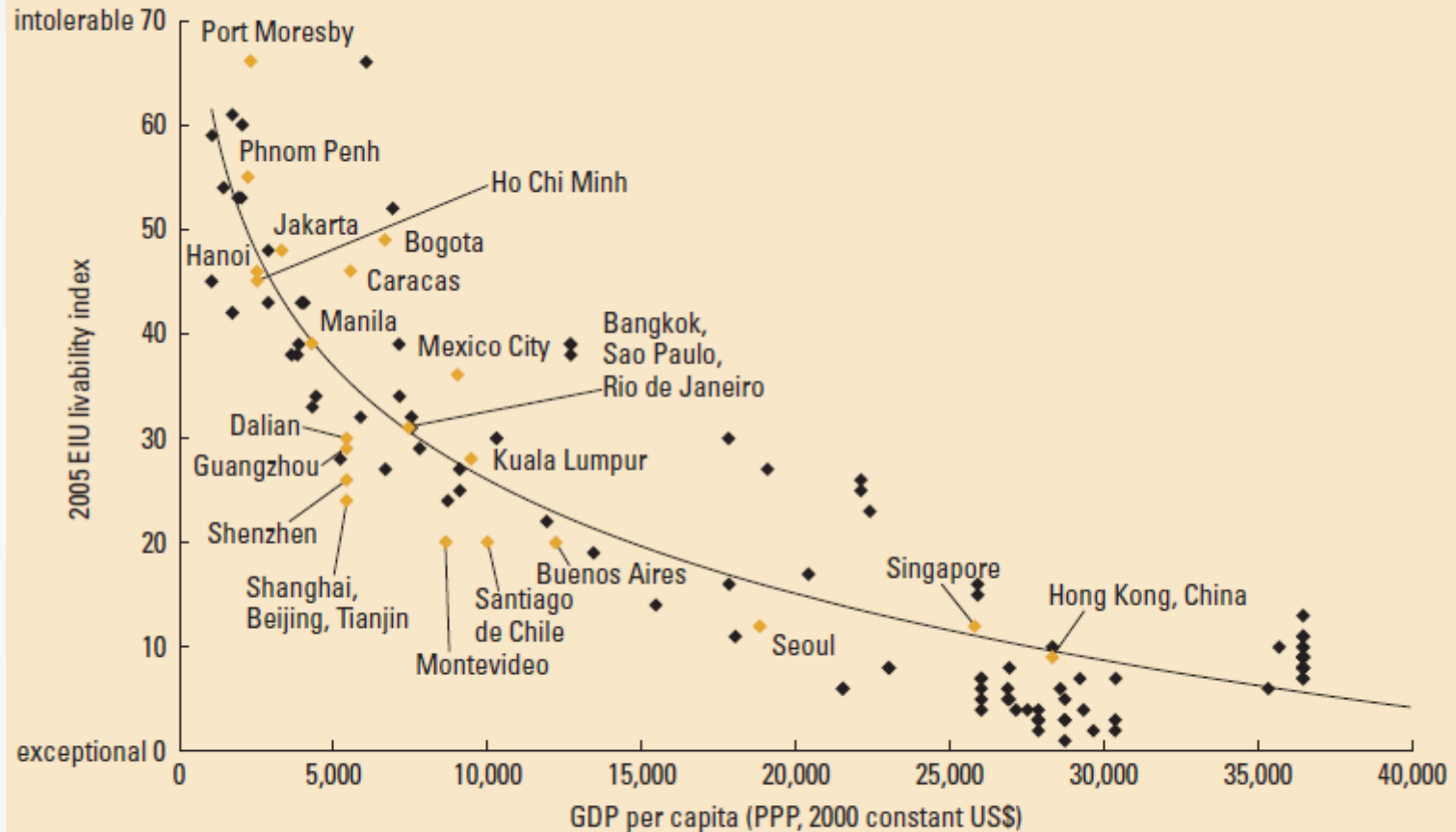
Corruption may become a more serious obstacle to growth unless transparency and accountability develop at the local level

Speed up the transition from the rule of man to the rule of law

Source: Compiled by the authors.

Source: World Bank, 2007.

■ FIGURE 1.5 Large Cities in East Asia Are as Livable as Those in Latin America

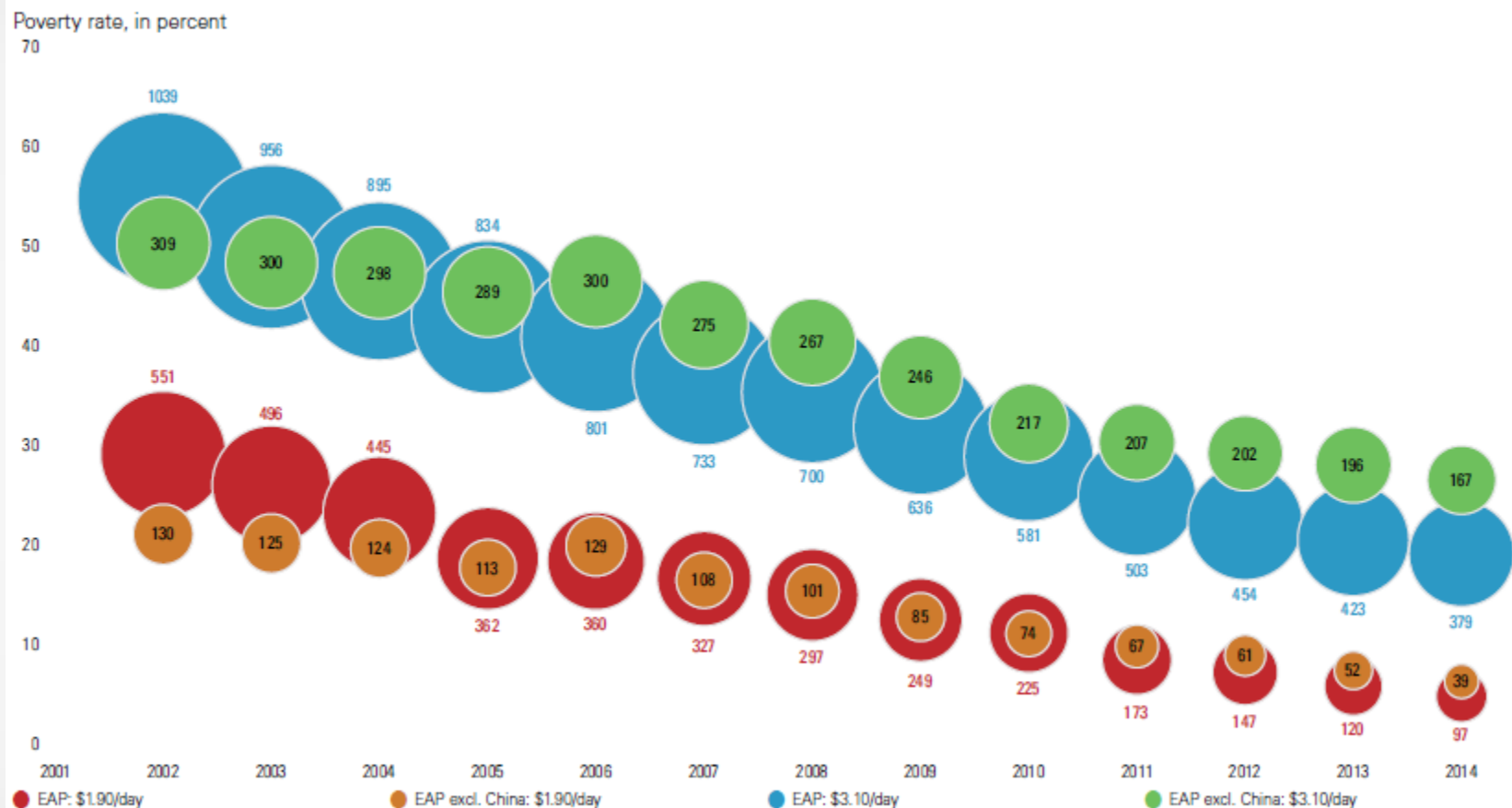


Source: Global Liveability Rankings, Economist Intelligence Unit, http://www.eiu.com/index.asp?layout=displayIssueTOC&toc2=no&publication_id=1140003314&issue_id=99473795.

Note: The livability index ranges from 0 for exceptional livability to 100 for intolerable. PPP = purchasing power parity.

Source: World Bank, 2007.

Figure I.A.7. Poverty has declined substantially in the EAP region over the last decade

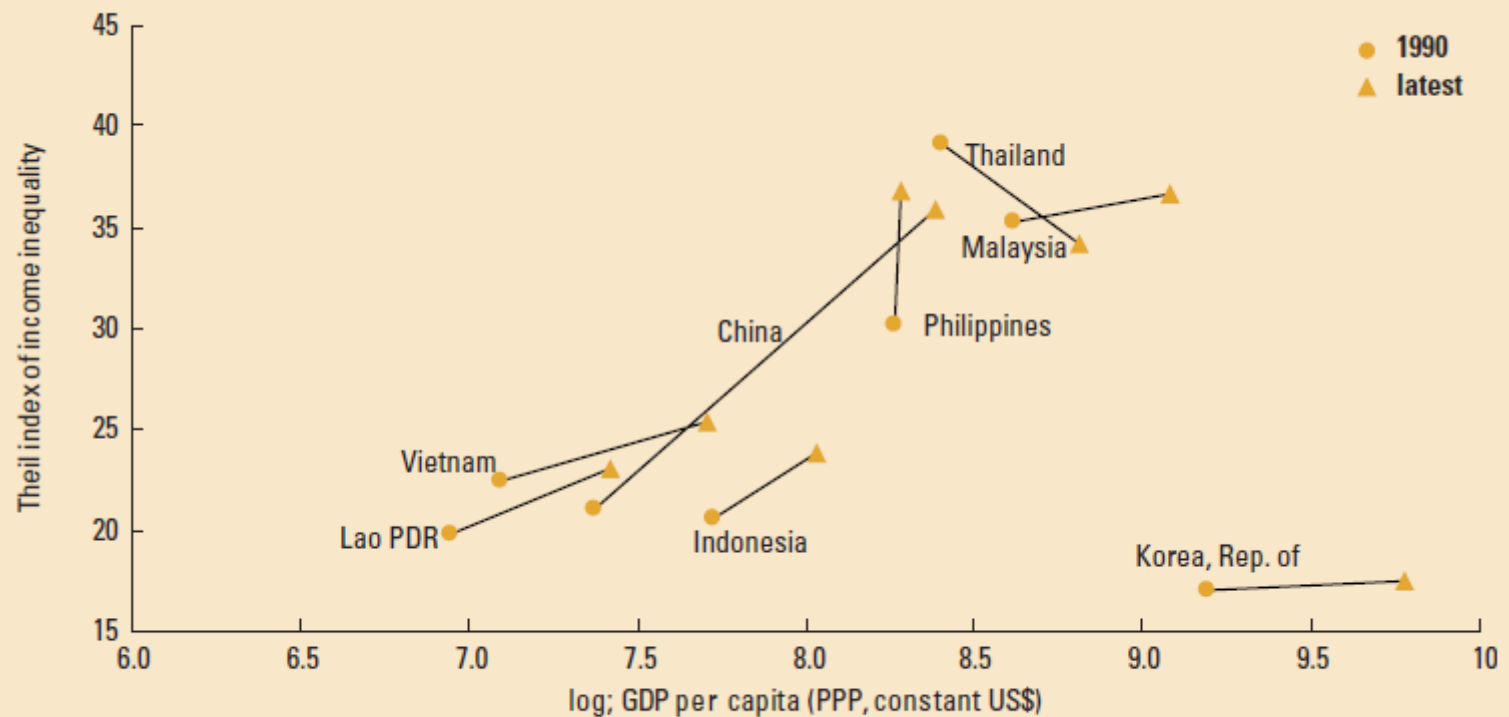


Source: World Bank.

Note: Bubble sizes and number labels indicate number of people, millions. Estimates for 2013–14 are based on per capita GDP growth and historical estimates of the growth elasticity of poverty. Regional poverty estimates are a population-weighted average of country-specific estimates.

Source: World Bank, 2015.

■ FIGURE 1.6 Inequality Has Been Rising in Much of East Asia Since 1990

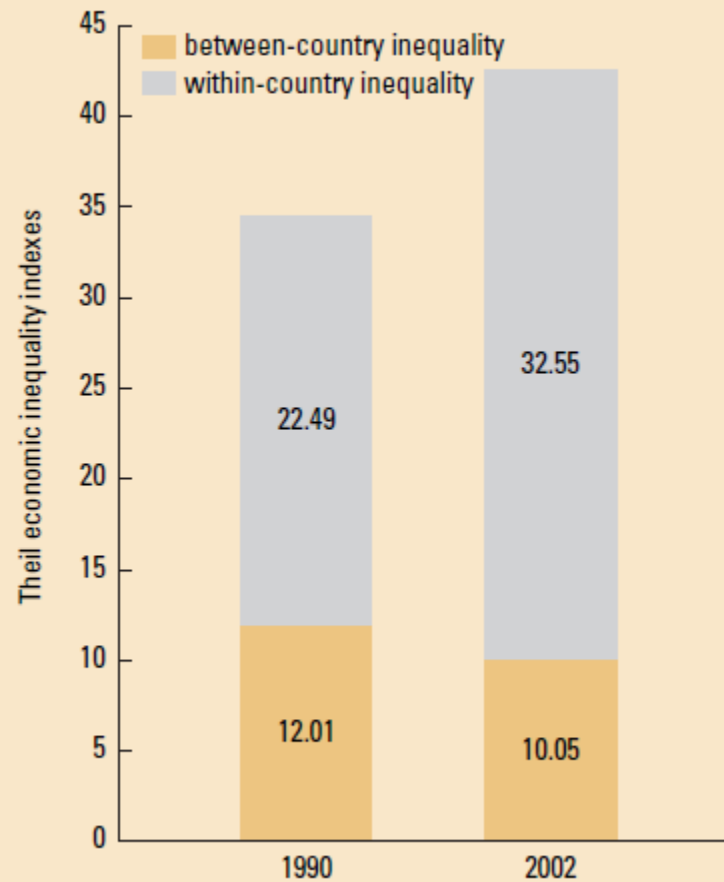


Source: World Bank staff estimates based on household surveys.

Note: PPP = purchasing power parity.

Source: World Bank, 2007.

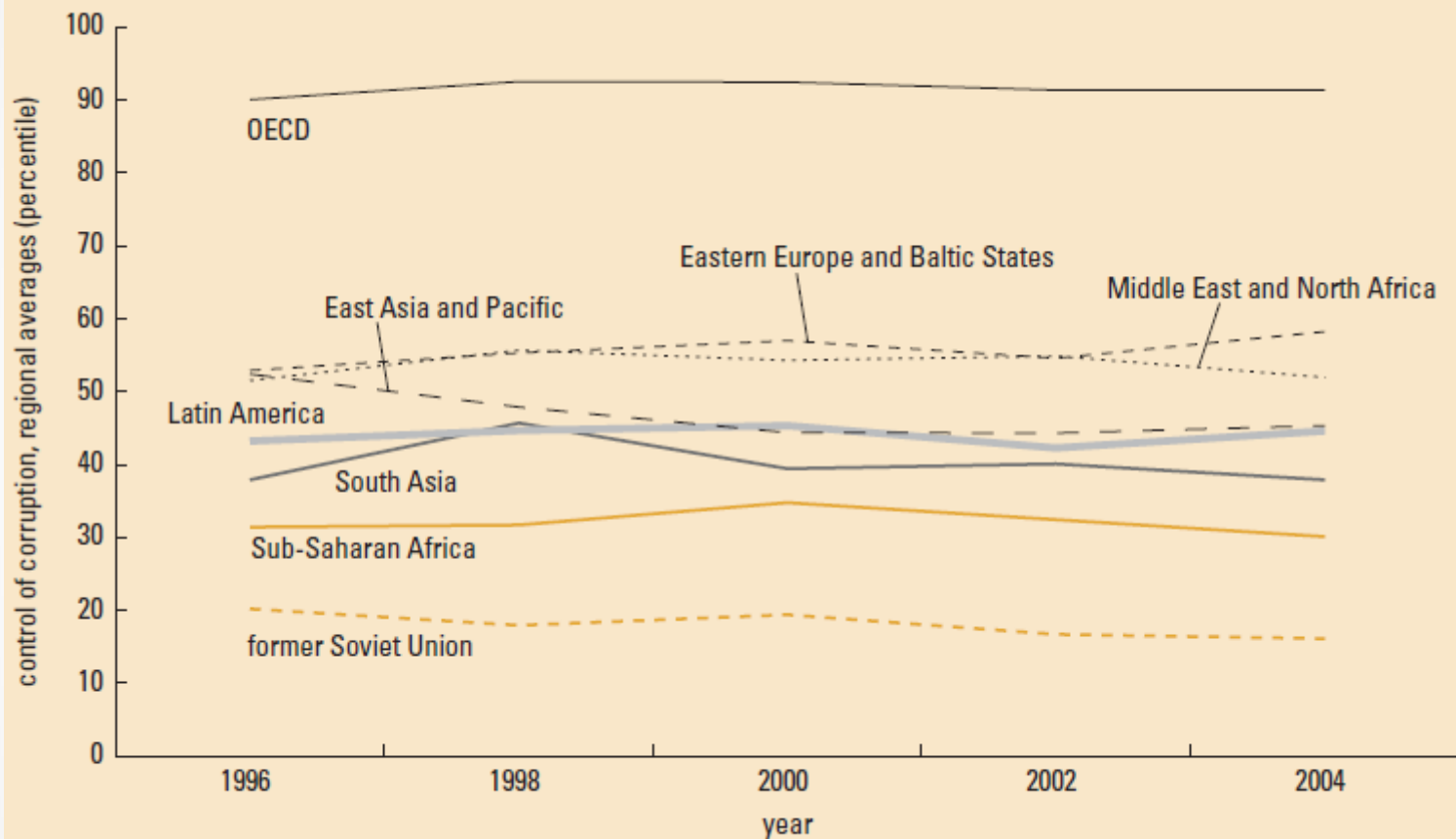
FIGURE 8 Inequality Is Rising in East Asia Despite Regional Convergence



Source: Compiled by the authors.

Source: World Bank, 2007.

FIGURE 1.7 East Asia and Latin America Do Equally Poorly in Controlling Corruption



Source: Kaufmann, Kraay, and Mastruzzi 2005.

Note: For the significance of the control of corruption percentile, see the text.

Source: World Bank, 2007.

■ **TABLE 4 The Growing Complexity of Development: The Distribution of Economic Rents**

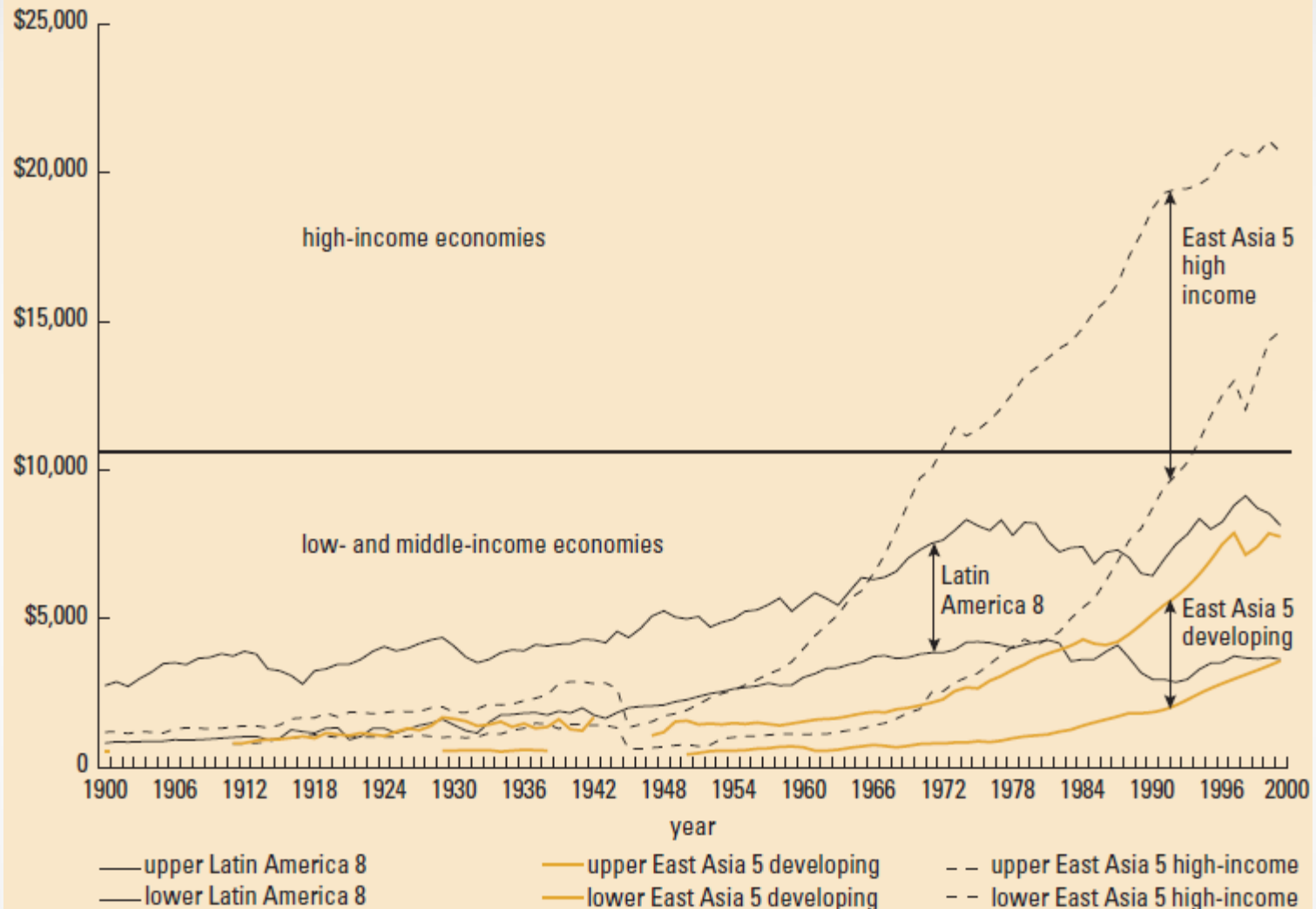
Force	Growing complexity			Strategic imperatives	
	From: Letting markets work	+	To: Also addressing coordination failures	Pressing challenges	Policy priorities
Agglomeration	Megacities	+	Midsized and small cities	Congestion	Connected small and midsized cities
Social and spatial effects	Unskilled wage growth	+	Urban skilled wage growth	Inequality	Access to social services
Managing societies	Small centralized governments	+	Decentralized governments	Corruption	Transparency and accountability

Source: Compiled by the authors.

Source: World Bank, 2007.

- What is the middle-income trap? How to get out of it?
 - middle-income countries have grown less rapidly than either rich or poor countries;
 - are squeezed between the low-wage poor-country competitors that dominate in mature industries and the rich-country innovators that dominate in industries undergoing rapid technological change;
 - the East Asian experience suggest a possibly different story.

FIGURE 1.2 A Second Group of East Asian Economies Has Caught Up with Latin America



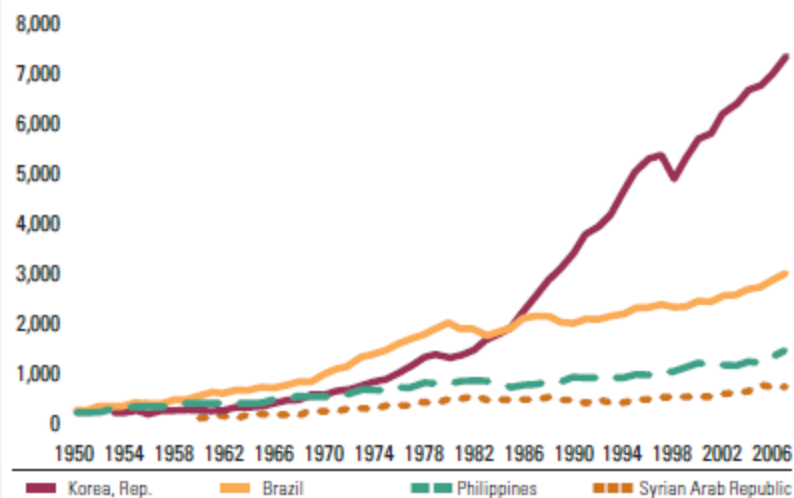
Source: Maddison 2003.

Note: The figure shows the growth in the range of per capita incomes within three groups of economies: the high-income East Asia Five (upper limit and lower limit), middle-income East Asia Five (upper limit and lower limit), and the large, middle-income Latin America Eight (upper limit and lower limit). See the text for a more detailed description.

Source: World Bank, 2007.

Figure 47. Some countries get stuck in middle income, others escape

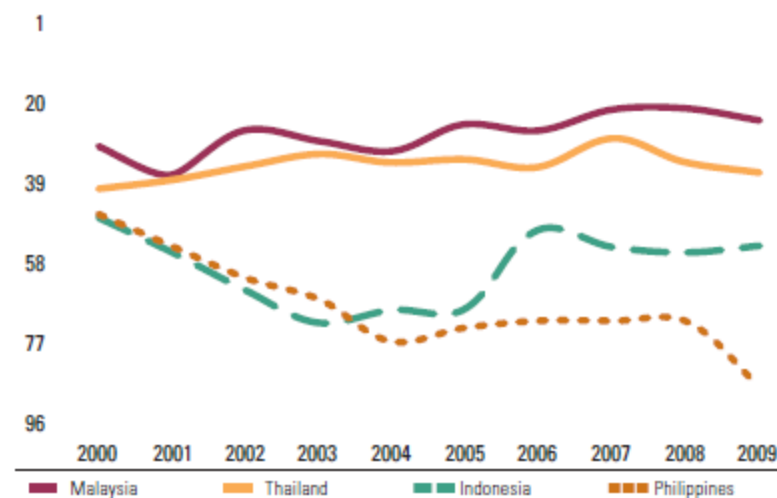
GDP per capita in constant 2005 U.S. dollars



Source: Penn World Table 6.3.

Figure 48. The competitiveness ranking of the region's middle-income countries declined or stagnated

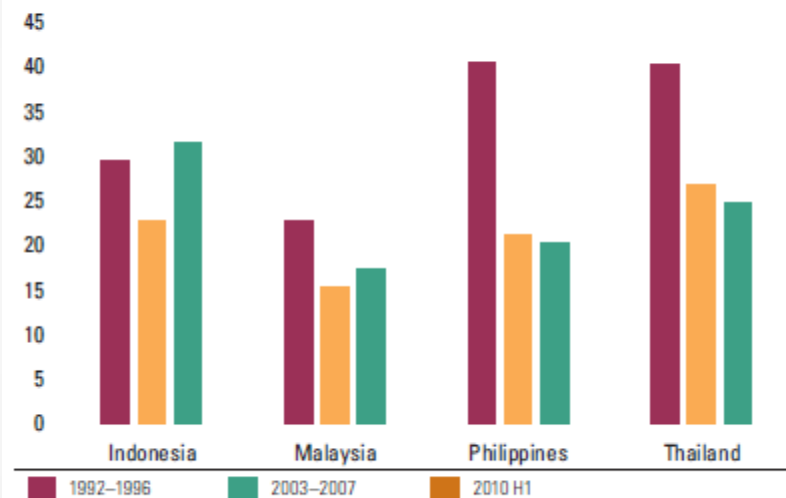
GCI ranking, based on 10 categories



Source: Global Competitiveness Indicators 2009.

Figure 49. In Malaysia, the Philippines and Thailand, investment is below the levels of the previous two decades...

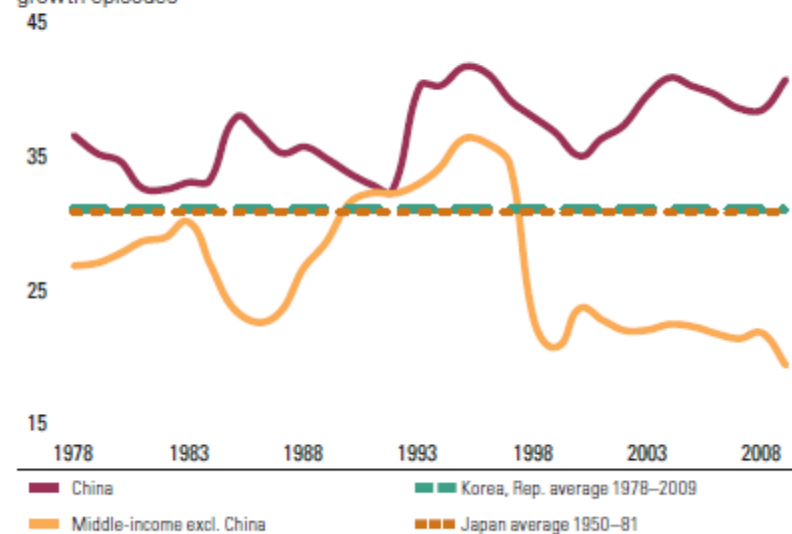
investment, in percent of GDP



Source: Haver Analytics.

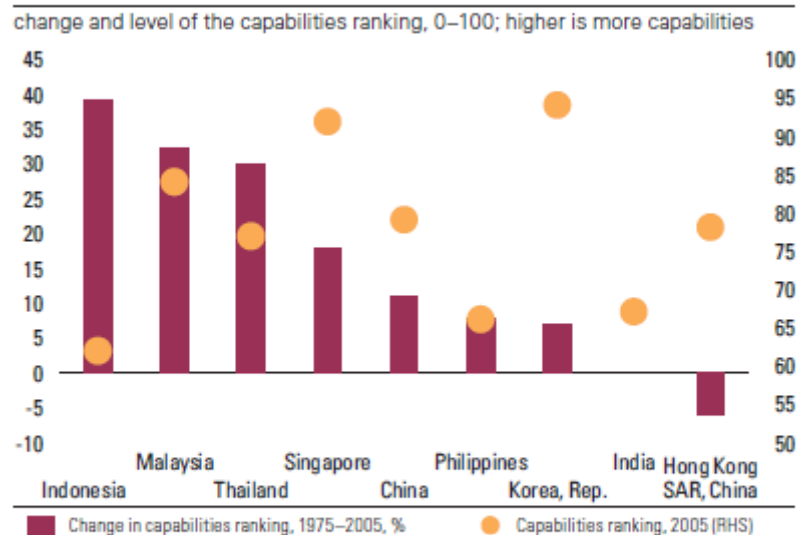
Figure 50. ...and is trailing levels in Korea and Japan during their take-offs

investment, in percent of GDP, compared to Japan's 1950 and Korea's 1978 growth episodes



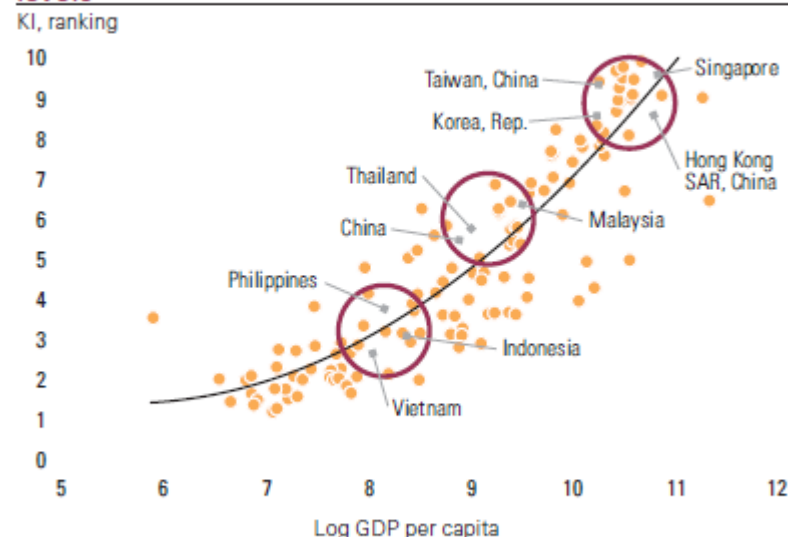
Sources: Haver Analytics and World Bank staff calculations.

Figure 52. Change in the number of “capabilities” to produce new products, 1975 to 2005



Source: Staff calculations based on Hidalgo, César A. 2009. “The Dynamics of Economic Complexity and the Product Space over a 42-Year-Period”, CID Working Paper No. 189, December 2009.
 Note: Capabilities refer to the level of sophistication of companies in a country to perform more tasks so as to produce a greater variety of products. Original indicator is normalized so that higher number reflects more capabilities, Japan=100.

Figure 53. East Asia’s middle-income countries are innovating at par with comparators with similar income levels



Source: World Bank Knowledge Assessment Methodology Innovation Index (KAM) 2009.
 Note: KI on the vertical axis refers to the Knowledge Index that is a simple average between innovation, skills, and ICT indices.

- From diversification to specialization
 - The risk of specialization
- From investment to innovation
- From basic to tertiary education
 - out/under-performing rel. to income levels
 - policies to stimulate education

More Discussion Questions

- Is China different? How about Latin America, India?
- Future topics: Openness and growth (trade and FDI); Regional trade networks; Financial markets; Global imbalances; Trade agreements; Financial crisis...

TABLE 1.8 Recognizing the Importance of Scale Economies: Recent Theoretical Advances

Subdiscipline	Decade	Key publications	Main insights
Industrial organization	1970s	Spence (1976); Dixit and Stiglitz (1977)	Formal models of increasing returns to scale and imperfect competition
International trade	1980s	Krugman (1980, 1981); Ethier (1982); Helpman and Krugman (1985); Grossman and Helpman (1995)	Increasing returns and imperfect competition explain intra-industry trade between countries with similar endowments; initial endowments may, through trade and specialization, influence the long-run rate of growth; trade unleashes forces of both convergence and divergence
Economic geography	1990s	Krugman (1991); Fujita, Krugman, and Venables (1999)	Increasing returns to scale activities are characterized by agglomeration and imperfect competition, while constant returns-to-scale sectors remain dispersed and competitive, helping to explain the spatial distribution of economic activity and the growth of cities
Endogenous growth	1980s	Romer (1986); Lucas (1988)	Perfect competition and knowledge- or human-capital-related externalities imply aggregate increasing returns and explain why growth rates may not fall over time and why wealth levels across countries do not converge
	1990s	Romer (1990); Grossman and Helpman (1991); Aghion and Howitt (1992)	Imperfect competition explains why the incentive to spend on R&D does not fall, and knowledge spillovers explain why R&D costs fall over time, resulting in more or better products that fuel growth
	2000s	Aghion and Howitt (2005)	Imperfect competition and Schumpeterian entry and exit of firms, with entrants bringing new technologies, explain how a country's growth and optimal policies will vary with distance to the technology frontier

Source: Gill, Hariharan, and Kharas 2006.

■ TABLE 1.9 Economic Growth and Distribution: Recent Theoretical Advances

Subdiscipline	Channels	Key publications	Main insights
Correlation between growth and distribution			
International trade	Skill premiums	Ethier (1982); Helpman and Krugman (1985); Feenstra and Hanson (1996)	Trade in final goods takes place on Heckscher-Ohlin terms and reduces skilled-unskilled wage premiums in middle-income countries; trade in intermediate goods may increase these gaps
Industrial organization	Skill premiums	Acemoglu (1996)	Moves toward flatter organizations and team-based work within firms and the growing segregation of firms by skill levels across sectors likely reduce within-firm wage dispersion and raise across-firm wage gaps
Endogenous growth	Skill premiums	Aghion and Howitt (1998)	General-purpose technologies such as engines, lasers, and computers generate structural shifts that favor the more educated
		García-Peñalosa and Turnovsky (2006)	Higher saving or productivity leads to higher growth and inequality if the initial distribution of capital is less uniform than that of labor
Economic geography	Rural-urban differentials	Krugman (1991); Fujita, Krugman, and Venables (1999)	Increasing-returns-to-scale activities are characterized by rents and agglomerate in urban areas, while constant-returns-to-scale activities remain competitive and dispersed, thereby leading to large and persistent urban-rural differentials

Effects of distribution on growth

Industrial organization	Investment	Loury (1981); Perotti (1992); Aghion and Bolton (1997)	Capital market imperfections imply that poor but talented individuals are unable to take advantage because of their inability to borrow and invest
Political economy	Incentives	Alesina and Rodrik (1994); Persson and Tabellini (1996)	Higher inequality leads to pressure for more re-distribution, higher taxes, and lower growth
	Insecurity	Benabou (1996)	Inequality leads to sociopolitical conflict and, hence, less secure property rights that reduce investment

Source: Gill, Hariharan, and Kharas 2006.

- Middle income trap
 - From diversification to specialization
 - From investment to innovation
 - From basic to tertiary education

- Regional integration (trade and FDI)
- Urbanization
- Reducing poverty, rising inequality

- Previewing future topics:
 - Inequality
 - Regional integration in trade
 - Monetary cooperation