ASIA-PACIFIC RESEARCH AND TRAINING NETWORK ON TRADE

BOOK REVIEW

SERIES NO. 15 | 2014

# How Asia Works: Success and Failure in the World's Most Dynamic Region

*Joe Studwell*

Grove Press, NY (2013), 338pp. ISBN: 9780802119599

Joe Studwell's study of Asia's economic growth story offers a three-step recipe for development: increase agricultural output through household farming; boost manufacturing using protectionism tempered by export discipline; and control financial institutions so they sustain and propel the first two steps. The book breaks from existing development orthodoxy in two major respects. First, in advocating for the protracted use of protectionist industrial policy alongside regulation and control of the financial system, the book stands opposed to the standard "Washington consensus" prescriptions of freer trade and financial deregulation. Second, by offering a package of policies that can supposedly be applied continent-wide, Studwell departs from contemporary skepticism about 'one-size-fits-all' recommendations.

The book—a mixture of economic history, development theory and travelogue—surveys the extent to which this policy 'trinity' was successfully implemented across Asia. The post-war economic 'miracles' in Japan, Taiwan, South Korea, and more recently China, are described and then compared with the contrasting fortunes of those Southeast Asian states still lagging behind. Considerable time is devoted to Indonesia, the Philippines and Malaysia and how their well-intentioned but misguided efforts to imitate the economic successes of Japan and others often ended up backfiring.

Agriculture claims a central place in Studwell's recommendations, with land reform the essential first step. Typically, this involves breaking up vast landholdings held by a narrow elite and instituting labour-intensive household farming on relatively small plots. This can boost household incomes, increase overall agricultural output, and lay the foundations for a broad middle-class of future consumers. Studwell presents extensive data showing higher productivity per hectare on intensively farmed small plots than on larger, more capital-intensive plantations. Countries arrived at this solution, however, from different directions. For Japan economic take-off involved dismantling the old feudal estates of the Samurai. In China, breaking up the collectivist farms of the Maoist era was the starting point for Deng Xiaoping's reforms to the rural economy. In contrast, the book laments the long history of failed attempts at land reform in the Philippines and also places the blame for Thailand's current political polarization on the absence of a sustained land reform programme to boost rural incomes and reduce traditional income disparities.

Step two in the process is industrialization though export-oriented manufacturing. Studwell is sympathetic to infant-industry protection provided that companies receiving protection or subsidies are forced to compete to win export orders. By providing hefty funds and guaranteed rents to manufacturing companies conditioned on their capacity to export, countries can concentrate on “weeding out losers rather than picking winners”. By using exports as a the measure of success, governments guarantee that industrial learning is taking place and that quality and international competitiveness are improving.

South Korea is the best embodiment of this approach. In addition, to a highly protected domestic market, for instance in automotives, the government was ruthless about cutting support from companies not displaying adequate performance as measured by exports. The result was the growth of highly competitive Korean conglomerates. Conversely, Malaysia, under the leadership of Mahathir Mohamad is excoriated for its tendency to pick single firms eligible for support and then offer them continuous protection without being forced to face the stiffening breeze of foreign competition. This led the squandering of billions in the quest for a domestic ‘national champion’ and has produced non-competitive firms—like Proton the national car maker—still dependent on foreign technology.

The third step is regulation of the financial sector so that it serves national development interests. Finance, should be a channel for directing resources to support agriculture and manufacturing. Studwell is in favour of capital controls and ‘financial repression’ of the sort still employed in China, under which savers are penalized to provide cheap loans to favoured sectors—for instance export oriented manufacturers. The book is scathing of the ‘premature’ financial liberalization pursued in many Southeast Asian countries at the urging of the IMF and World Bank from the 1980s onwards. This produced damaging asset bubbles and overinvestment in real estate at the expense of sustained industrial learning.

***

As a work of economic history, Studwell’s book is an engaging overview of Asia’s dramatic resurgence and transformation, as well as its ongoing failures. What it lacks is proper attention to whether the policies available to, say, Korea in the 1970s could still generate the same success today. In a world of fragmented production across national borders, where few products can really be said to originate from a single country, can this kind of infant-industry protectionism still succeed? Similarly, more detail on when countries should begin to unwind these measures and pursue deregulation and a shift to services would have been valuable. Japan perhaps stands as the best case study of how this style of industrialization can generate its own rigidities, thereby preventing the next stage of reform and leading to prolonged stagnation.

*Reviewed by Daniela García Santibáñez, M.P.P. candidate at the University of California, Berkeley and intern at the Trade and Investment Division, United Nations ESCAP.*