Foreword

The emergence of Asia from the underdevelopment that persisted until the middle of the last century is the great economic achievement of our time. This has created a new model for economic growth built on globalization and the patient accumulation of human and non-human capital. Economic commentators, especially those outside Asia, have been reluctant to recognize the new paradigm for economic growth that originated in Asia, since this would acknowledge the failure of Western ideas that still greatly predominate in the literature on economic growth and development.

A common task facing Asian economies has been to overcome the legacies of failed policies that have arisen from very diverse histories. This has required strong and sustained leadership in both authoritarian and democratic settings. The new Asian growth paradigm places a premium on skillful management by public and private authorities. The performance of the leading countries in developing this paradigm – Japan, then the Asian Tigers, and China and now India – has changed the course of economic development in Asia and around the world.

Vu Minh Khuong's book is the first attempt to bring all the tools of quantitative economics to bear on the Asian growth model. Through his own research, Vu has overcome the lack of key empirical data that has stymied previous efforts to quantify the characteristic features of Asian economies. Existing systems of national accounts were developed for stabilization of advanced economies through monetary and fiscal policies. Building on the contributions of Lawrence Lau and Alwyn Young, the pioneers of quantitative research on the Asian economies, Vu has dispelled the mysteries that have surrounded the debate over Asian growth for the past several decades.

Vu documents the characteristic features of Asian growth – surprise, speed, and scale. Asian growth continues to *surprise* economists schooled in the experience of the industrialized economies of Western Europe and North America. How did the extremely poor countries develop the strategies that have led them to surpass the advanced economies held up as models by economists outside Asia? The *speed* of Asian growth is unprecedented and cannot be explained by any simple tweaking of standard models of economic growth. The sheer *scale* of China and India at first

appears to be a barrier to growth and then re-emerges as an advantage in the crucial process of replication of existing technologies that predominates in economic development.

Vu continues by identifying the common elements in successful strategies for Asian economic growth. These begin with opening the economy to imports and exports to benefit from the comparative advantages through increased trade. The second step is to create a business environment that is favorable to saving and investment, including foreign direct investment. The final and most challenging task for a successful growth strategy is to mobilize labor resources and initiate the long and arduous process of accumulating human capital through education and experience.

Asia has turned its relative backwardness into a source of numerous advantages. At the outset of development, entrenched interests are few and relatively feeble, so that a small cadre of determined leaders can change the direction of economic policy. The opening of Asian economies to trade and foreign investment has had sufficient impact to overcome inertia and build up momentum. Later in the development process, the task of political leadership is to maintain high incremental returns from investment against the forces that could generate sharply diminishing returns. Far-sighted strategies for human capital accumulation are crucial in maintaining the steady rise in levels of technical sophistication and managerial complexity that sustains economic growth.

Japan, the United States, and other industrialized countries will remain far in advance of China and India in terms of per capita GDP, but the experience of Japan and the four Asian Tigers tells us the advanced economies can emerge outside Europe and North America. It is only a matter of time until these developments spread to China, India, and the other major countries of Developing Asia, but this will be measured in decades rather than years. There is now an opportunity to accelerate the process of adjustment to the New World Economic Order in Japan, Europe, and the United States. This will require rethinking approaches to business, the economy, and the political system.

We also need new economic tools to deal with the issues that arise in understanding the Asian model. The growth strategy of many advanced economies emphasizes innovation, which has been quite satisfactory for the past decade, but neglects investment in human and non-human capital, which continues to fall. For example, given the pre-eminence of Japan in many areas of information technology, it is surprising that Japan continues to lag in applications of IT equipment and software. This reflects the long-term policy of protecting the sectors where these applications have been most profitable outside Japan, namely, trade and services.

A thorough renovation of our national accounts is now underway and

similar revisions of our statistical systems are taking place around the world, especially in Asia. The World KLEMS Initiative is a worldwide effort to supply the 'missing half' of the national accounts by providing data on supplies of capital (K), labor (L), energy (E), materials (M), and services (S). This is supported by leading statistical agencies and research organizations throughout Asia and around the world. We will be learning much more about economic growth as we come to terms with the Asian model described in Vu Minh Khuong's prescient book.

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