The main reason the Chinese give to keep the dollar up against the Chinese yuan—and other dollar-linked currencies—down in order to be able to sell to the U.S. market. Only recently has China begun to use some of its dollars to buy Southeast Asian goods. But why in dollars? That need not be. Instead, as Henry C. K. Lui [of Lui Investment in New York] writes: "China has the power to make the yuan an alternative reserve currency in world trade by simply denominating all Chinese export in yuan. This will set off a frantic scramble by importers of Chinese goods around the world to buy yuan instead of dollars. OPEC would accept yuan for payment for their oil."

Why only China? What about "Greater China," including Hong Kong, Taiwan and especially the overseas Chinese who are now the source of the largest capital investment in mainland China? Mainland China already receives the most direct investment in the developing world. And why not more Asians, e.g., ASEAN+3 [Japan, South Korea and China], which China is already "organizing," and India? In the 1997 financial crash Japan proposed an Asian Fund to bail the economies out but the U.S. squashed that and in so doing taught the Asians a bitter lesson—never be caught unprepared again and next time have an Asian Fund to get out from under the IMF/U.S. Treasury and its blackmail and organize its own East Asian economy.

Finally, returning to a longer historical perspective, it is noteworthy that the economically most dynamic regions of East Asia today are exactly the same ones as before 1800, which survived into the nineteenth century.

1. In the south, Lingnan, centered on the Hong Kong-Guangzhou corridor
2. Fujian, centered on Amoy/Xiamen and focusing on the Taiwan Straits and all of Southeast Asia in the South China Sea
3. The Yangtze Valley, centered on Shanghai, whose trade with Japan is again taking the lead
4. Northeast Asia, including Northeast China, Manchuria, Mongolia, Siberia/Russian Far East, Japan and the Korean Peninsula. The region's ample mineral, forestry, agricultural and petroleum resources and abundant low-cost Chinese and North Korean labor can permit Chinese, Japanese and South Korean capital to again develop the area into an important regional growth center in itself and a region that is highly competitive on the world market.

ECONOMIC GROWTH IN ASIA

Steven Radelat, Jeffrey Sachs, and Jong-Wha Lee

The countries of East and Southeast Asia grew extremely rapidly during the last quarter century. The eight best performers—Hong Kong, Singapore, Taiwan, Korea, China, Malaysia, Thailand, and Indonesia—grew at an average of over 5.5% per year in per capita terms between 1965 and 1990. With the exception of several European countries in the immediate post World War II period, growth rates of this magnitude and duration are unprecedented in human history. But as remarkable as was the growth performance of these eight core economies, not all Asian developing countries were able to follow their lead. South Asia, the Philippines, Burma, Central Asia, and many of the Pacific Island nations all recorded average or below average growth in comparison with developing countries in other regions of the world.

In this section we explore the Asian growth patterns by quantifying the empirical relationships between long-term growth and various structural and policy variables. We base the analysis on a general framework of cross-country regression analysis that allows us to put the Asian experience in a global context. Our objective is to understand the critical dimensions in which the East Asian countries differed from other countries that allowed them to achieve rapid growth, and to explore the extent to which those dimensions are unique to these fast-growing economies.

Our approach does not identify all of the specific factors associated with economic growth across countries, nor does it in every case clarify the precise channels through which certain variables affect growth. Rather, it is an attempt to distill the vast amounts of information available on dozens of countries into a tractable, parsimonious framework that identifies a small set of variables that stand out as the most important factors influencing rates of growth around the world. This approach allows us to discern broad trends across countries that illuminate some of the key differences between fast and slow growing economies. Most importantly, this exercise provides strong clues to what lies ahead for Asian countries during the next thirty years. It provides a foundation to understand the likelihood of continued rapid growth in the "tiger" economies, as well as insights to the most appropriate steps that other countries in Asia can take to accelerate growth.

THE BASIC GROWTH FRAMEWORK

The basic empirical framework is based on an extended version of the neoclassical growth model. . . . This model predicts conditional convergence of income: a country with a low initial income relative to its own long-run (or steady-state) potential level of income will grow faster than a country that is already closer to its long-run potential level of income. The basic idea is that the farther an economy is located from its steady-state income level, the greater is the gap of reproducible (physical and human) capital and technical efficiency from their long-run levels. The gap of existing capital and technology from steady-state levels offers the chance for rapid "catching up," via high rates of capital accumulation as well as the diffusion of technology from more technically advanced economies. Hence, the lower is the initial level of per capita income relative to steady state, the higher will tend to be the subsequent growth. This framework presumably helps to explain why wealthier countries, with relatively large capital stocks and already operating near the world's technological frontier, tend to grow more slowly than some lower-income countries that are catching up with the leaders.

If we could presume that all countries have the same steady-state income levels, then the neoclassical approach would imply, simply, that poorer countries would grow faster than richer countries. In fact, such a pattern is not generally observed. Over the period 1965–90, poorer countries did not, on average, narrow the income gap with the richer economies. The cross-country growth framework therefore builds in a crucial assumption, that countries have *distinctive* long-term levels of per capita income to which each is converging. Crucially, the long-term levels depend on two main kinds of variables: economic policies and economic structure. Countries with favorable economic policies (as identified below) tend to have a higher steady-state level of income, and therefore faster growth at any given initial level of income. Similarly, countries with a favorable economic structure . . . tend to experience faster growth, on a path of convergence to a higher long-term level of income. . . .

DIFFERENT PATHS TO DEVELOPMENT WITHIN EAST ASIA

We should point out that in searching for these common traits across successful economies, we are not suggesting that there has been only one path to sustained development. The East and Southeast Asian countries differ widely in their resource endowments, human capital accumulation, population densities and structures, and political systems. They have faced different opportunities and challenges during the last thirty years, and chosen different economic strategies to achieve their goals. Among the eight rapidly growing economies, at least four different paths to development are apparent.

Hong Kong and Singapore are small, urban, very open economies that have relied heavily on commerce and a free port service as the foundation for growth. They have few natural resources, but have well-educated workforces. Their basic strategy was to rely on free and open markets, backed by a competent civil service and a strong legal system. Both governments consistently welcomed and encouraged foreign direct investment. Of course, there are important differences between the two—Singapore features many more state owned enterprises (generally operating profitably in competitive markets), and the government has been more active in encouraging the development of new technologies and promoting manufactured exports.

Korea and Taipei, China are also relatively small economies with few natural resources and a well educated workforce. Agricultural growth, spurred in part by land reform and green revolution technologies, contributed significantly to aggregate growth in the early stages of the take-off period. Both countries initially followed a strategy of import substitution for consumer goods. They kept the level of protection low and the duration of protection relatively brief, and did not extend protection to capital goods sectors. Both countries switched course to aggressively promote export production, with governments at times intervening forcefully in the market with subsidies, special lines of credit, and controls on international capital flows. Both countries discouraged foreign direct investment. Again, there are important differences in their strategies—Taipei, China encouraged small and medium enterprise development, while Korea relied on a small number of large conglomerates to meet its export goals.

Indonesia, Malaysia, and Thailand are larger countries with abundant natural resources and a smaller human capital base. As with Korea and Taipei, China, agriculture has played a critical role in reducing poverty and contributing to aggregate economic growth. These countries adopted much more protectionist industrial policies than the Four Tigers, with more extensive and longer lasting import substitution policies. Many sectors have remained under the control of state enterprises or heavily protected from competition for long periods of time, even when they have performed poorly. Nevertheless, each of these countries established mechanisms through which exporters could avoid the high costs associated with protection and become competitive on international markets. Once again, there are important differences: Malaysia welcomed foreign direct investment more than the other two countries, and concentrated more on exports of consumer electronics rather than textiles and apparel.

China's path to development has differed dramatically from other developing countries. The period of total state control and near autarky prior to 1978 was followed by a dramatic decollectivization of agriculture and gradual privatization and opening of the economy. The majority of the population continues to live in rural areas and depends on agricultural production. The government maintains a heavy hand in the economy through extensive state ownership of enterprises and widespread price and quantity controls. Nevertheless, the government has actively encouraged the development of privately owned export oriented firms by establishing facilities to allow exporters to avoid the most serious price distortions in the economy. Foreign direct investment, once completely banned, is now encouraged along the coastal areas.

These differences suggest that the road to sustained growth and development has differed in important ways across the region, with each country facing different obstacles, complications, and opportunities. Yet, despite these differences, there are several striking similarities in each country's economic strategy. This analysis of controlled averages in this section, combined with the earlier cross country growth regressions point to four key areas that are associated with rapid growth across all countries, and in which East and Southeast Asia differed from other countries:

- openness and manufactured exports;
- higher savings and investment;
- strong macroeconomic management, especially government fiscal policy; and
- education.

In our view, these common elements are the key to understanding rapid growth in East and Southeast Asia, and slower growth elsewhere in the region.