

# 1 Introduction

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This volume, in honour of a great development economist and esteemed friend and colleague, Prema-Chandra Athukorala (hereafter “Chandra”), examines two of the most important, interrelated phenomena of the twenty-first century: the rise of the Asian economies and the inexorable process of global economic integration. In this chapter, we first provide an introduction to the key issues examined in the chapters that follow. Next, we provide a sketch of the life and times of Chandra, and his intellectual contributions, including especially his contributions to the issues examined in this book. Finally, we summarize and integrate the diverse and illuminating contributions to the volume.

## 1 AN OVERVIEW OF THE ISSUES

Virtually every dimension of globalization is increasing – the flow of goods, services, and capital across borders; the movement of people; and the dissemination of technologies, ideas, and cultures. Increasingly, porous borders and rapid technological change have popularized the notion of the “death of distance” (Cairncross 1997). The rise of Asia, as the most dynamic region in the global economy over the past half century, is central to this process. Most of the exceptionally high-growth economies over this period have been located in Asia, principally East Asia (Commission on Growth and Development 2008). The outcomes have been transformative, for people’s lives, for regional and global architecture, and for the intellectual foundations of development theories.

Both theory and empirics clearly demonstrate that, on balance, globalization is a force for good, especially for the countries that

open up to the global economy, but also for consumers in export destinations enjoying the resultant increased welfare. The standard “triangles” analysis in static trade theory indicates that countries benefit from specializing in the production of goods and services in which they have a comparative advantage. The dynamic advantages of a more open economy are arguably more important still, through opening up to technology flows, the power of demonstration effects, the discipline of import competition, and much else. Empirically also there is a great deal of research concluding that, *ceteris paribus*, more outward-oriented economies do grow faster in the long run (Bhagwati 2007).

But much lurks in the *ceteris paribus* clause. As China’s most important economic reformer, Deng Xiaoping, noted in the early 1980s, “if you open the window for fresh air, you have to expect some flies to blow in”. Globalization therefore has its “discontents”, in the words of the most famous volume on the subject (Stiglitz 2002), by an author who, while popular among the critics of globalization, is fundamentally sympathetic to it. First, at the most basic level, it represents an infringement on national sovereignty: foreigners may sell products into the market, own assets, visit and possibly settle in the country. Second, connecting to the global economy is advantageous when it is expanding and accommodating. When international markets contract, however, the more outward-oriented economies are the most affected. (Nevertheless, these economies also rebound more quickly when global economic activity rebounds.) This was clearly evident during the trade recession caused by the 2008–9 global financial crisis and its aftermath. Related, global integration introduces the possibility of greater economic volatility, especially through commodity price fluctuations, short-term capital movements, and faddish tourists. Several Asian economies felt the full force of global capital volatility during the Asian financial crisis of 1997–98. Third, globalization is potentially unequalizing. Although there is no clear evidence on the relationship between economic openness and inequality, the firms, workers, investors, and regions best able to take advantage of international commercial opportunities are likely to benefit the most.

In other words, globalization has to be managed for society’s benefit, and “made to work”, to quote another Stiglitz (2006) contribution to the debate (see also Rodrik 2011). Institutions need to be created to manage the macroeconomic volatility that openness may introduce. Social protection schemes need to be introduced to protect the poor, for whom sudden adverse changes in labour markets or food prices may have devastating consequences. Education systems need to ensure that all members of the community are equipped with the scientific tools to participate in a modern, integrated economy. Infrastructure needs to

be provided so that the commercial opportunities are spread beyond the airports, ports, and other nodal connections to the global economy. Tax and regulatory regimes need to be attuned to an economy with large trade and investment flows. Technical and legal skills need to be developed to ensure that the country can maximize the opportunities created by international and regional development institutions, and to shape the architecture and governance underpinning them.

It needs to be emphasized that globalization should not be equated with a purely *laissez-faire* approach to economic policymaking. All governments are reluctant to relinquish the authority to determine who enters their country. Capital flows need to be at least monitored, consistent with monetary policy objectives. There is also a persuasive literature arguing for the merits of restricting short-term capital flows. Many of the most successful East Asian economies, of course, have intervened extensively in trade and investment policy.

Globalization issues are nowhere more vividly illustrated than in the rise of Asia over the past half century. Asia's share of global output and trade has risen dramatically since the 1960s, and consequently the world's economic centre of gravity is shifting from the northern Atlantic to the Asia Pacific.<sup>1</sup> Japan was the initial impetus for this transformation, followed by the four Asian newly industrialized economies (NIEs), then several Southeast Asian countries, China from the late 1970s, and more recently South Asia (Perkins 2013). In all the successful cases of rapid growth, international orientation combined with domestic reforms, was the common feature. Asia's rapid, export-oriented growth was greatly facilitated by an increasingly liberal global trading regime, presided over by the rules-based World Trade Organization (and its predecessor, the General Agreement on Tariffs and Trade or GATT), that was in turn largely ordained by the pre-eminent post-war global superpower, the United States. Moreover, an important feature of Asia's economic rise has been that the region has largely eschewed the sort of preferential trading arrangements (PTAs) that are a feature of both Europe and the Americas. Although PTAs have become increasingly popular this century, the major domestic reforms have always been unilateral in nature. The rise of global production networks is likely to ensure that this will continue to be the case, at least for trade in manufactures.

While the case for global economic integration has been powerfully demonstrated both in theory and in practice, much remains either unresolved or contentious. This ongoing agenda, in turn, provides the rationale for this volume. First, there is no one "Asian model of development". As several chapters in this volume illustrate, there are many roads to global integration, from the "big-bang" to

the gradualist, and from the early movers to the latecomers, with important associated issues of the appropriate sequencing of reform, and whether PTAs are a useful, albeit second-best, trade policy option. Second, successful reform is a far more complex process than simply removing the barriers to international commerce. Several formerly high-growth economies have slowed significantly in recent years, by more than would be expected as they approach the global frontiers of per capita income. Japan is the most prominent of such cases, alongside a growing literature on the phenomenon of the so-called middle-income trap. Several chapters in the volume address these issues.

Third, the development trajectories of particular countries, of the type analysed in this volume, illuminate both the processes and impacts of globalization, emphasizing that it is rarely a linear process of successive rounds of reform. The ebb and flow of political economy factors — for example, whether reformers are in the political ascendancy — has a major bearing on outcomes. Fourth, as several chapters illustrate, the economic and political calculus of globalization impacts varies according to the various forms of cross-border interactions and at different stages of development. For labour-surplus developing economies, access to rich-country labour markets is just as important as access to their markets, if not more so. Early stage reformers with weak institutions and little experience of global economic engagement face a different set of challenges as compared to those of mature reformers. Finally, the effects of global economic integration vary greatly across and within countries, a theme that resonates in several of the chapters. These effects are evident in the distribution of income, in the labour market, and across regions, particularly those remote from the major centres of commerce. We return to these issues in the final section of this chapter.

## **2 THE LIFE AND TIMES OF PREMA-CHANDRA ATHUKORALA**

### **2.1 Growing Up in Sri Lanka**

Chandra was born on 7 October 1951, in Imbulpitiya, a small village in Sri Lanka. It was and still is a place of scenic beauty with streams and waterfalls, lush green rice fields, and rubber and tea plantations, located in the foothills of the central mountain range. He came from a typical farming family that cultivated rice and vegetables for home consumption and whose small rubber holding provided enough cash income to purchase the necessities. The village was located well away

from the hustle and bustle of towns and urban centres. It was to be many years before the construction of a modern road allowed villagers to commute to the nearest town without walking several kilometres to get to a motorable road. During Chandra's childhood, it was a place where the pace and rhythms of daily life followed the agricultural seasons and had not altered much over the millennia.

This was a near idyllic setting for a young, active boy to grow up in. Chandra was a happy and "normal" child. He went to the nearest village school (Imbulpitiya Vidyalaya), played with his schoolmates, and frolicked in the steams and rice paddies. Occasionally, he got into mischief and trouble, as when he and his friends once decided that the new buds in his father's plant nursery were ideally suited to catapult target practice.

If Chandra had been born a decade earlier, despite showing early signs of being unusually academically gifted, he would most probably have quit studying after completing primary school and gone on to follow the occupation of generations of his ancestors and become a farmer. There is little doubt that he would have done so very successfully. Chandra was born with the gift of "green fingers" – he loves working the land, and even now his favourite form of relaxation is to potter around his always beautifully maintained backyard vegetable patch.

But fortunately for the development economics profession, Chandra did not stop his schooling after primary education. He left the village to pursue further education, first to a selective government school for academically high performing students in the region for his secondary schooling, and then on to the University of Ceylon (Peradeniya Campus) in 1969.

This journey out of the village to pursue further education was made possible first, because Chandra's father recognized both his son's academic gifts and the value of higher education and, second, because of educational reforms in Sri Lanka that made higher education, hitherto the exclusive domain of the urban elites, much more widely accessible. Chandra's father's commitment to his son's higher education, and the government policies that enabled a rural child to access higher education were rooted in important social and political changes in Sri Lanka that profoundly affected both social attitudes and government policies.

Chandra's father belonged to a generation of rural youth who were radicalized during the anti-colonial independence movement and whose horizons had been widened by their exposure to radical left wing ideology and politics. During the late 1930s, the main leftist party in Sri Lanka, the Trotskyist Lanka Sama Samaja Party (LSSP), had established deep roots in his village and the leader of the LSSP,

Dr N.M. Perera, became and remained the local member for Parliament for decades. Chandra's father, who retained a lifelong respect for Dr Perera for his contribution to loosening the shackles of semi-feudal customs, social relations, and attitudes in the rural villages, was not prepared to confine his son to the narrow horizons and limited opportunities of the village. He wanted his son to step outside the confines of the traditional village and confront and embrace the challenges and opportunities of the wider world, and he was willing to sacrifice much for that.

But, however committed his father was to providing his son access to higher education, that dream could not have been achieved if not for Sri Lanka's universal free education system, one of the finest public policy interventions implemented in Sri Lanka during the last days of British colonial rule. This was the government commitment to provide universal free education right up to university, made during the 1940s and extended further in the immediate post-independence era. Higher education, until then confined almost exclusively to the urban elite, now became accessible to a much wider group, including students from less-privileged families and rural areas.<sup>2</sup>

As part of this education programme, the government set up a network of selective public schools — "Central Schools" — to provide higher quality secondary education for the academically high performing students selected and supported by government funded scholarships. It was to one of these, the Ruwanwella Rajasinghe Central College, that Chandra went to for his secondary education, having obtained a government scholarship. These schools, though lacking many of the facilities and amenities of Sri Lanka's elite schools, often attracted dedicated teachers motivated by the desire to assist gifted students from underprivileged backgrounds. They soon established excellent academic reputations, channelling thousands of gifted rural students into universities. To this day, Chandra recalls with gratitude the role played by his school and its teachers in facilitating his subsequent journey through academia. He retains enormous affection for his Central School and his teachers, and it was touching to see how Chandra treated one of his old teachers who visited Canberra recently.

But for his father's commitment and support, his career path would most likely have been that of a government bureaucrat. A position in the public service — open to those who completed the General Certificate of Education (GCE) Ordinary Level (O-Level)<sup>3</sup> — was seen as the pinnacle of achievement by most students (and their parents) from the villages. Chandra, too, would almost certainly have gone on to take a position as a junior public servant after completing

his GCE O-Levels but his father was adamant that Chandra forego the enticing prospect of a “public service job with a good salary and an assured pension at retirement” to pursue the risky goal of a university education. By the late 1960s, gaining entry into a university was already a tight and competitive race in Sri Lanka.

But, unsurprisingly, Chandra had no trouble entering the University of Ceylon (Peradeniya Campus) in 1969 where, again supported by a government scholarship, he enrolled in a Bachelor of Commerce (BCom) degree. A BCom degree was considered then as offering a better career path than the “traditional” humanities subjects, including economics. While his high school had provided him with an excellent education, and the medium of instruction in his degree was Sinhalese (his native language), he soon found that his lack of English language proficiency was a serious barrier to accessing the relevant academic literature. Most students considered this a near insurmountable barrier and one not worth pursuing because it was perfectly possible to pass the examinations by studying only the limited material that was available in Sinhalese. But for Chandra, with his enormous intellectual curiosity and intense interest in reading, that was not an option. With his characteristic determination and dedication, Chandra addressed the English language deficiency with great success through intensive self-study, though there was little scope for practising and mastering spoken English.

Despite his dedication to his studies, Chandra was by no means a bookworm. The period of his undergraduate studies was one of intense political activity in the universities, and Chandra was neither insensitive nor immune to the wider social and political concerns of the undergraduates – many of whom had rural origins – that energized the intellectual life of the university. Two decades after independence from British colonial rule, the early optimism that independence would usher in a period of rapid and equitable economic growth, rising living standards, and a vibrant democracy, had faded. It had given way to disillusionment with the slow pace of economic growth, rising youth unemployment, and the political elite (including the traditional left parties) seen as failing to deliver on the lofty goals of independence. The unprecedented youth radicalization that occurred on a global scale during the 1960s, inspired by the Cuban Revolution, by protests against the Vietnam War, and by the Sino-Soviet conflict, reverberated strongly among the Sri Lankan youth, particularly among the university students. Every radical political tendency that emerged in the international arena found adherents in Sri Lanka. Polemics, debates, and sometimes physical conflicts among the various radical groups were common.

The largest of these was the radical and nationalistic Janatha Vimukthi Peramuna (JVP – People’s Liberation Front), which was recruiting students, particularly those from rural backgrounds, to undertake an armed insurrection. They did organize one such event in April 1971 resulting in the death and incarceration of tens of thousands of youths, including thousands of undergraduates. Chandra was initially attracted by the ideals of social justice and equality espoused by the JVP. Fortunately, the attraction was short-lived. By inclination and temperament, Chandra was, then as now, interested less in political activism than in intellectual debates and theoretical discussions.

## **2.2 Moving to Australia**

When he completed his BCom degree with First Class Honours in 1973 (obtaining high distinctions in every subject), he was offered a position as a junior lecturer at the University of Jayawardenepura, a newer university but one that was starting to make a name for itself in the professional study areas of business, accountancy, and management. However, university financial support for postgraduate education overseas was woefully inadequate and Chandra had to seek a foreign funded scholarship to undertake such studies. He was able to obtain a scholarship from La Trobe University in Melbourne, Australia to pursue a PhD in Accountancy. Arriving in Australia in 1976 to start his PhD, Chandra’s intellectual curiosity and interest could not be satisfied by the relatively narrow scope of research on a topic in accountancy. He had already observed first-hand the severe economic hardships that Sri Lanka experienced following the 1973–74 oil price shock and global recession, and the debates surrounding the government policy responses. The policy responses took the Sri Lankan economy from one with protectionism and some state intervention to a point where state intervention was pervasive and universal, essential goods (food, infant milk, clothing, etc.) became subject to severe rationing resulting in long queues and black markets, and the Sri Lankan trade regime had become one of the most restrictive in the non-communist world. These developments naturally stimulated Chandra’s academic interest in the wider issues of trade policy and economic development. But the circumscribed horizons of research in accountancy could not accommodate his striving to understand these issues and the related policy challenges. He sought and, very fortunately, was granted permission to undertake a research based PhD in Economics. It is to be noted here that Chandra had only minimal economics training as part of his BCom degree, and La Trobe, following the traditional U.K. type PhD format, offered no postgraduate coursework preparation.



### 2.3 Chandra as “Mahaguru”

Chandra is fondly known amongst his colleagues as “Mahaguru”. Based on the ancient Sanskrit language, *maha* literally translates as “great”, and *guru* as “teacher”. Today it is often used in Indonesia and Malay, for instance, as a noun to mean exactly that. Chandra is indeed a great teacher in many ways.

As a junior lecturer at Peradeniya University and then La Trobe University, Chandra’s courses were always highly sought after by students; one had to rush to sign up for them as they filled rapidly. His former students provide many reasons for this. Perhaps the most compelling is his ability to communicate complex ideas in a simple and accessible manner, an ability that requires a profound level of understanding of the subject matter. There was also a sense of genuine interest in the material being taught, and a level of enthusiasm that was sometimes animated but always engaging, which came through in the delivery of his lectures. It is clear that Chandra likes teaching, and his teaching is liked because of it. An objective and independently verifiable indicator of this interest can be found when teaching is not a requirement of contractual employment. Despite belonging to a research school at the Australian National University (ANU), and during that utopian era when teaching was optional rather than obligatory, Chandra would always exercise the option and teach at least one course. His long-running ANU graduate development economics course is widely regarded as the leading course in this field in Australia, and one of the leaders in the world.

Chandra is widely reputed to be somewhat disorganized when it comes to personal matters; just watch him trying to locate his passport at the airport, or driving a motorized vehicle. And yet, he has always been incredibly organized when it came to delivering his lectures. Reading lists that accompany tutorial lessons always contain a properly balanced mix of seminal contributions and recent innovations, featuring both theory and empirics. The same order and organization of thought is evident in his insightful interventions during question time at seminars and conferences. Often such interventions set the tone for the remainder of the questions during the open forum of the session, and even throughout the conference on occasion.

There is also the unintended quirkiness that punctuates his lectures that enables everyone to take an unannounced and well-earned breather from the intensity of the discourse. An example illustrates the point. On many an occasion, Chandra would forget and struggle to recall the name of an economist whose theories he was explaining. Anyone who knows Chandra would also know how stubborn he can

be in trying to overcome an apparently insurmountable challenge, such as a fading short-term memory. And so he would end up saying, “This theorem is due to a famous economist, very famous economist... [so famous that] I cannot remember his name, I’m sorry”. He would say this more than once, buying time in the hope that something would click, never realizing the irony of not being able to recall the name of an economist more elusive than famous.

A *Mahaguru* needs to be more than a good communicator, and Chandra is a *super* supervisor. At last count (end 2015), and this total continues to grow at a brisk rate, he had supervised or co-supervised thirty-four students who had graduated with their doctoral degree. Seven of them — S. Hill, Jongwanich, Kohpaiboon, Menon, Posso, Ratnayaka, and Yamashita — are contributors to this volume. At one point, he was supervising no less than eleven PhD students concurrently, a situation that may have led less dedicated gurus to exercise an early retirement option or, at the very least, a temporary escape provided by a prolonged sabbatical. But certainly not Chandra. And like a lot of official statistics — an area to which we will soon return, as it also occupied a lot of his attention — these aggregates are misleading indicators of what is being measured. This is because there are many more researchers who have benefitted from his generosity, but have not been formally recognized as his students. The list is too long, and too difficult to establish with accuracy, to present here, but it is extensive.

His dedication to his students is unparalleled. Each and every one will attest to the fact that Chandra would have read their drafts in its entirety several times, providing detailed comments each time, and often even rewriting or rephrasing large chunks of the material. And the assistance he is willing to provide does not have an expiry date, extending beyond submission of the thesis, to graduation day and beyond. Chandra is always there, urging his students to turn chapters into papers, and submit them to refereed journals. And anyone who has co-authored an article with Chandra will know how hard it is to be able to try and contribute an equal share. Like the Road Runner, he is sometimes too difficult to keep up with, however hard you try. It is therefore fitting that his surname starts with “A”, as his contribution to joint work almost always warrants first authorship.

The final attribute of a true *Mahaguru* is to be a guru of sorts to one’s peers. Chandra is indeed *primus inter pares*, first among equals, in this respect. Almost everyone who has been associated with him professionally will probably be able to recall an occasion when they have sought his advice on what literature to look at, when trying to familiarize themselves with a new area of work within one of Chandra’s many areas of interest. Faced with the seemingly arduous

and labourious task of a relatively unguided literature search, many of us have succumbed to the temptation of dropping Chandra a short email, only to receive a long list of books and papers that should be consulted. There will never be an “app” for this, and in this respect, he is a much better friend than Google could ever be!

## 2.4 Chandra as a Researcher

It is sometimes said that “quantity has its own quality”, with the implication being that the two are strongly negatively correlated. Aldous Huxley, the famous biologist, once lamented how a beautiful hypothesis could be slain by an ugly fact. Chandra’s massive publication record is one such fact, although it is far from ugly. Chandra has authored or co-authored ten books, edited another five books, published sixty-three chapters in books, and authored or co-authored more than a hundred articles in refereed journals. Although the quantity is obvious, there are a number of indicators to suggest that this quantity has not been achieved by sacrificing quality. One such indicator, increasingly relied upon to judge quality, is the number of citations in the literature. The most reputed of these measures is the Social Science Citation Index (SSCI) and at last count, his works had thousands of citations. Indeed, his 2005 paper on product fragmentation trade in the then relatively new MIT Press journal, *Asian Economic Papers*, was one of less than a handful of papers that received so many citations that it helped the journal receive SSCI accreditation relatively early in its life.

It is difficult to find a label that would fully describe Chandra’s approach and expertise, but one such approximation might be “applied policy analyst”. The term analyst in this case implies the faithful use of an analytical framework to guide his applied work. Although Chandra has never been interested in theory purely for the sake of theory, he has always used it to guide and discipline thinking and help develop frameworks that provide empirically testable hypotheses. And the topics to which Chandra has turned his attention have been the pressing issues that have occupied policymakers, particularly in developing countries.

As an applied researcher, Chandra has always been aware of the need to avoid the “garbage in, garbage out” problem by paying careful attention to the data that are employed. Understanding the data and its limitations are critical for empirical work of value. The investment in this process is demanding in terms of time, and the payoff is sometimes less than tangible because it reflects more in quality than in quantity. Even in his early work on the determinants of trade

flows, Chandra was always careful in using the most reliable data in the measurement of prices and quantities. A related aspect of this approach to his empirical work is minimizing aggregation biases by focusing on units of analysis that are well defined and that contain the right level of detail, neither too fine nor too broad. This is probably more art than science, and so there is no manual that can substitute for years of careful study and experience.

Apart from ensuring the quality of the quantitative data, Chandra has consistently been of the view that qualitative information can complement what is missing from the statistics, the so-called “unobservables”. Starting with his work on special economic zones in various developing countries in Asia, to his more recent work on product fragmentation trade, Chandra has always placed a premium on the value of fieldwork, particularly when it comes to face-to-face interviews with informed participants and other stakeholders. Given his reputation in the field of product fragmentation trade in particular, Chandra has been successful in securing interviews with top executives, including Chief Executive Officers (CEOs), of some of the largest multinational firms in the world, particularly in the electronics sector. Although he is familiar with modern econometric techniques, Chandra is clearly aware that at times, it is easier and better simply to ask the right person a direct question than mess with numerous versions of a gravity equation.

And when he has not been able to meet such people, he has always done the second best thing, which is to consult their writings, particularly their memoirs or autobiographies. Because Chandra has a habit of repeating a good story (who doesn’t?), many of us will never be able to forget how the “Walkman” came to be invented. Since Akio Morita, the founder of the Sony Corporation, enjoyed classical music while his daughter was interested in more modern tunes, the Walkman was born in order to allow them both to enjoy their respective tunes without impingement. Why is this story important? Perhaps it is because it is sometimes from the simplicity of things that remarkable breakthroughs can happen; in this case sparking a technological revolution – that would later give us the iPod and then embed itself in the iPhone – forever changing the size and portability of audio and listening devices. Another favourite CEO biography from which Chandra loves to quote from is that about the founder of Apple, the late Steve Jobs (Isaacson 2011).

This interest was not confined to CEOs alone, of course. Chandra was a great admirer of the economic transformation in the so-called NIEs of Hong Kong, South Korea, Singapore, and Taiwan, growing rapidly as they did to transform themselves from poor agrarian societies to thriving manufacturing dynamos, in less than a generation.

And he thought that the late Lee Kuan Yew, as the first Prime Minister of Singapore, together with his key economics lieutenant, the late Goh Keng Swee, exemplified sensible, pragmatic policymaking that was required for a small, open economy. He would often recite from Lee's memoirs, as if they were almost his own. A favourite anecdote, for instance, was how a delegation from Sri Lanka returned from Singapore to set up a special economic zone, whose area exactly matched that of the small island state they had visited, expecting that this might help replicate its success. There are a number of theories about how size may matter but this is likely to be more fictitious than most! It is quite likely that Chandra is more familiar with Lee's autobiography than most Singaporeans might be, and given how Lee is revered at home, this is indeed saying something. In fact, it is also quite likely that Chandra is more familiar with more autobiographies of CEOs and prime ministers (especially from the more successful economies) than most other economists. Maybe we should all learn something from this.

On many an occasion, Chandra would explain how it was only through such interviews, or by weaving together the many ideas contained in voluminous memoirs, that the intricacies of business operations or decision-making processes have become clear to him. But the art that he has mastered is to mix the qualitative information with the quantitative estimates, to be able to present a more informed analysis of relationships, impacts, and outcomes. His familiarity with data and classification systems has also facilitated an important contribution to the measurement of trade flows itself, relating to product fragmentation trade. This knowledge of detail was employed to separate "part and components" and "assembly activities" from individual six-digit Harmonized System (HS) classifications in order to separate trade in final goods from the rest. Chandra's calculations soon became the benchmark for measuring changes in the volume, pattern, and composition of this type of trade in Asia.

Chandra has a very wide range of interests when it comes to economics. Indeed, his interests are so varied that it is perhaps safest to consult his CV in order to determine what he feels are the main areas of his research focus. He identifies two broad areas, namely Development Macroeconomics and Trade and Development. The main themes that he has worked on within development macroeconomics, as he himself describes them, include: international capital mobility and capital account opening; international financial crises; political economy of macroeconomic policy; structural adjustment and stabilization reforms; savings, investment and growth; and exchange rates and international adjustment processes. But Chandra is

arguably best known for his contributions to his second area of research interest: trade and development. The main themes in this field include, but are not limited to: the political economy of trade policy reforms; economic liberalization and industrial adjustment; multinational enterprises and international production; patterns and determinants of trade flows; and International labour migration. Chandra has not only published a handful or more papers in each of these thematic areas, a number of them have had a major impact on thinking in the respective fields.

Chandra's work on Sri Lanka, which began with his very first forages into researching economic issues, covers a number of these interrelated themes. His earliest work focused on the challenge of liberalizing the trade regime and retaining an outward-looking, open economy despite domestic disturbances and international shocks. He also worked on issues relating to macroeconomic stability, industrialization, and productivity. Most recently, as Sri Lanka emerged from a destructive and debilitating war, his attention has turned to political economy issues, to ensure that the peace dividend is not squandered through failed governance. These contributions over several decades place Chandra in a highly select group of scholars of the Sri Lankan economy, and he stands out as a star among stars. Running through his writings on Sri Lanka is the urgency of economic and political reform, tinged with sadness that his country of birth has not performed up to its early promise.

Another country that attracted his attention early in his career, and on which he has written a book, several book chapters, and numerous scholarly articles, is Malaysia. The choice of Malaysia as a country to work on was not coincidental. Chandra saw many similarities in the challenges that Malaysia and Sri Lanka faced. These included sharing a common colonial heritage and its many ramifications, such as having to diversify the economy away from too heavy a reliance on commodity-based exports, to having to manage ethnic diversity in a plural society. As with Sri Lanka, Chandra's research work on Malaysia covered a remarkably wide range of issues. His work analysing Malaysia's unorthodox approach to dealing with the Asian financial crisis is widely cited and indeed celebrated. Malaysia rejected the International Monetary Fund (IMF) policy package and decided to go-it-alone, pegging its exchange rate and using capital controls to reflate the economy in traditional Keynesian fashion, resulting in a successful and rapid recovery, and subsequently leading to the IMF itself changing its position on the efficacy of capital controls. Another widely recognized contribution is his work on Penang as an electronics hub in the regional supply chain. Here, too, he has delved

into history and politics, including some interviews with the early local policymakers. He has also made seminal contributions to other aspects of Malaysian economic development. These include macroeconomic response and adjustment to several crisis episodes, the role of foreign direct investment in structural transformation, the complementary role that trade policy needs to play in development, labour issues such as migration and wage determination, and the role of agricultural incentives.

In recent years, he has ventured into entirely new areas of research. As an illustration of his versatility – not just as an economist but as a development practitioner genuinely concerned about improving welfare and well-being particularly in poor countries – in 2015, he co-authored (with a former PhD student) an article in the highly regarded *PLOS One*, “Antimicrobial Resistance: The Major Contribution of Poor Governance and Corruption to this Growing Problem”. He has also commenced research on Australian innovation and industrial policy, and how the country may effectively connect to global production networks.

### 3 THIS VOLUME

Following this introductory chapter, the volume is divided into two main sections related to globalization, the first on a rich variety of special topics, the second focused on a range of illuminating and diverse country case studies.

Part 1 leads off with two of the world’s leading trade modellers, Peter B. Dixon and Maureen T. Rimmer. In Chapter 2, they employ a Computable General Equilibrium (CGE) decomposition approach to model the effects of trade reform with reference to the North American Free Trade Agreement (NAFTA) and its effects on the U.S. economy. Over the period 1992–98, they decompose these effects attributable to NAFTA and to non-NAFTA factors. At the macro level, they conclude that NAFTA made a minor but useful contribution to aggregate U.S. economic welfare, accounting for 0.4 percentage points of the observed 24.2 per cent increase in private and public consumption. In present day terms, this is an annual welfare gain of US\$50 billion. U.S. trade with Mexico and Canada grew rapidly over the period. While the growth in United States–Canada trade was predominantly due to non-NAFTA factors, the authors argue that for Mexico, NAFTA was important, contributing a 144 per cent (out of the 240 per cent) increase in U.S. imports from Mexico and a 28 per cent (out of 78 per cent) increase in U.S.

exports to Mexico. They also maintain that NAFTA did not noticeably contribute to the U.S. structural adjustment problems from 1992 to 1998.

In Chapter 3, Ross Garnaut investigates what he terms the “eclipse” of economic analysis in policymaking in Australia. Starting with the premise that economics is “most useful and most valuable” when, guided by public interest considerations, it addresses major policy issues, he argues that economic analysis was central to that country’s successful reforms commencing in 1983; that, in turn, resulted in its exceptional economic performance over the following two decades. The paper is richly illustrated with reference to trade liberalization and climate change policy. These issues are technically complex and politically controversial. Garnaut was also a central player in both, through direct policy advice and through extensive research and public education. Reformers won many of the battles over trade policy, although political/bureaucratic rent-seeking has recently resurfaced, mainly through the institution of preferential trading arrangements. However, governments of all political persuasions have found it much more difficult to adopt a coherent climate change agenda. More generally, Garnaut notes with disappointment that the vigorous reforms of the 1980s and 1990s have not become institutionally embedded in the country’s political economy, as illustrated by the waning enthusiasm for reform over the past decade. He attributes this diminished enthusiasm to several factors: complacency bred by the very success of the earlier reforms, the historically large resource boom in the first decade of the twenty-first century, and the constellations of political leadership with less commitment to reform.

The issues that Garnaut pose have much contemporary relevance in the Asia-Pacific region. The ascendancy of reformers has been on the wane over the past decade in a highly diverse set of countries – Australia, Indonesia, Malaysia, and Thailand readily come to mind – and this in no small measure explains these countries’ lower rates of economic growth as compared to the earlier periods.

James Riedel addresses the issue of Asian growth dynamics in Chapter 4. Many Asian developing countries are alleged to be stuck in a “middle-income trap”. He argues that, contrary to much popular discussion, the middle-income trap is associated with the slowing down of growth due to policy factors rather than being the natural and inevitable consequence of catching-up with high-income countries. He then poses the question, if the growth slowdown is due to policy, does it mean *ipso facto* that a country is “trapped”? The author asserts the answer is no, unless policymakers have a vested



interest in growth-inhibiting policies. Then the question becomes, why should that be a particular problem for middle-income countries?

Labour movements are a growing component of global economic integration. The remittances these workers generate, and their contribution to economic growth in the Asia-Pacific, are the subject of Chapter 5, by Juthathip Jongwanich and Archanun Kohpaiboon. The authors present two key findings. First, while investment and human capital are important channels through which remittances can have positive impacts on growth, the overall impact of remittances on the region's growth is only slightly positive. Second, however, remittances have a significant direct impact on poverty reduction. The authors argue that remittances can directly increase income and ease the capital constraints of the poor, thereby reducing poverty. More generally, the minimal impact of remittances on growth indicates that remittances should not be regarded as a key instrument in promoting a country's prosperity. However, the positive impacts of remittances on poverty reduction suggest that there is scope for governments in destination and origin countries to implement policies that sharpen the impact of remittances on the well-being of the poor.

The relationship between globalization and economic development is typically studied across countries. However, especially in spatially diverse countries, the impacts may have uneven subnational impacts. In Chapter 6, Budy Resosudarmo, Acram Latiph, Saran Santisart, and Isra Santisart examine development challenges in several of Southeast Asia's persistently lagging regions. This is a topic on which policymakers and academics still have, at best, a limited understanding. The authors seek to improve our knowledge of these complex issues by identifying successful national and regional policies, and understanding the channels through which these policies affect economic and human development in these lagging regions. They select as case studies three well-chosen regions: Papua in Indonesia, Mindanao in the Philippines, and Southern Thailand. These three regions have lagged national development for extended periods. They also share some common features that create seemingly insuperable development obstacles. These include isolation from the national development mainstream; the controversial circumstances surrounding their incorporation within the nation state; prolonged conflict; ethnic and/or religious minority status; resource abundance; a divided local leadership; and unsympathetic rule from the centre. The authors also examine and assess the effectiveness of various regional development policies, including local autonomy measures, fiscal transfers, and local empowerment initiatives.

Globalization entails a diverse set of trade flows, of which in East Asia the most important are those that occur within global production networks, typically under the umbrella of multinational enterprises. In Chapter 7, Nobuaki Yamashita investigates these flows with reference to the automotive industry in China and India. He points to the paradoxical coexistence of high tariff protection — which implies an anti-export bias according to the famous Lerner symmetry — and rapid export growth in some industries. A notable example is the export performance of the Thai automobile industry despite the high tariffs on automobile imports. Yamashita examines this emerging trend of the coexistence of export performance and high tariff protection in developing countries using a gravity model approach. He constructs a large dataset of exports by developing countries over the period 1990–2012, extracting the trade data from the United Nations Commodity Trade (UN Comtrade) system and the tariff data from the UN/World Bank WITS (World Integrated Trade Solution) database system. Each tariff line is matched with its Broad Economic Category (BEC) to meaningfully categorize products with “parts and components” and “final products”.

The Asia-Pacific region has been the exemplar of developing countries productively embracing globalization. However, no other region has been consistently successful in this regard. Alberto Posso in Chapter 8 addresses this comparative dimension with respect to Latin America. He poses the question, why did East Asia not experience “La Pesadilla Neoliberal”, a “neoliberal nightmare”, while Latin America apparently did. With the exception of Chile, the adoption of export-oriented strategies in Latin America has not led to rapid economic and employment growth. The resulting disenchantment with the so-called “Washington Consensus” has led to a leftward swing in the region’s politics, ranging from social democratic to radical left variants. Among the latter in particular, antiglobalization sentiments are powerful. However, Posso argues that the failures in Latin America have been the result of half-hearted and incomplete reforms, with respect to macroeconomic stabilization, trade liberalization, and labour market reform. Attempts to achieve more inclusive development policies have also floundered on populist rhetoric. His prognosis is a sobering one: Latin American development outcomes are likely to be disappointing, and the economic gap between East Asia and Latin America will therefore continue to widen.

Globalization is often blamed for widening income gaps. However, there may be country specific causes of income inequality that could be amenable to policy interventions. Whether escalating housing

prices contribute to widening the income gap is a question studied in Chapter 9 by Tilak Abeysinghe and Wong Yan Hao with reference to Singapore. Housing price escalations involve a substantial income redistribution away from homebuyers for owner occupation to property developers, rental property owners, and financiers. This effect is largely reflected in non-labour earnings. With reference to the existing household labour income in Singapore, the authors find a statistically significant small effect of rising private property prices on income inequality, the latter measured by the percentile ratio P90/P10. Unexpectedly, the most robust variable that explains this income ratio turns out to be the share of resident graduates in total employment. This variable shows an inverted U effect on income inequality. A similar inverted U effect is found with a productivity ratio variable that was used to measure the effect of globalization.

Extending analysis of the link between globalization and inequality, in Chapter 10, Ravi Ratnayake probes the role of trade as a potential catalyst for reducing both poverty and inequality. Rising inequalities in wealth and income, alongside other measures of exclusion, have been observed in both advanced and developing economies in recent decades. The author reviews trends in growth and inequality in the Asia-Pacific region before setting out a framework for linking changes in trade to inclusiveness. He then presents cross-country analysis linking inclusivity across four dimensions – aggregate employment, productivity, poverty and income equality, and gender equality – to international openness through trade and investment. He argues that an expansion of trade and investment does not necessarily produce more inclusive development. Rather, a range of complementary policies needs to be deployed alongside a managed opening of national economies. Effective complementary policies likely to raise the inclusivity of growth include increasing labour market flexibility, raising aggregate investment, lifting expenditures on information and communications technologies, and improving access to education.

In Chapter 11, Jayant Menon extends the analysis of trade policy issues, focusing on whether, if at all, regional trade agreements can play a role in facilitating the preservation of a liberal global commercial policy order. He examines what is arguably the most widely publicized trade agreement of the twenty-first century, the Trans-Pacific Partnership (TPP). Menon argues that, notwithstanding the public fanfare, the TPP is “...a compromised agreement, where original objectives have been watered down”. Every country has secured special treatment of some sort in almost all of the thirty chapters. Developing countries in particular have secured long transition periods for many sensitive

reform areas. If the TPP is ratified and enforced, he argues, there is no doubt that it will have a substantial impact on both members and non-members. However, available estimates of its impact focus on a “best case” scenario that ignores the significant watering down of the agreement, and they therefore overstate the benefits in the short- to medium-term. In particular, the main benefits from the TPP come from addressing sensitive issues, such as SOE (state-owned enterprises) reform, liberalizing government procurement rules and the like, yet these are the areas where exemptions are most common. Moreover, he concludes, the TPP will be judged by its ability to attract other nations, especially China, India, and several other major Asian economies, under its umbrella. If they do not join, the TPP will likely result in significant trade and investment diversion, as well as fracturing regional production networks.

Part 2 switches the analysis to detailed Asian country case studies. In Chapter 12, Max Corden and Sisira Jayasuriya examine the factors underlying Japan’s sudden transition from several decades of remarkably rapid growth to its generally anaemic economic performance since around 1990. They pinpoint the lack of aggregate demand from the private sector, alongside major problems with monetary policy. As a result, Japan has followed Keynesian fiscal stimulus policies, involving big fiscal deficits *every year* throughout this period. The authors emphasize that the motive has been Keynesian – that is, a need for demand stimulus, to substitute for the lack of private sector demand. It has not just been caused by a lack of fiscal discipline. They also note that such a long period of Keynesian policy has been unique among developed countries. Focusing especially on the problems of monetary policy and the reasons for the lack of private sector aggregate demand, they also draw out some lessons for other countries, particularly in the period of prolonged sluggish growth since the 2008–9 global financial crisis.

Switching from one of the world’s richest countries to one of the poorest, in Chapter 13, Peter Warr examines the experience of Myanmar, the last country in Southeast Asia to open up to the world economy. Commencing in 1962 the country entered a prolonged period of self-imposed isolation under the “Burmese Road to Socialism”. As a latecomer opening up, it has both advantages and disadvantages: it can learn from the experience of neighbouring successful reformers, yet it has lost two generations of development progress. Warr notes also three specific challenges: managing the Dutch disease resulting from the country’s resource abundance, facilitating private sector growth in a formerly state-dominated economy,

and reforming a complex, non-transparent regulatory regime. Noting the significant macroeconomic and political reforms to date, Warr sets out a reform agenda focused on raising agricultural productivity, developing an export-oriented, labour-intensive manufacturing sector, and measures to attract increased foreign investment.

In Chapter 14, Kunal Sen and Deb Kusum Das examine another case of major economic policy reform, that of India since 1991. They focus, in particular, on the relationship between trade policy liberalization and industrialization. Since 1991, there has been a significant reduction in trade barriers in the Indian economy, with the almost complete removal of quotas and sharp cuts in tariff rates. The authors describe the evolution of key trade policy measures – effective rates of protection, import coverage ratios, and non-tariff barriers – in the post-reform period using a unique data set of disaggregated trade policy measures from the 1980s to 2010. The authors then examine the effects of the reduction in trade barriers on Indian industrialization, focusing on productivity, wage, and employment outcomes.

Continuing with significant cases of economic policy reform, Chapters 15 and 16 examine the experience of Sri Lanka, the first South Asian country to open up to the global economy. In Chapter 15, Sarath Rajapatirana investigates the continuities and the changes in the country's approach to globalization over more than half a century since 1960. Adopting a historical narrative approach, he concentrates on three facets of globalization – trade, foreign direct investment, and international labour movements. How the reforms proceeded is relatively well known, but the reasons why these policy switches took place are less well known. The author introduces two dimensions as drivers of change in addition to economic factors, namely politics and ideology, to understand why these policy switches took place. The principal influences he identifies are political leadership, ideology, endowments, institutions, and the politics with respect to war and peace. These changes are further analysed in the context of the continuities that underpin globalization in Sri Lanka. These include the preservation of democracy, a strong ideological commitment to the poor, the large size of the public sector, and constant change from one government to another through the electoral process.

In Chapter 16, Saman Kelegama focuses on the more recent period of Sri Lankan economic policymaking, the nearly decade-long Rajapaksa presidency, 2005–14, which he characterizes as one of “policy contradictions and mal-governance”. The author observes that the period was dominated by the civil war victory over the

Tamil separatists, a resulting “peace dividend”, Chinese loans driving a massive infrastructure development programme, and the global economic crisis. Sri Lanka achieved reasonably high growth rates, with the country’s per capita income increasing (in nominal terms) from US\$1,200 in 2005 to US\$3,800 in 2014. This was in spite of some reversal of liberalization policies and the country facing a degree of international isolation over human rights issues related to the separatist war. Kelegama argues that the political ideology of the Rajapaksa government was based on a populist centre-left framework. However, the economic policies avoided costly structural adjustment policies and were based on debt-financed consumption and investment-led growth with the state at the commanding heights. For most of the period, the regime enjoyed benign global conditions, including the rise of Asia, in particular China; quantitative easing in the global North; and changing conditionalities of financial assistance by international financial institutions. These sustained the populist policies and enabled growth rates in excess of 7 per cent to be achieved, even though the earlier export-led industrialization waned. Nevertheless, this “crony capitalist”, authoritarian regime also resulted in a breakdown of law, poor governance, and rapid spread of corruption. Eventually, social media was a contributing factor in the political defeat of the regime in early 2015.

The last two chapters examine various aspects of the long sweep of Indonesian economic development. In Chapter 17, Chris Manning and Raden Muhamad Purnagunawan pose the questions, has Indonesia passed the “Lewis turning point” and does it matter? The turning point in economic development was a key idea developed in the wake of the Northeast Asian economic miracle, exemplified by Japan and later Taiwan and Korea. It has also been debated in discussions of China’s decades of remarkable growth. If indeed the concept can be applied to Indonesia, the authors maintain that all indicators suggest that Indonesia passed it in the early 1990s. However, the political and economic crisis in 1998 led to a reversion: modern sector job creation slowed dramatically for almost a decade, at a time when the labour force continued to grow quickly. The authors examine wage and employment growth during this period as compared to the experience during the Soeharto period. It is argued that around 2014, the supply of unskilled workers was still quite elastic, with close to 40 per cent of the workforce in low productivity agriculture and a large urban informal sector. Wage and employment trends confirm that Indonesia had probably slipped back to a more “classical” model of development after the crisis and the country has struggled to progress. Moreover, the authors question the relevance of the idea of the turning point in economic development being

applied to large fragmented economies like Indonesia. A sharp change in the shape of the labour supply curve is difficult to identify and different parts of the country can emit contrasting signals. The notion of a turning point in the highly integrated labour market on Java makes more sense, although the predominance of services as the main source of even unskilled wage jobs makes this assertion more challenging.

In Chapter 18, Hal Hill and Sam Hill investigate Indonesian economic development over the half century since 1965, drawing attention to both continuities and changes. Although the country was characterized as a “chronic economic dropout” according to a widely used development economics textbook in the 1960s, since the late 1960s it has grown rapidly. Most comparative assessments judge it to be among a small group of (mainly East Asian) economies to have achieved historically unprecedented growth rates. Over the past half century, Indonesia has also experienced a deep economic and political crisis, including a temporary growth collapse of about 20 percentage points, and a rapid transition from centralized, authoritarian rule to decentralized, democratic rule in 1997–99. Thus there are two main development episodes over this period – 1966–97 and 1999 to the present – with very different political and institutional arrangements between the two. The authors examine these two episodes, investigating in particular the continuities and differences, and asking whether the abrupt transition to democracy introduced a discontinuity in development outcomes. The analysis is undertaken with reference to a range of socio-economic indicators, including growth dynamics, economic resilience, macroeconomic policies, openness to the global economy, and distributional outcomes. These outcomes are then linked to the distinct political economy processes of the two periods. The authors’ conclusion, perhaps surprising, is that, comparing these two episodes, the continuities are more important than the differences.

## Notes

1. See Quah (2011) for some precise geographic estimates.
2. The story of how and why a colonial power came to initiate such a wide-ranging educational reform – one that was routinely denounced by international development agencies for decades as a wasteful “welfare” measure that a developing country could ill afford – has been the subject of a considerable academic literature. This was especially so following Sen (1983), who highlighted Sri Lanka’s educational achievements attributable to the “free education” programme.
3. This was equivalent to completion of School Year 10 in Australia.

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