

East Asia growth a work in progress

Regional economies must adapt development models to changing circumstances

By **SUDHIR SHETTY**
and **ANDREW D. MASON**

In the past half-century, East Asia has made extraordinary progress in sustaining economic growth and improving living standards. Some of the region's developing economies are now middle-income countries and have collectively grown more than threefold.

Some of the economies that moved up from low- to middle-income status in the past quarter-century can realistically aspire to high-income status in the space of the next generation.

The region's sustained growth means more than 1 billion of its people moved out of extreme poverty and, as a result, nearly two-thirds of developing East Asia's population can now be considered economically secure or middle-income earners.

Yet, developing East Asia's resurgence remains a work in progress. Changes in global and national circumstances mean the region's transition to high-income status will depend on how well the economies are able to adapt their development models to these changing circumstances.

A newly published World Bank

study, "A Resurgent East Asia," looks at the prospects for developing East Asia. Its central message is that the model that has worked so well so far, will not necessarily work the same way going forward.

East Asia's remarkable success has been built on a development model that combines outward-oriented growth, human capital development, and sound economic governance. While this model still has a lot to offer, the region's economies will need to adapt it to produce results in these changing circumstances.

Many factors — external and internal to the region — are increasing the urgency for such adaptation. Slowing global trade, rapidly changing technologies and the rising expectations of the people who are joining the middle-income group are among the main forces at work.

In turn, these changes imply challenges of slowing productivity growth, risks to inclusion and rising demands on state institutions.

Slowing global trade means the economies will need to look for other ways to spur productivity growth. Technological change, while it provides opportunities for productivity growth, could deepen existing inequalities among work-

ers, depending on the extent to which they have the requisite skills.

And, as East Asia has become more affluent and middle class, its political economy challenges, such as those of building broad coalitions for policy reforms, have become more complex, even as the people demand more and better public services.

So, how could developing East Asian economies adapt their development policies to sustain their transformations and make the transition to high income? While many of the answers will necessarily be economy specific, the combination of policy reforms will need to focus on promoting economic competitiveness, building skills, fostering inclusion, strengthening state institutions, and financing the transition to high income.

To boost competitiveness, the focus should now be more on service sector reforms, deeper trade agreements, broader innovation policies, and improved access to finance for small and medium-sized enterprises. Emerging priorities on skills include developing higher order cognitive and socio-emotional skills, supporting systems for continuous skills development, and enhancing people's

digital and technical capabilities.

To foster inclusion, strengthening employment services, linking unemployment benefit schemes to economic transitions, and improving access to digital technologies will all be important.

And strengthening state institutions will require more emphasis on mechanisms to solicit people's opinions and participation, greater government transparency and stronger systems of checks and balances. Besides, financing the transition to high-income status will require measures to expand the tax base and limit tax competition.

These emerging policy priorities will need to be complemented by foundational policies — reforms that the economies are already pursuing — that remain critical to sustaining development. In boosting competitiveness, for instance, this means continuing to emphasize regulatory reforms. And to develop skills, finding ways of improving learning outcomes in schools remains important.

Unless policymakers act decisively on these fronts, the risk is that the region's progress could stall. We cannot forget that the developing East Asian economies are still much less affluent and

productive than their high-income counterparts.

China's per capita income, for instance, is still only about a fifth of the average in high-income economies. When the Republic of Korea achieved high-income status in 2001, for instance, its labor productivity was two-and-a-half times higher and its human capital a third higher than those of China today.

In sum, the current challenges and uncertainties do not leave room for complacency in developing East Asia. In development, as in other things, past success does not guarantee future success.

Economies that are content to rest on their laurels, despite rapidly changing global, regional and national contexts, risk forgoing the opportunities for sustained progress and falling victim to new challenges. We hope policymakers across developing East Asia will consider the implications of the changing times and devise their economic development policies accordingly.

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US must ditch zero-sum mentality

China seeks a promising future for Africa, with rapid economic and social development

By **CHEN WEIHUA**

When US National Security Adviser John Bolton was laying out the new US strategy for Africa, which he announced on Dec 13, his primary concern was not about helping African countries with their economic and social development, but rather about countering China and Russia to advance the United States' selfish geopolitical goals.

Such a zero-sum mentality of a US politician came as no surprise. Former US secretaries of state Hillary Clinton and Rex Tillerson, and incumbent Vice-President Mike Pence have all labeled China's investment in, and trade with, Africa as "predatory" or "debt trap", or as tools of "neocolonialism".

Arthur Herman, a senior fellow at the Hudson Institute, has

endorsed Bolton's remarks. In a National Review article, titled "The Coming Scramble in Africa", Herman argues that China and Russia are ahead of the game to a degree, but the US has the advantage going forward.

Like Bolton, Herman is neither a China expert nor an Africa expert, and therefore sees everything China does as bad and a threat to the US.

However skilled these people may be in waging a smear campaign against China, facts speak louder than words. Deborah Brautigam, director of the China Africa Research Initiative at Johns Hopkins School of Advanced International Studies, is a leading authority in the field. And she gives China credit while pointing out its problems, unlike some pundits who only have a one-sided view: Everything China does is bad, and when bad things happen, it must

be China's fault.

Brautigam recently told The East African, a Kenyan newspaper, that successive US policymakers "have been spreading myths and rumors about what the Chinese are doing" in Africa, as during her four-year in-depth study on China, she found "no evidence at all" to support the US government's depiction of China as a stealthy "villain" intent on "sucking" Africa's blood.

Contrary to the US charge, she argued that China does not typically give loans at high interest rates to African countries that it knows have little chance of repaying their debt. Rather, China varies its lending rates in accordance with its assessment of the African countries' repayment capabilities.

She noted that the US and other Western governments have also invested and lent to African governments with egregious records of

repression and corruption. Warning against the Cold War mentality of US politicians, Brautigam said Donald Trump's administration lacks the means to implement the "Prosper Africa" plan which Bolton boasted.

Compared with the US, which has long treated Africa as a continent that needs handouts, China, thanks to its experience of four decades of reform and opening-up, sees a promising future for Africa in helping lift people out of poverty and supporting it to achieve rapid economic and social development.

That is why China surpassed the US in trade with Africa in 2009. In fact, China's trade with Africa shot up to \$170 billion in 2017, three times the US' trade volume. Chinese companies have been building infrastructure such as roads, bridges, ports and power grids because Beijing knows infra-

structure is essential to maintain as well as accelerate economic growth.

Bolton and some US pundits and media outlets have also alleged the People's Liberation Army's logistics support base in Djibouti poses a threat to the nearby US military base. This claim is an example of sheer paranoia and beyond logic given the US' military might and its 800-plus military bases across the world.

At a seminar in Madrid last month, Chinese and European experts and former officials pointed to the huge potential China and European countries would have if they joined hands in third markets such as Africa and Latin America.

That is the sort of healthy and win-win mentality people like Bolton badly need to cultivate.

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