Distance and Division in East Asia

When Admiral Zheng He brought a giraffe to Nanjing in 1415, it was believed to be a heavenly beast, associated with great peace and prosperity. It also marked the heyday of Chinese influence in East Asia and the region's wealth relative to the rest of the world. China at the time was probably the world's largest economy, enjoying the highest standard of material, living with flourishing art and education and advances in a range of technologies. Its naval skills had enabled voyages to places as far away as Africa.

China alone may have accounted for one-third of global manufacturing. This was not to last. A hundred years later, a new emperor destroyed Zheng He's navigation logs and slashed the navy to one-tenth its size, believing that the costs of foreign expeditions outweighed the benefits. China entered centuries of self-imposed isolation, broken in infamous and damaging fashion by the British during the Opium Wars of the nineteenth century.

East Asia's age of isolationism

China was not alone in trying to shut out the rest of the world. In Japan, Tokugawa Iemitsu issued the "Closed Country Edict of 1635" and the "Exclusion of the Portuguese, 1639," effectively shutting off Japan to external influences for the next two centuries. The edicts not only prevented foreign entry into Japan but also banned Japanese from going abroad. The dislike of all things Western extended to technology. In an extraordinary attempt to preserve its culture and social hierarchy, Japan gradually abolished the gun in favor of the more elegant and symbolic samurai sword.

These extreme examples show the vast *division* between countries in East Asia, especially after the seventeenth century. Scholars do not agree fully on the economic effects of such division. Some have argued that reductions in living standards were significant during the Qing and Tokugawa periods. Others believe that it is more apt to characterize these societies as having stagnant rather than declining economies. In any event, wage levels in Japan and China at the start of the nineteenth century were well below those in London or Amsterdam, even in real terms, perhaps by as much as 50 percent.[1] Adam Smith had already recognized this: "The difference between the money price of labour in China and Europe is still greater than that between the money price of subsistence; because the real recompence of labour is higher in Europe than in China."[2]

Smith was correct. Even before the Industrial Revolution, parts of Europe had advanced beyond Asia in their living standards. He was also right in writing about China as a unified economy. The mandarins of China kept exceptional records of wages paid to armorers and other craftsmen providing services to the government. These show little regional difference despite the vast *distances* within imperial China. Only the less dense, sparsely populated northern areas had somewhat higher wages.

By the middle of the nineteenth century, real wages in Canton and Tokyo, the most advanced cities in Asia, were only as high as in small European cities like Milan and Leipzig. Elsewhere in East Asia living standards were lower still. The old Chinese tributary states had been colonized, and Asian countries were further divided (see map G3.1). Shortly thereafter, most of Europe went through the Industrial Revolution, and the "great divide" between Europe and Asia widened, with widespread advances in European wages and gross domestic product (GDP). According to Angus Maddison (2006), East Asia's share of global GDP, constant at around 40 percent between 1500 and 1800, fell to less than 15 percent by 1950.

Fifty years of Asian integration

Fast forward to today. East Asian economies have become integrated through a dense array of regional production networks. These supply chains started with outsourcing by Japanese multinationals in the 1980s, as wages and land costs in the dense production area of Tokyo grew prohibitive for competitive manufacturing. In fact, economic congestion in Hong Kong, China; Japan; the Republic of Korea; and Taiwan, China, has resulted in spillovers—first to middle-income countries in Southeast Asia, and then to China, as the barriers of economic ideology were reduced. Recently, supply chains have centered on China and the great assembly operations in Guangdong and Shenzhen. As China has matured, it too has become an exporter of intermediates and capital equipment. China is now the main trading partner for Japan and the Republic of Korea and sources more than half its rapidly growing imports from East Asia.

Intraregional trade in East Asia today approximates that within the

Map G3.1 Asia divided: conflict in the middle of the nineteenth century

Source: www.fordham.edu/halsall.

European Union (EU), growing consistently faster than that between East Asia and other regions in the world. East Asian countries are the source for almost two-thirds of all foreign investment in the region. Even technology is starting to originate within the region, especially in key export industries such as electronics. East Asian countries are busily driving down divisions between each other in the form of trade barriers and other border costs. They started with world-class logistics in ports and airports—albeit sometimes restricted to special economic zones. And they have continued with improvements in soft infrastructure, such as customs reforms and visa exemptions within the Association of Southeast Asian Nations (ASEAN).

The falling *division* between countries in East Asia has coincided with rapid growth across a diverse spectrum ranging from Lao People's Democratic Republic with a per capita income of $500 in 2006 to Singapore with a per capita income of almost $30,000. Within East Asia, incomes are slowly converging: poor countries are growing faster than rich countries. Most East Asian countries have followed similar paths, starting with agricultural intensification and rural industrialization, followed by urban expansion and manufactured exports. There has been learning from abroad—of new technologies and of new institutions. Exports have become more technologically complex. Middle-income countries have specialized in component production, while rich Asian countries have added more value through innovation, branding, and greater technological sophistication.

As the region has grown, it has developed a dynamic that reinforces growth. ASEAN, China, Japan, and the Republic of Korea are an economic mass comparable to North America in the 1990s. As the center of gravity of the global economy shifts toward the Pacific Rim, global market access for everyone in East Asia has improved.

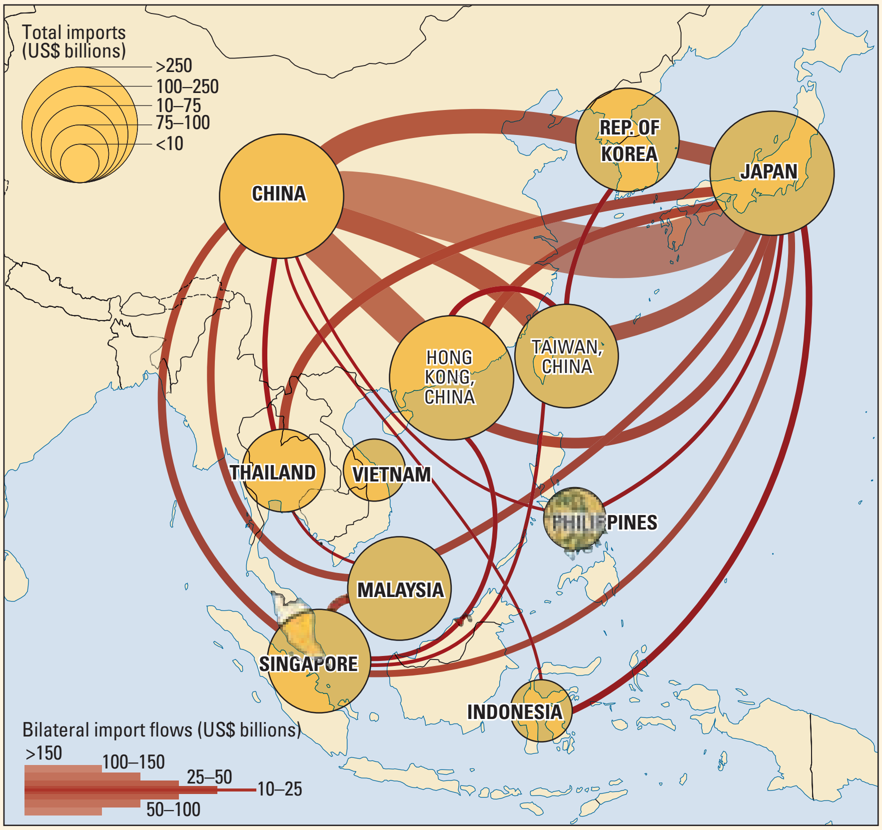
The degree of intraregional trade in East Asia may be considered surprising given the history of divisive political relationships between many East Asian countries. In the Western Hemisphere, the economic effects of conflict between countries were overcome by formal institutions of codified legal systems and political agreements that governed arm's-length commercial transactions and that could be readily expanded to accommodate rapid growth in commerce and finance. In East Asia these institutions have been slower to develop. Instead, a long history of social networks, communities, and informal institutions—with roots in the migrations over millennia of people from Southeastern China to Southeast Asia—provides the trust to support modern international integration of goods and money (see map G3.2).

The integration ahead—the twin challenges of distance and division

Peering into the future, the region faces challenges on its path of rapid integration.

The shift in *economic density* toward the north poses a special challenge for Southeast Asia. How can it remain

Map G3.2 Asia integrated: trade at the end of the twentieth century



Source: Gill and Kharas 2007.

significant as an economic force in the region? One answer perhaps lies in the development of world-class cities. The major metropolises of Southeast Asia need to develop themselves into "sticky places," attracting and retaining global talent. Meanwhile, the integration of Australia and India into the region might alter the dynamics of place, offsetting to some degree the northward drift of Asia's economic center of gravity.

The problems encountered by countries *distant* from the major markets of the region are echoed in lagging areas within countries. Significant poverty remains in East Asia, with high poverty rates in areas like western China, southern and eastern Philippines, Thailand's northeast, and Vietnam's central highlands. The gap between per capita incomes in the richest and poorest provinces of China—negligible under the imperial dynasties of the past—has swelled to 13.1:1 (compared with 2.1:1 in the United States). Although many have moved closer to prosperous areas, overcoming the geographic *distances* that isolate these populations is still seen as a major challenge.

Within East Asian countries, people are moving to the markets, and markets are developing where people are concentrated. Urbanization is large and rapid in most countries, perhaps adding 25 million city dwellers every year for the next two decades. Most of these people will move to small and medium-size cities of less than 1 million people, not to major metropolitan areas. Managing these small cities efficiently and integrating them into the national economies will be a crucial task for reducing *distance* and sustaining growth.

Meanwhile, East Asia still faces strategic questions about how to bring down *divisions* between countries in the region. ASEAN's two-speed process shows how hard it is for countries with different incomes and economic structures to integrate deeply. No formal process of economic integration brings together all the economies of the region. A first attempt to start a regional dialogue was at the East Asia Summit in Kuala Lumpur, Malaysia, in December 2005. The summit called for financial stability, energy security, poverty eradication, and narrowing gaps between countries. It underscored the challenges that still divide the region: cross-border migration, environmental spillovers, diversity of governance standards, and cultural understanding. Other interesting experiments to foster regional integration are under way, such as within ASEAN+3, but the institutional leadership to forge a common future is fragmented. Even so, leading scholars have noted that "the emergence of an integrated East Asia is inevitable and necessary."[3] The challenge is figuring out how to make this happen quickly.

Contributed by Homi Kharas.