Exploring the Historical Roots of Eastern Asia's Post War Catch-up: A Trade Perspective, 1906-1999

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1 Introduction

In the early 1950s the majority of Eastern Asian economies[1] were supposed to have a low growth potential due to the large surplus of labour as well as the scarce natural resource endowments (Myrdal 1968). The Latin American and African growth prospects appeared much better because of their resource abundance and favourable land-labour ratios. However, after an initial period of growth which lasted until the early 1970s, Latin American growth became highly volatile and at best mediocre. The majority of African countries even entered into a period of growth disaster (Maddison 2003). Meanwhile the Asian Tigers became internationally competitive technology and skill based economies. In the slipstream of Korea, Taiwan, Singapore and Hong Kong several South East Asian Newly Industrialising Economies (NIE's) such as Thailand, Malaysia and Indonesia started to catch up. More recently also China, Vietnam and India witnessed high rates of growth.

Conventional literature labels the strong growth performance of the Eastern Asian economies as a *growth miracle*. It is argued that the strong growth was caused by the combination of favourable trends in labour productivity and an increasing openness-to-trade in the post war period (World Bank 1993). In particular neoclassical literature stresses the importance of export oriented trade policies. In this article the Asian growth miracle is placed in a different perspective. International trade data are used in order to examine the dynamics of the Eastern Asian economies in the first half of the twentieth century.

An analysis of trade offers interesting perspectives. Whereas for most countries reliable data on output and productivity can only be found for the post war period, foreign trade statistics go back in time much further. The trade data enabled us to take the year 1906 as a starting point. Besides, the trade data can be obtained at a fairly detailed level which makes it easier to study processes of structural change in detail. Most important however is that the use of trade statistics allows us to relate economic development to processes of globalisation (1850-1913 and 1950's onwards) and de-globalisation (1914-1950). The Eastern Asian trade record is reviewed in a global comparative framework with special attention for the Latin American case. We apply structural economic theory to assess the role of trade in transition growth.

[1] Unless stated otherwise we qualify the following countries as "Eastern Asian": Japan, China, Taiwan, South Korea, Hong Kong, Singapore, Vietnam, Myanmar, Laos, Cambodia, Thailand, Malaysia, Indonesia, the Philippines and India. We exclude Nepal, Bhutan, Pakistan, Iran, the Middle East countries, the former USSR countries, North Korea and Mongolia.

2 Trade and transition growth from a dual economy perspective

According to structural economic theory a transition towards economic modernity depends on the interaction between the agricultural, non-agricultural and foreign sector of the economy. A successful transition towards modernity is only achieved in case of *balanced growth*. This implies that the foreign sector and the domestic sector of the economy expand simultaneously. Broad-based development should ensure that productivity and income differentials between these two segments of the economy remain relatively small (Fei and Ranis 1997). The extent to which growth is balanced or not, is based on the strength of inter-sectoral linkages. Export earnings have a potential to generate demand for domestically produced inputs and consumer goods (backward linkages) and can spark-off additional processing activities (forward linkages).

Fei and Ranis argue that only in case of *balanced growth* countries will be able to broaden their output structure and will transform into technology and skill-based economies characterised by sustained development. One of the main reasons why many East Asian economies have become engaged in a catching-up process vis-à-vis the West, was that they experienced balanced growth. In many African, South Asian and Latin American countries development has been unbalanced. In the Fei and Ranis framework the modernisation of the agricultural sector is of vital importance for successful structural change.

If at any given time the agricultural labour force is able to produce enough to feed the entire population and some additional surplus they have fulfilled the first precondition for structural change. Yet, agriculture can only spark off an economy-wide process of modernisation in case of *Balanced Agricultural Technological Change* (BATC). BATC is achieved only when inter-sectoral markets for commodities, labour and capital remain undistorted and tend to equilibrium. In particular for the labour market this entails that the surplus of labour freed up in agriculture does not exceed too much the capacity of non-agricultural sectors to create jobs.

The afore mentioned preconditions for BATC are related to the role of the agricultural surplus in the onset of structural change in three ways (Johnson 1991). First, the surplus frees up resources for industrial development. Raw materials – leather, fibres, wool- labour and investment capital are reallocated from agricultural to non-agricultural activities. Second, the surplus can be exported to obtain foreign exchange which in turn can be used to import industrial inputs such as capital goods and raw materials. Thirdly, the surplus creates a basic demand for domestically produced industrial products and services.

The linkages between agriculture and non-agricultural sector are of seminal importance for structural change and balanced growth. If one or more inter-sectoral market(s) enter into a structural state of disequilibrium the positive spill-over effects

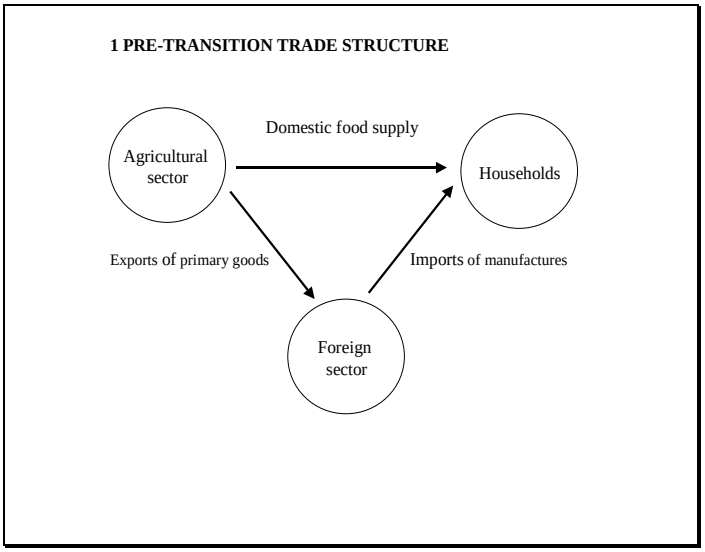
between the different segments of the economy become obstructed. In this respect it is important to take the nature of agricultural output and exports underlying the surplus into account. Surpluses are not automatically directed towards domestic activities. For instance if surplus is spent on imported consumption goods the surplus leaks away. So it matters how agricultural income is distributed among farmer households and how demand characteristics are developed. The type of land tenure relations and regulations determine incentives for the adoption of new agricultural technology, the growth and variety of agricultural output and the distribution of income.

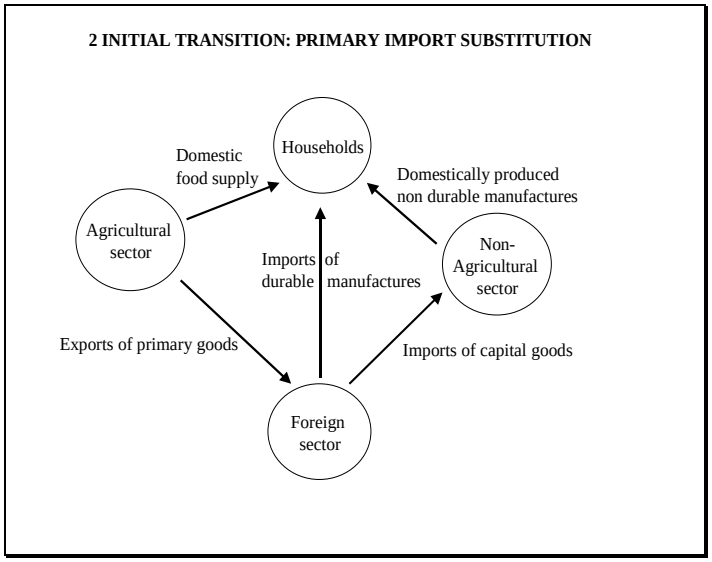
In a polarised agricultural setting characterised by a relatively small class of estate owners and a much larger class of smallholders the distribution of wealth and income is inevitably skewed. Estates usually specialise in relatively capital-intensive cash crops subject to increasing returns to scale. Estates largely produce for the international market, whereas smallholders concentrate mainly on the domestic market. The distribution of land and agricultural income affects expenditure flows and sets the stage for potential spill-over effects. So the inter-sectoral integration depends heavily on the specific features of the agricultural production system and the related trade specialisation (Johnston and Kilby 1975).

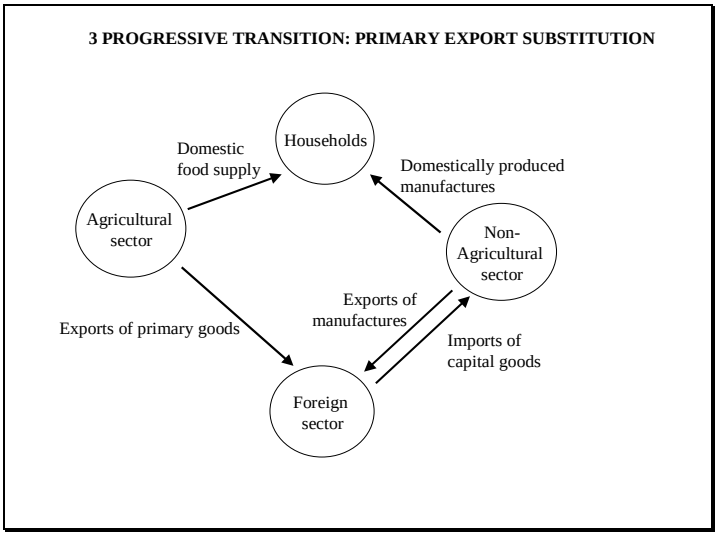
Ranis (1995) conceptualised the process of transition in three subsequent phases of structural change and trade specialisation:

1 In the *pre-transition phase* the agricultural sector produces the domestic food surplus for households plus exportable goods with which the import of non-durable consumer goods can be financed. The amount and type of agricultural export commodities depend on the specific resource endowments.

2. During the initial stages of transition countries move into a phase of *primary import substitution*, usually backed by a protectionist trade policy. In this phase a growing share of primary export earnings is diverted from the imports of non-durable consumer goods to the imports of producer goods. This change in trade structure paves the road for the domestic development of basic industries such as clothing and textiles.







Source: Elaboration of Ranis (1995), pp. 170

3. The progressive phase of *primary export substitution* starts when countries have completed most of the primary import substitution process. The domestic production of non-durable consumer goods has been developed sufficiently to start exporting non-durable consumer goods. Since the export industries have become internationally competitive the protectionist trade policy is relieved.

The ideal type of economic transition and its subsequent changes in trade are of course hardly observed in practice. The differences between Latin America and East Asian countries such as Japan, Taiwan and Korea illustrate potential divergences of the ideal type transition. After the phase of primary import substitution Latin American countries almost collectively moved into a phase of secondary import substitution focusing on the domestic production of consumer durables and capital goods and maintaining a protectionist stance. The advancing East Asian countries on the other hand shifted from import substitution to export substitution very rapidly. The initial transition phase for Latin America is situated in the period 1880-1930. In the advanced East Asian economies this transition phase is argued to have taken place in just one decade between 1953-1963 (Ranis 1995).

3 Regional trends of globalisation in the twentieth century.

In the second half of the nineteenth century the expanding export sectors in the more advanced Latin American countries (Argentina, Chile, Peru, Uruguay, Mexico) induced substantial economic development. At the same time the East Asian countries, of which the majority was colonised, were clearly behind in terms of labour productivity, structural change and GDP per capita (Maddison 2003). On the eve of World War I the most advanced East Asian economy, Japan, had a lower level of GDP per capita than the average Latin American country. Argentinean per capita income was approximately three times as large (table 3.1). In the left-hand part of table 3.1 the export share is expressed as a percentage of GDP to indicate the degree of openness to trade. The weighted average of the Latin American export share amounts to 8% in 1913, which is substantially higher than the figure of 2,9% in the sample of East Asian countries.

At the end of the twentieth century Japan, South Korea and Taiwan, Hong Kong and Singapore had surpassed their Latin American counterparts in terms of GDP per capita. This rapid catching up growth has been accompanied by an increasing openness to trade. Although transition growth started later in Eastern Asia than it did in Latin America (with the exception of Japan), the region developed more rapidly and also at a more sustainable level. There is ample evidence that the Eastern Asian export sector played a crucial role in this economic transition

In the period of de-globalisation between 1914 and 1950 the export performance appears weak in both regions. Indeed, the damage and disintegration caused by two World Wars, the great depression in the 1930's and the volatility of

international commodity and capital markets throughout the 1920's impeded a progressed international division of labour and foreign investments (Grimwade 2000, Crafts 2000). Confronted with a high volatility of export earnings and declining terms of trade Latin America developed a protectionist stance towards foreign trade during the Interwar period. Nevertheless Latin American GDP per capita improved considerably which strengthened its commitment to import substitution industrialisation (Bulmer Thomas 2003). The Eastern Asian countries appear to be worse off in both respects. Trade and income growth were lagging behind.

Table 3.1: Degree of openness (Export/GDP) and GDP per capita levels, Latin America versus Asia, 1913, 1950 and 1998.

	Export share of GDP (1990 international $)			GDP per capita (1990 international $)		
	1913	**1950**	**1998**	**1913**	**1950**	**1998**
Argentina	6,8%	2,4%	7,0%	3797	4987	9219
Brazil	9,8%	3,9%	5,4%	811	1672	5459
Chile	7,6%	5,0%	12,6%	2653	3821	9756
Colombia	4,2%	4,5%	5,4%	1236	2153	5317
Mexico	9,1%	3,0%	10,7%	1732	2365	6655
Peru	9,1%	6,8%	6,5%	1037	2263	3666
Latin America	**8,0%**	**3,6%**	**7,6%**	**1878**	**2877**	**6679**
China	1,7%	2,6%	4,9%	552	439	3117
India	4,6%	2,5%	2,4%	673	853	1746
Indonesia	2,2%	3,4%	9,0%	904	840	3070
Japan	2,4%	2,2%	13,4%	1387	1926	20410
(South) Korea	1,2%	0,7%	36,3%	893	770	12152
Taiwan	2,7%	2,4%	30,8%	747	936	15012
Thailand	6,8%	7,0%	13,1%	835	817	6205
Asia	**2,9%**	**2,6%**	**9,8%**	**856**	**940**	**8816**

Average GDP per capita levels are not weighted; Average export shares are weighted by share of total GDP; Source: Maddison (2003); Figures for Korea in 1950 and 1998 apply to the Republic of Korea only.

For a closer examination of trade during the Interwar years we provide an overview of global trade in four benchmark years 1906, 1938, 1960 and 1999. In table 3.2 we treat the East Asian economies as part of the greater trade entity of the Asian-Pacific region including New Zealand, Australia, Iran and Pakistan. All the figures are based on nominal export values in current US dollars. The trade data for 1906 are derived from the *Statistical Abstract of Foreign Countries* issued by the Washington Department of Commerce and Labor. We aggregated the country-specific data to obtain regional totals and a world total of exports in order to compare the data to the benchmarks of 1938, 1960 and 1999 provided by the UN *International Trade Statistics*.

Table 3.2 reveals two important features of Asian-Pacific trade in comparison with other regions. First, the rapid growth of Asian-Pacific exports from the 1960's onwards is preceded by a period of considerable export growth in the first half of the twentieth century. When the trade data are analysed in a long run perspective the

period between 1938 and 1960 appears as a temporary set back of export growth. Second, the growth of Asian-Pacific exports between 1906 and 1938 is for a significant part established within the Asian-Pacific region itself. In 1906 35% of total exports was directed towards countries within the Asian Pacific region. This figure increased to 47% in 1938. In Latin America and Africa these figures were much lower: from 5% to 8% in Latin America and from 2% to 6% in Africa and the Middle East. In 1960 the East Asian figure had declined to 36%.

Table 3.2: Regional shares in world exports and the direction of trade, 1906-1999

Exports to >>>	**Africa**	**Asia**	**Latin America**	**North America**	**Europe**	% share of world exports***
1906						
Africa & Middle East	2	3	0	1	94	2,2
Asia & Pacific	2	**35**	1	12	50	**13,1**
Latin America*	1	1	5	32	52	6,9
North America***	0	3	2	52	44	15,2
Europe***	5	10	6	9	68	62,3
1938						
Africa & Middle East	6	9	0	4	80	4,1
Asia & Pacific	3	**47**	1	11	36	**20,8**
Latin America*	1	5	8	31	49	7,5
North America	4	19	13	19	45	16,7
Europe	8	16	6	7	65	46,1
1960						
Africa & Middle East	9	11	1	9	70	5,0
Asia & Pacific	5	**36**	2	15	42	**17,7**
Latin America	1	5	8	43	43	6,7
North America	3	20	14	26	37	20,3
Europe	8	11	4	8	69	50,3
1999						
Africa & Middle East	9	14	4	19	53	2,2
Asia & Pacific	2	**51**	3	23	20	**32,7**
Latin America*	1	9	21	49	17	4,4
North America	1	24	16	38	20	17,4
Europe	3	12	3	10	71	43,3

* figures are incomplete and do not sum to 100%; for 1906 30% of Argentine exports are not recorded with respect to destination; ** figures do not add up to 100% for 1906 and 1938 since the category "rest of the world" is excluded; *** Europe incl. former USSR; North America consists of USA & Canada only.

On the basis of countries individual trade statistics we disaggregated total exports into the categories of primary goods (agricultural and mineral goods and other crude materials) and manufacturing products. In table 3.3 we present the percentage share of primary goods in total exports as a rough measure of the structural change along the lines of the dual economy perspective discussed in section 2. This exercise reveals a

third distinctive feature of Eastern Asian export dynamics during the Interwar period: the expansion of trade in the Eastern Asian region was accompanied by an increasing share of manufactures in total exports. Whereas the exports packages in Africa and Latin America became increasingly dominated by primary goods, the share of manufacturing products in total exports in Eastern Asia increased form 34,5% to 46,8% between 1906 and 1938. Japan accounted for a large share of the growth in manufacturing exports, but the spill-over effects of Japanese economic development were considerable as we will discuss below (Sugiyama and Guerrero 1994).

Table 3.3: Composition of exports in East Asia, Latin America, Africa and the US, 1906-1999

	% share of primary goods in total exports			
	1906	1938	1960	1999
Eastern Asia	65,5	53,2	85,4	7,5
Latin America	73,6	88,6	83,4	34,0
Africa	73,3	85,0	80,2	66,6
United States	54,4	49,6	33,3	11,5

Sources: Department of Commerce and Labor, *Statistical Abstract of Foreign Countries*, Washington 1909; League of Nations, *International Trade Statistics 1938*, Geneva 1939; United Nations, *International Trade Statistics* 1963, New York 1965; United Nations, *International Trade Statistics* 1999, New York 2000

The fourth important conclusion that can be drawn from this overview of global trade is that Eastern Asia was confronted with a large trend break between 1938 and 1960. In 1960 the share of primary goods in Eastern Asian exports was higher than in any other region. After 1960 the share of primary goods dropped steeply from 85,4% to just 7,5%. In Africa and Latin America the share of primary goods declined gradually. The African share of primary goods in 1999 was still 66,6%.

There are two specific reasons to interpret the post war export performance of the Eastern Asian NIE's as a prolonged trend of Interwar developments. The severe set back during the Second World War and its aftermath can be ascribed to various factors. The Japanese industry collapsed, which directly affected its former colonial territories (Korea, Taiwan, Manchuria) and indirectly hit all the export sectors of its Asian trade partners. Meanwhile the Eastern Asian countries under European colonial rule were involved in their struggles for independence. Traditional trade routes were shut off as new nationalist governments issued protectionist trade policies during the 1950's. The Korean posed a further impediment on trade. However, in the 1960's the tables turned. In most Eastern Asian countries trade policy became export oriented and their share in world trade continued to grow. This trend could above all be discerned for the expansion of manufacturing exports.

4 The development of Eastern Asian trade during the Interwar period

In the previous section we concluded that the rapid changes taking place in Eastern Asian exports between 1906 and 1938 indicate that some features of post war catching–up growth are rooted in the interwar years. This period, which is generally referred to as a period of de-globalisation, offered opportunities for at least some Eastern Asian countries to become engaged more seriously in international trade. In this section we provide more detailed evidence on trade developments in Eastern Asia between 1906-1938.

With the outbreak of the First World War a period of unprecedented international economic integration (1860-1913) had ended. The golden standard collapsed and protectionist policies prevailed. The collapse of the European economies during the war had a devastating impact on the volumes and prices of internationally traded products. European capital was withdrawn from all over the world. The same shocks of economic disintegration occurred during the years of the Great Depression (1930-1936) following the Wall Street crash in October 1929.

Some countries managed to profit from the global state of affairs nevertheless. The partial retreat of global trade powers like the UK, Germany and France during the First World War provided the USA with a good opportunity to enhance its position in its Latin American 'backyard'. In Latin America itself the main reaction was a strong call for state intervention and protectionism. As the volatility in European markets in particular pointed at the large extent of dependency on world market developments and the vulnerability of insufficient export diversification. These considerations formed the impetus of a long period of import substitution industrialisation policy (Williamson and Bertola 2003). Yet, in Eastern Asia things went differently as the majority of Eastern Asian countries were still under colonial rule and trade policies were formulated by the mother country.

In table 4.1 we present our estimates of the relative country shares in total world exports. These shares are based on global trade surveys stated in nominal dollar values of exports. The changes in the relative shares thus form a global comparative measure of trade performance. The data are aggregated to regional levels expressed in the bold figures. Table 4.1 reveals that both regions managed to enlarge their relative export share during the period 1906 to 1928. Not very surprising, Latin America gained more in the years up to 1913. The Eastern Asian share on the contrary increased more rapidly during the years 1913-1928. Since a larger part of its trade took place within the own region export markets were less severely affected.

The great divergence in comparative export performance occurred in the period 1928-1938. During the years of the Great Depression Latin America lost 2% of its world share in trade, whereas the Asian share on the other hand increased with 2%. Ranking the export growth figures of 55 countries for the period 1906-1938 it appears that six East Asian countries show up in the upper ten. Korea ranks 1, French Indochina 4, Japan 5, Taiwan 7, Malaysia 9 and Philippines 10.

Table 4.1: The development of relative export shares in world exports, Latin America versus Asia, 1906-1938

	1906	1913	1928	1938	1906	1913	1928	1938	1928-1938	1906-1938
	Millions of current $				% share in world exports				change in % share	
Latin America					***(7.5%)****	**8,7%**	**9,3%**	**7,3%**	**-2,0%**	***(0,4%)***
Argentina	282	515	987	438	2,17	2,81	3,15	1,86	*-1,29*	*-0,30*
Bolivia		35	42	27		0,19	0,13	0,11	*-0,02*	
Brazil	255	317	474	289	1,96	1,73	1,51	1,23	*-0,28*	*-0,73*
Chile	99	149	239	139	0,76	0,81	0,76	0,59	*-0,17*	*-0,17*
Colombia	9	33	114	81	0,07	0,18	0,36	0,34	*-0,02*	0,27
Costa Rica	9	10	20	15	0,07	0,05	0,06	0,06	0,00	0,00
Cuba	105	164	278	145	0,81	0,89	0,89	0,62	*-0,27*	*-0,19*
Dominican Republic		10	29	15		0,05	0,09	0,06	*-0,03*	
Ecuador		15	13	10		0,08	0,04	0,04	0,00	
El Salvador		10	14	10		0,05	0,04	0,04	0,00	
Guatemala		14	24	24		0,08	0,08	0,10	0,03	
Haiti		11	23	7		0,06	0,07	0,03	*-0,04*	
Honduras	2	3	18	20	0,02	0,02	0,06	0,09	0,03	0,07
Mexico	57	150	285	159	0,44	0,82	0,91	0,68	*-0,23*	0,24
Nicaragua	4	8	9	4	0,03	0,04	0,03	0,02	-0,01	*-0,02*
Panama		5	4	13		0,03	0,01	0,06	0,04	
Paraguay		6	15	7		0,03	0,05	0,03	*-0,02*	
Peru	28	43	124	68	0,21	0,23	0,40	0,29	*-0,11*	0,08
Uruguay	35	72	104	62	0,27	0,39	0,33	0,26	*-0,07*	0,00
Venezuela	16	29	83	181	0,12	0,16	0,27	0,77	0,51	0,65
Eastern Asia					**10,6%**	**11,6%**	**15,6%**	**16,9%**	**2,0%**	**6,3%**
Ceylon (Sri Lanka)	36	76	152	104	0,27	0,41	0,49	0,44	*-0,04*	0,17
China	193	294	634	342	1,48	1,60	2,03	1,46	*-0,57*	*-0,03*
India	525	786	1.206	615	4,04	4,29	3,85	2,62	*-1,24*	*-1,42*
Indonesia	124	270	636	380	0,95	1,47	2,03	1,62	*-0,41*	0,66
Formosa (Taiwan)	28	26	117	130	0,22	0,14	0,37	0,55	0,18	0,34
French Indochina	34	59	117	261	0,26	0,32	0,37	1,11	0,74	0,85
Japan**	218	354	1.117	1.123	1,68	1,93	3,57	4,78	1,21	3,10
Korea	4	15	170	250	0,03	0,08	0,54	1,06	0,52	1,03
Malaysia***	160	193	480	571	1,23	1,05	1,53	2,43	0,90	1,20
Philippines	33	48	150	116	0,25	0,26	0,48	0,49	0,01	0,24
Thailand (Siam)	33	43	113	89	0,25	0,23	0,36	0,38	0,02	0,13

* Obtained by adding the 1913 shares for the missing countries in 1906. This adjustment represents a minor share of 0,6% of world exports, which will hardly affect our interpretation; **Including trade with colonial territories; *** Including Singapore in 1913, 1928 and 1938

Sources: Department of Commerce and Labor, *Statistical Abstract of Foreign Countries*, Washington 1909; League of Nations, *International Statistical Yearbook 1928,* Geneva 1929*;* League of Nations, *International Trade Statistics 1938*, Geneva 1939; The Bank of Japan, *Historical Statistics of Japanese Economy*, Tokyo 1962

However, within the Eastern Asian region itself there were winners and losers. The relative export shares of India, Ceylon, China and Indonesia declined and responses to the depression differed form country to country (Boomgaard and Brown 2000).

Especially British India suffered from the relative decline of the UK on the international market, a trend which is also discussed in the paper of Hsiao and Hsiao (2004). The main contender of British trade in Eastern Asia was Japan. The countries that either served the Japanese market or received Japanese investments as colonies seem to have profited from Japanese economic dynamics. Although picture of export performances is somewhat diverse, the overall expansion of the Asian-Pacific region in a global comparison cannot be is obvious.

5 Trade and balanced growth in Eastern Asia

In section 3 and 4 it is shown that trade in the Eastern Asian region expanded during the Interwar years, partly autonomously, and partly at the expense of Western countries that were hit by the globalisation backlash, caused by World War I and the Great Depression. In this section we focus on the consequences of the increasing economic integration in Eastern Asia by further concentrating more on the nature of traded commodities.

Fei and Ranis (1997) argue that one of the main prerequisites for balanced growth are the spill-over effects generated by labour intensive production. They claim that one of the fundamental differences between the Eastern Asian, Latin American and African paths of economic development lies in the labour intensive character of its agricultural production. Spill-over effects consist of increasing incomes of a large part of the population enhancing demand for primary products and basic manufactures. When revenues of increasing productivity and trade are distributed relatively evenly it enhances domestic savings and investments. The agricultural production organization in large parts of Eastern Asia is referred to as a uni-modal system, characterised and dominated by food producing small-holders and an egalitarian distribution of land (Johnson 1991, Ray 1998). In such a setting new technology diffuses relatively easily and this is what Fei and Ranis denote as a condition to Balanced Agricultural Technological Change (BATC).

Table 5.1 The key export products of 5 Eastern Asian countries, 1906 and 1938

key export products	1906	1938
Japan	raw silk, cotton manufactures	cotton and silk manufactures
Korea	Vegetables	rice, vegetables
Dutch Indies	Sugar, tobacco, oil	oil, rubber, tea
Philippines	Hemp, sugar , copra	sugar, copra
Thailand	rice, wood	rice, tin, rubber

Sources: Department of Commerce and Labor, *Statistical Abstract of Foreign Countries*, Washington 1909; League of Nations, *International Trade Statistics 1938*, Geneva 1939; The Bank of Japan, *Historical Statistics of Japanese Economy*, Tokyo 1962

Latin American economies were generally land abundant and labour scarce. Trade specialisation developed along resource-intensive lines with relatively large shares of minerals and mono-culture cash crops directed at Western markets. The linkages between the domestic sector and the foreign sector remained underdeveloped as the focus laid at the profitable exploitation of primary goods for a long time (Kay 2001, Engerman, Haber and Sokoloff 2000). In addition the distribution of assets (i.e. land) and income remained highly unequal as can be seen in table 5.2. Shocks and adverse trends in the world market for primary goods regularly affected the Latin American economies adversely (Bulmer-Thomas 2003).

Table 5.2 The gini's of the distribution of land holdings in Eastern Asia and Latin America, around 1960

Latin America	year	gini	Eastern Asia	year	gini
Argentina	1960	0,814	India	1960	0,566
Brazil	1960	0,787	Indonesia	1963	0,527
Chile	1965	0,865	Japan	1960	0,398
Colombia	1960	0,805	Korea, rep.	1970	0,307
Ecuador	1954	0,804	Malaysia	1960	0,680
Guatemala	1964	0,770	Philippines	1960	0,488
Jamaica	1961	0,757	Taiwan	1960	0,390
Nicaragua	1963	0,759	Thailand	1963	0,444
Paraguay	1961	0,863	Vietnam	1960	0,562
Venezuela	1961	0,857			
Average		**0,808**	**Average**		**0,485**

Source: own calculations based on the FAO, *Report on the 1960 World Census of Agriculture* (1971)

In Eastern Asian countries agricultural specialisation was directed towards food crops, mainly rice, demanding a high input of labour and an intensive use of cropland (Hayami and Ruttan 1985). Land was relatively evenly distributed. The Asian economies remained inward-oriented for a longer time, but they established better linkages between the foreign sector and the domestic agricultural sector. These conditions were favourable to balanced agricultural technological change. The labour

intensity of production is reflected in the key export products of Eastern Asian countries presented in table 5.1: Rice, sugar, tobacco, vegetables, hemp, raw silk and textile manufactures are typically labour intensive primary products.

The second determinant in the transition towards balanced growth is that exports of primary goods and imports of capital goods simultaneously increase (see section 2). In table 5.3 the shares of capital goods in total imports for 5 Eastern Asian countries are presented. The definition of capital goods imports has been limited to the import of transport equipment and machinery (category 7 in the SITC).

Table 5.3: The share of capital goods in total imports in 5 Eastern Asian countries, 1906 and 1938

	1906	**1938**
Japan	11,5	11,8
Korea	5,1	13,0
Dutch Indies	5,9	15,5
Philippines	3,3	16,8
Thailand	2,8	11,9

Sources: Department of Commerce and Labor, *Statistical Abstract of Foreign Countries*, Washington 1909; League of Nations, *International Trade Statistics 1938*, Geneva 1939; The Bank of Japan, *Historical Statistics of Japanese Economy*, Tokyo 1962

The figures in table 5.3 underline the tendency of a simultaneous increase in primary products exports and capital goods imports in the first half of the twentieth century. In the post-war period capital good imports become even more important an amount to roughly one third of total imports in most countries.

The combination of a general expansion in labour intensive commodity exchange and the role of Japan as a front-runner in transition have stimulated the diversification of Eastern Asian trade during the Interbellum. This process started in the 1860's with the silk trade between Japan and the Chinese coastal region of Kwandung, which is discussed in the paper by Ma (2004) in detail. The relative retreat of Britain textile exports during the turbulent years following 1914 provided Japan with a golden opportunity to increase its market share rapidly. Japanese exports increased from approximately 10% to 20% of its GDP between 1906 and 1938. During the entire Interwar period Japan redirected its trade away from Europe and towards the USA and the Asian-Pacific region. Textile manufactures of silk and cotton dominated Japanese exports, but in 1938 nearly 17% of its exports consisted of machinery and transport equipment (see table 5.3) (Howe 1996).

Increasing Japanese export revenues were primarily used to relieve the chronic food shortages and the scarce natural resource endowments. This raised opportunities for rice exporting countries such as Korea, Taiwan, Thailand (Siam) and French Indochina. Since its demand consisted mainly of labour intensive rural products (raw silk, yarns, rice and other foodstuffs) the revenues of this trade spilled-over to their

domestic sectors. The growth of the Japanese economy spurred trade and investments in its colonial territories, Korea (Chosen) and Taiwan (Formosa). Japanese exports to its colonial territories increased from 4% of total exports in 1906 to 45% of total exports in 1938! Vice versa, Taiwan directed about 90% of its total export towards Japan and Korea and circa 75% of its imports came from within the triangle. Korea exchanged about 80% of its exports and 87% of its imports internally (The bank of Japan 1962).

Japan pursued an aggressive strategy of annexation and development regarding its colonies. As a result the colonial territories became closely integrated with its domestic economy (Chowdury and Islam 1997). Given the greater geographical and cultural proximity of Japan's colonies it was able to organize economic exchange in a more efficient and effective manner.[2] (Fei and Ranis 1997). The colonies were predominantly used for relieving the domestic market with additional food supplies. In 1936 Taiwanese exports consisted for 32,1% of rice and for 42,8% of sugar. Korean exports were dominated by rice and vegetables (The Bank of Japan 1962).

The main objective of the colonial development strategy was to increase agricultural productivity. Japan reformed the agricultural sector and invested in infrastructure, machinery, research and primary education (Fei and Ranis 1997). The reforms and investments that were executed by the Japanese involved a large amount of agricultural smallholders. The investments affected large numbers of agricultural smallholders. As important pre-conditions of balanced agricultural change were met, important spill-over effects in terms of consumer demand were generated. The export of capital goods to both colonies increased to over 10% of total imports in the 1930's.

The third prerequisite for balanced growth in the dual economy framework is the transition from import substitution policies towards export oriented policies. In the early post-war period, the process of import substitution accelerated. In this phase the imports of capital goods, needed to foster domestic industrial growth, became more important. The industrial development of import substitution industries was financed from the primary product exports, which still were the main engine of growth. Whereas in many Latin American LDC's this phase of import substitution lasted long and had detrimental effects on the rest of the economy as a result of over-valued exchange rates, protective tariffs and inefficiency, in the most advanced Eastern Asian countries as Taiwan and Korea this phase ended already in the early 1960s when they entered the new phase of export substitution growth (Birdsall and Jasperson 1997). The industrial sector rapidly diversified and the economy successfully entered a phase of "balanced growth". This ideal type of transition growth did however not occur in

[2] A telling example is that contrary to the secure records of European colonial trade, the Japanese statistical office stopped accounting for trade between Japan and its colonies since they were regarded as Japanese provinces. Just because the local governments kept recording trade with Mainland Japan the reconstruction of trade presented here has been possible after all.

the majority of Eastern Asian countries. In Indonesia and the Philippines for example import substitution policies were prolonged much longer.

The contrast between Latin America and Eastern Asia can be explained from the nature of agricultural specialisation and the lack of mineral resources which impeded an ongoing financing of import substitution industrialisation (Bulmer-Thomas 2003). The decision to abandon import substitution policies was not merely the result of an exogenous policy change, but was also a logical consequence of the kind of growth which had been realised in earlier phases of transition growth.

6 Conclusion

The aim of this paper was to place the dynamics of Eastern Asian transition growth in a global long run perspective by means of an international trade perspective. The advantages of this approach are twofold. First, the time frame (1906-1999) allowed for covering the Interwar period. Second, it allowed for an emphasis on the effects of processes of globalisation and de-globalisation. We applied a dual economy framework developed by Fei and Ranis to assess the relation between trade and transition growth.

Our main argument is that the growth miracle of the post 1960 period appears less miraculous from a historical perspective. Trade data show important structural changes in the Interwar period, during which the foundations were laid for the sweeping structural changes which were so characteristic for the Asian Tigers during the last four decades of the twentieth century. Export growth rates in the Asia-Pacific region were the highest in the world in between 1906 and 1938. This expansion took place in the context of a sharp retreat of global economic exchange since the First World War until the aftermath of the Second World War (1914-1950) Especially the set back in global economic integration during the 1930's appears to be less pronounced in the Asian Pacific region. Nevertheless, the intra-regional differences in trade performance were large. The East Asian triangle (Japan, Korea and Taiwan) outperformed the other Eastern Asian countries by far. We argue that these differences have much to do with the unique role of Japan as colonial power in comparison to the role of the European colonial powers.

Japan was the big winner during the globalisation backlash of the interwar period. The spread-effects of sustained increasing Japanese demand for food and raw materials positively affected the Eastern Asian region and in particular its colonial territories. Japan was, unlike the traditional European colonial powers, a close neighbour of Taiwan and Korea. The economic integration between the three countries could therefore develop more profoundly.

A broad comparative trade perspective also reveals that the conditions for balanced transition growth were better met in Eastern Asia than in Latin America.

This is nothing new, since this point is often made in the literature, yet the comparative trade data for the interwar period stress that Asian catching-up growth is rooted in the conditions that were created during the Interbellum. In this respect the disintegration of the East Asian economic system during the 1940's and 1950's must be perceived as a temporary set-back of a trend of transition growth that only was to be recaptured during the 1960's. These historical roots should not be ignored when assessing the East Asian post war growth miracle.

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