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Review of *Growth Theories in the Light of the East Asian Experience.* Takatoshi Ito and Anne 0. Krueger (Eds.). Reviewed by K. L. Tang, University of Northern British Columbia.

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Takatoshi Ito & Anne O. Krueger (Eds.), *Growth Theories in Light of the East Asian Experience*. Chicago, IL: The University of Chicago Press, 1995. $65 Hardcover.

This book contains eleven papers and commentaries presented at the National Bureau of Economic Research—East Asia Seminar in Economics Fourth Annual conference held in San Francisco in 1993. Essentially, the contributors analyse the growth experiences of Japan, China, and East Asian Newly Industrializing Countries (NICs) in light of the endogenous growth theory. Rejecting the neoclassical growth model which predicts that a slowing down of growth rates due to diminishing returns to additional factor accumulation per person, the endogenous growth theory, as stated by Anne Krueger, hypothesizes the accumulation of knowledge or some other factor whose accumulation is not subject to diminishing returns contributes to the perpetuation of growth. Some endogenous factors have been identified: the role of increasing returns to scale, the learning-by-doing effects of human capital, the dynamic spillover effects of export expansion, trade, outward orientation, accumulation of knowledge, and the development of new ideas. Whether any (or all) of these factors are crucial determinants remains to be empirically tested in specific country or region.

The book brings together some leading development economists who set out to search for relevant endogenous variables in Asian development. Taken together, these papers are a useful contribution to the growing literature on the empirical testing of economic growth models. With a few exceptions, the majority of papers have located selected endogenous variables. A concise but useful overview of the new growth theory pertaining to the NICs is given by Krueger in Chapter One while a comprehensive literature review of the theories of growth is conducted by T. N. Srinivasan in the next chapter. He also details the unique character of the new growth theories. Shang-Jin Wei's study of China in Chapter Three pinpoints the influence of exports and foreign investment on rapid growth of individual Chinese cities. Ji Chou's study of Taiwan finds the importance of trade and human capital accumulation (Ch.4). Chen-Min Hsu sets up a neoclassical growth model to analyse the effects of public investment with debt financing in Taiwan (Ch.5). Chong-Hyun Nam in Chapter Six details the importance of comparative exchange rate and investment in infrastructure as explanations for economic growth in Korea. This is followed by the study of Joon-Kyung Kim and his colleagues who examine the role of Korean government assistance in the growth experience. In Chapter Eight, Kohama's paper briefly examines the connection between Japan's aid strategy and the economic development of recipient Asian countries. Hak Y. Pyo's chapter is based on a comparative study of the Korea and United States and it reaffirms the importance of human capital in growth. In Chapter Ten, Fukuda and Toya's research shows that, given the export-GDP ratios, the cross-country evidence supports the conditional convergence hypothesis in East Asian economies, though they speculate that the government policy would play a special role.

This book has a number of strengths. First, the collection gives a balanced assessment of the new theory. This is illustrated in the study by Shang-Jin Wei (Ch. 3) where human capital is not found significant in the case of China. Likewise, Fukuda and Toya's confirmation of conditional convergence hypothesis in Chapter Ten harks back to the neo-classical model of convergence. Second, many contributors are aware of the numerous limitations in testing the growth model: few studies are robust; single-country time-series regression studies are lacking; and on a priori grounds, research efforts would provide only ambiguous results.

Lastly, the collection of papers demonstrates the futility of looking for a definitive model which incorporates specific endogenous factors. Contrary to the research climate where negative findings are often de-emphasized, the book begins with the country-specific time-series analyses of Japan and Korea by Krueger. A sense of humility is immediately instilled when her time-series results are no better than those from an earlier cross-country regression study of Levine and Renelt. She could only find that the role of economic policy must be considered in understanding growth. Similarly, William Easterly, in the last chapter, undertakes a cross-country regression study of the four "Asian Tigers" and concludes in a sombre note that "When all is said and done, the story of the East Asian successes is consistent with the old prosaic fundamentals — investment, education, financial depth, low budget deficits." (p.284)

The book also has a few weaknesses. First, it is flawed by an unconditional optimism of the impact of economic growth. Contrary to the favourable assessment by Krueger in Chapter One that there is no evidence of increasingly unequal distribution of income in the Asian NICs, Hong Kong and Singapore show clear evidence of worsening inequality, a fact acknowledged openly by the Singaporean government. Further, Ji Chou in Chapter Four contends that a small country can grow fast by introducing international trade and human capital. It would be too simplistic for any country to follow this recipe, discounting the multiple factors which are at play. For a balanced exploration, the incorporation of in-depth studies of Hong Kong and Singapore is needed. Above all, most contributors, except Easterly who extends his analysis to economic geography, have assumed that the proximate causes of growth are purely economic; the intellectual breadth of research has thus been compromised. What the book lacks is a full consideration of an inter-disciplinary perspective. One would suspect whether non-economic variables like geo-politics, colonial history, and socio-political contexts, in isolation or at play with economic variables, play some significant role in the growth process.

The lesson of this book is clear. Further research is needed to fully validate the new growth model. As Krueger succinctly puts it, there is still no consensus as to the precise role of increasing returns and government policy in the growth process (p.2). This collection has made an important contribution by laying down some future avenues of investigation: the need for an analytical framework; the need to shift focus from macro-economic variables to micro-economic aspects of growth; the use of country-specific time regression, etc. Paul Romer, who is credited with the revival of economic growth theory, comments convincingly in this book that the fundamental goal (in empirical research) must be to formulate new models that are right or at least closer to being right, than existing models. Using this standard, most contributors would consider their new growth models closer to the truth than the neo-classical theory. However, the research in this book has failed to unearth a "universal" growth model with definite variables. As this book demonstrates, this will not dampen the enthusiasm on the part of economists in their search for the validation of selected endogenous variables in selected countries. Given its economic miracles, East Asia will certainly be the testing grounds for future research.

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