CHAPTER 7

Trade and Development II: Neoliberalism and Institutionalism

Whereas structuralism and import substitution industrialization (ISI) shaped development strategies during the first 35 years of the postwar period, the last 30 years have been dominated by neoliberalism and export-oriented industrialization. In contrast to structuralism, with its skepticism about the market and faith in the state, neoliberalism is highly skeptical of the state's ability to allocate resources efficiently and places great faith in the market's ability to do so. And in contrast to structuralism's advocacy of protectionism and state intervention, neoliberalism advocates the state's withdrawal from the economy, the reduction (ideally, elimination) of trade barriers, and reliance on the market to generate industries that produce for the world market. In addition, the current consensus within the development community stresses the critical importance for development outcomes of high-quality political and economic institutions.

Like structuralism, neoliberalism has dramatically affected policy. Across the developing world, governments have reduced tariffs and removed other trade barriers, thereby opening their economies to imports. They have sold state-owned enterprises to private groups. They have deregulated their economies to allow prices to reflect the underlying scarcity of resources. They have shifted their emphasis from producing for the domestic market to producing for the global market. Countries that had never joined the General Agreement on Tariffs and Trade (GATT) sought membership in the World Trade Organization (WTO). Thus, the last 30 years have brought a complete reversal of the development strategies that most governments had adopted. Belief in the power of states has been replaced by belief in the efficacy of the market; skepticism about trade has

been replaced by concerted efforts to integrate deeply into the world trade system. Neoliberalism has replaced structuralism as the guiding philosophy of economic development. And as the state retreated from the economy, the development community began to place new emphasis on how important it was to development to have good political and economic institutions.

The shift from structuralism to neoliberalism emerged from the interplay between three developments in the global economy. First, by the early 1970s, ISI was generating economic imbalances. The emergence of these imbalances suggested that economic reform of some type was required, although it did not point to a specific solution. Second, at about the same time, it was becoming apparent that a small group of East Asian economies were outperforming all other developing countries based on what many viewed as a neoliberal strategy. Third, a severe economic crisis in the early 1980s forced governments to embark on reform, and as they did, the International Monetary Fund (IMF) and World Bank strongly encouraged them to base reform on the neoliberal model.

We examine each of these three developments. We look first at the factors that caused ISI to generate economic imbalances. This examination allows us to understand the problems ISI created and the reasons that reform of some type was necessary. We then turn our attention to the East Asian countries. We briefly compare their performance with that of the rest of the developing world. We next examine two contrasting explanations for this remarkable performance, one that emphasizes the neoliberal elements of those countries' strategies and one that emphasizes the role East Asian states played in the development process. We then turn to the economic crisis and reform. We look at how the crisis pushed developing countries to the World Bank and the IMF, and at how these two institutions shaped the content of the reforms governments adopted. In the final section, the chapter explores the relationship between domestic political institutions and economic development.

EMERGING PROBLEMS WITH IMPORT SUBSTITUTION INDUSTRIALIZATION

By the late 1960s, ISI was generating two important economic imbalances, which together suggested that it had reached the limits of its utility as a development strategy. The first imbalance lay in government budgets. ISI tended to generate persistent budget deficits because it prescribed heavy government involvement in the economy. Since governments believed that

the private sector would not invest in industries that were important for the success of secondary ISI, governments themselves often made the investments, either in partnership with private-sector groups or alone by creating state-owned enterprises.

Yet, many of these state-owned enterprises never became profitable. By the late 1970s, state-owned enterprises in developing countries were running combined operating deficits that averaged 4 percent of gross domestic product (GDP) (Waterbury 1992, 190). Governments kept these enterprises afloat by using funds from the state budget. Government investment and the subsequent need to cover the losses of state-owned enterprises combined to generate large and persistent budget deficits throughout the developing world.

Domestic politics aggravated the budget deficits generated by ISI. For many governments, urban residents provided critical political support. Governments maintained this support by subsidizing essential items. Electricity, water and sewers, transportation, telephone service, and food were all made available to urban residents at below-market prices. This was possible only by using government revenues to cover the difference between the true cost and the price charged. In addition, many governments expanded the civil service to employ urban dwellers. In Benin, for example, the civil service tripled in size between 1960 and 1980, not because the government needed so many civil servants, but because the government used it to employ urban residents in order to maintain support. Such practices added to government expenditures and added nothing to government revenues, thereby worsening the budget deficit.

ISI also generated a second important imbalance: persistent current-account deficits. The **current account** registers a country's imports and exports of both goods and services. A current-account deficit means that a country is importing more than it is exporting. Import substitution gave rise to current-account deficits because it generated a considerable demand for imports while simultaneously reducing the economy's ability to export. Somewhat ironically, ISI depended on imports. Industrialization required countries to import the necessary machines, and once these machines were in place, production required continued import of parts that were not produced in the domestic economy.

Exports declined for two reasons. First, the manufacturing industries created through import substitution were not competitive in international markets. Production in many of the heavy industries that governments targeted in secondary ISI was characterized by economies of scale. The

domestic market in most developing countries, however, was too small to allow domestic producers to realize economies of scale. These inefficiencies were compounded by excess capacity—the creation of more production capacity than the domestic market could absorb (see Little, Scitovsky, and Scott 1970, 98). Consequently, the newly created manufacturing industries could not export to the world market.

Second, the policies that governments used to promote industrialization weakened agriculture. The decline in agricultural production was most severe in sub-Saharan African countries, which, as a region, taxed farmers heavily (Schiff and Valdés 1992). Heavy tax burdens reduced farmers' incentives to produce, hence the rate of growth of agriculture declined. In Ghana, for example, the real value of the payments that cocoa farmers received from the government marketing board fell by about two-thirds between 1960 and 1965. Falling prices gave cocoa farmers little incentive to invest in order to maintain, let alone increase, cocoa output (Killick 1978, 119). In addition, cocoa farmers smuggled much of what they did produce into the Ivory Coast, where they could sell cocoa at world prices (Herbst 1993, 40).

These microeconomic inefficiencies were reinforced by the tendency of most governments to maintain overvalued exchange rates. Ideally, a government should maintain an exchange rate that equalizes the prices of goods in the domestic and foreign markets. However, under ISI, many governments set the exchange rate higher than that, and as a result, foreign goods were cheaper in the home market than they should have been and domestic goods were more expensive in foreign markets than they should have been. Because foreign goods were underpriced in the domestic market, capital goods and intermediate inputs could be acquired from abroad at a lower cost than they could be produced at home. This difference in price created a strong incentive to import, rather than creating the capacity to produce the goods locally. The result was rising imports. Because domestic goods were overpriced in foreign markets, domestic producers, even when efficient, found it difficult to export.

The emergence of budget deficits and current-account deficits indicated that ISI was creating an economic structure that couldn't pay for itself. Many of the manufacturing industries created during secondary ISI could not sell their products at prices that covered their costs of production. Many developing countries could not export enough to pay for the imports demanded by the manufacturing industries they were creating. Such imbalances could not persist forever; some reform was clearly necessary.

Yet, the domestic politics of ISI greatly constrained the ability of

governments to implement reforms. The balance of power among domestic interest groups created multiple veto players that limited the ability of governments to alter policies. Because governments depended so heavily on urban residents for political support, they could not easily reduce benefits provided to that group (Waterbury 1992, 192). In 1971, for example, the Ghanaian prime minister devalued the exchange rate in an attempt to correct Ghana's current-account deficit. Concern that devaluation would raise the prices of many imported goods consumed by urban residents contributed to a coup against the government a few days later. Once in power, the new regime quickly restored the currency to its previous rate (Herbst 1993, 22–23). What message did that send to politicians who might be contemplating measures to address the economic imbalances they were facing?

In addition, the administration of ISI had created opportunities for rent seeking and other corrupt practices. Those who engaged in these activities had a vested interest in the continuation of the system. On the one hand, government intervention had established an environment conducive to **rent seeking** (Krueger 1974; Bhagwati 1982)—efforts by private actors to use the political system to achieve a higher-than-market return on an economic activity. Consider, for example, the consequences of government controls on imports. Governments controlled imports by requiring all residents who wanted to import something to first gain the permission of government authorities. Such restrictions meant that imported goods were scarce, thus imports purchased at the world price could be sold at a much higher price in the domestic market. The difference between the world price and the domestic price provided a rent to the person who imported the good. A government license to import, therefore, was valuable. Consequently, people had incentives to pay government civil servants to acquire licenses, and government civil servants had incentives to sell them.

Such behavior was extraordinarily costly. It has been estimated, for example, that rent seeking cost India about 7 percent and Turkey about 15 percent of their national incomes during the 1960s (Krueger 1974, 294). Because so many people inside the government and in the economy were benefiting from the opportunities for rent seeking, they had a very strong incentive to resist any efforts by the government to dismantle the system.

Finally, even if governments could overcome these obstacles, it was unclear what model they should shift to. Far-reaching reforms would require them to re-evaluate the underlying strategy they were using to industrialize. The only available alternative to ISI was a market-oriented

development strategy (one we will look at in detail in the next section). In the 1970s, however, it was precisely this strategy that the Group of 77 was fighting against in the UNCTAD and with the NIEO. Even moderate reforms held little appeal. Most governments were unwilling to scale back their industrialization strategies. Instead, they looked for a way to cover the twin deficits without having to scale back their ambitious plans.

Facing economic imbalances, unable and unwilling to change policy, many governments sustained ISI by borrowing from abroad. Yet foreign loans could provide only a temporary solution; foreign lenders would eventually question whether loans could be repaid. When they concluded that they couldn't, they would be unwilling to lend more, and governments would be forced to correct budget and current-account deficits. This point arrived in the early 1980s and ushered in a period of crisis and reform. Before we examine this period, however, we must look at economic developments in East Asia as these developments played a critical role in shaping the content of the reforms adopted throughout the developing world after 1985.

THE EAST ASIAN MODEL

Whereas ISI was generating imbalances in Latin America and sub-Saharan Africa, four East Asian economies—Hong Kong, Singapore, South Korea, and Taiwan—were realizing dramatic gains on the basis of a very different development strategy. The dramatic performance gap is evident in three economic indicators (see Table 7.1).

- Per capita income in East Asia grew almost three times faster than in Latin America and South Asia and more than 26 times higher than in sub-Saharan Africa.
- Manufacturing output grew by 10.3 percent per year between 1965 and 1990. No other developing country came close to this growth for the period as a whole.
- Exports from East Asia grew 8.5 percent per year between 1965 and 1990 while exports from Latin America shrank by 1 percent per year.

TABLE 7.1

Comparative Economic Performance, Selected Developing Countries (Average Annual Rates of

Change)*

	1965–1990	1985–1995
Growth of per Capita GNP		
East Asia and the Pacific	5.3	7.2
Sub-Saharan Africa	0.2	1.1
South Asia	1.9	2.9
Latin America and the Caribbean	1.8	0.3
Growth of Manufacturing		
East Asia and the Pacific	10.3	15.0
Sub-Saharan Africa	n.a.	0.2
South Asia	4.5	5.3
Latin America and the Caribbean	8.3	2.5
Growth of Exports		
East Asia and the Pacific	8.5	9.3
Sub-Saharan Africa	6.1	0.9
South Asia	1.8	6.6
Latin America and the Caribbean	2.1	5.2

Notes: n.a. = not available.
GNP = gross national product.
Source: World Bank, *World Development Report*, various issues.

As a consequence, manufacturing grew in importance in East Asia, while the importance of agriculture diminished. This differed substantially from ISI countries, where agriculture's importance fell but manufacturing failed to grow (see Table 6.1). The growing manufacturing sector transformed the composition of East Asia's exports (see Table 6.2). By the mid-1990s, manufactured goods accounted for more than 80 percent of East Asian exports. By contrast, only in Brazil, Mexico, India, and Pakistan did manufactured goods account for more than 50 percent of total exports by the 1990s, and most of these gains were realized after 1980. Finally, per capita incomes in East Asia soared above those in other developing countries (Table 7.2). In 1960, per capita incomes in East Asia were lower than per capita incomes in Latin America; by 1990, East Asian incomes were higher than—in some cases twice as large as—per capita incomes in Latin America.

Why did East Asian countries outperform other developing countries by such a large margin? Most people who study East Asian development

agree that the countries in the region distinguished themselves from other developing countries by pursuing export-oriented development. In an **export-oriented strategy**, emphasis is placed on producing manufactured goods that can be sold in international markets. Scholars disagree about the relative importance of the market and the state in creating export-oriented industries. One position, the neoliberal interpretation, is articulated most forcefully by the IMF and the World Bank. This thesis argues that East Asia's success was a consequence of market-friendly development strategies. In contrast, the state-oriented interpretation, advanced by many specialists in East Asian political economy argues that East Asia's success is due in large part to state-led industrial policies.

TABLE 7.2

Gross National Product per Capita, Selected Developing Countries (1996 U.S. Dollars)

	1960	1990	2000	Percent Change 1960–2000
Hong Kong	3,090	20,827	26,699	764
Singapore	2,161	17,933	24,939	1,054
Taiwan	1,430	10,981	17,056	1,093
South Korea	1,495	9,952	15,876	962
Mexico	3,980	7,334	8,762	120
Malaysia	2,119	6,525	9,919	368
Argentina	7,371	7,219	11,006	49
Chile	3,853	6,148	9,926	158
Brazil	2,371	6,218	7,190	203
Thailand	1,091	4,833	6,857	528
Zaire/Congo	980	572	281	−71
Indonesia	936	2,851	3,642	289
Pakistan	633	1,747	2,008	217
India	847	1,675	2,479	193
Nigeria	1,033	1,095	707	−32
Kenya	796	1,336	1,244	56
Zambia	1,207	1,021	892	−26
Tanzania	382	494	482	26

Sources: Penn World Tables; Data for 1996, Data for 1997; Data for 1998.

The IMF and the World Bank contend that East Asia's economic success derived from the adoption of a neoliberal approach to development. This interpretation places particular emphasis on the willingness of East Asian governments to embrace international markets, and their ability to maintain stable macroeconomic environments (see World Bank 1989, 1991, 1993; Little 1982; Lal 1983; for critiques, see Toye 1994 and Rodrik 1999). Most East Asian governments adopted ISI strategies in the immediate postwar period. Unlike governments in Latin America and Africa, however, East Asian governments shifted to export-oriented substitution once they had exhausted the gains from easy ISI. In Taiwan, for example, the government shifted in 1958 from production for the domestic market to a strategy that emphasized production for export markets. South Korea adopted similar reforms in the early 1960s. A second wave of newly industrializing countries (NICs)—a group that includes Indonesia, Malaysia, and Thailand—followed the same path starting in the late 1960s (World Bank 1993). The emphasis on exports forced Asian manufacturing firms to worry about international competitiveness. As a result, the World Bank and the IMF argue, Asian societies invested their resources in domestic industries profitable in world markets.

The shift to export-oriented strategies was followed by selective import liberalization. Asian governments did not engage in wholesale import liberalization. The Taiwanese and South Korean governments continued to rely heavily on tariff and non-tariff barriers to protect domestic markets. In Taiwan, for example, approximately two-thirds of imports were subject to some form of tariff or non-tariff barrier greater than 30 percent, and as late as 1980 more than 40 percent of imports faced protection greater than 30 percent (World Bank 1993, 297). A similar pattern appeared in South Korea, where, as late as 1983, "most sectors were still protected by some combination of tariffs and nontariff barriers" (World Bank 1993, 297). However, selective liberalization helped promote exports by reducing the cost of critical inputs. Reducing tariffs on key intermediate goods, such as looms and yarn in the textile industry, enabled domestic producers to acquire inputs at world prices. This kept exports competitive in international markets.

East Asian governments also maintained stable macroeconomic environments. Three elements of the macroeconomic environment were particularly important. First, inflation was much lower in East Asia than in other developing countries. Between 1961 and 1991, inflation averaged only 7.5 percent in the East Asian economies. By contrast, annual inflation

rates in the rest of the developing world averaged 62 percent (World Bank 1993, 110). Second, because governments kept inflation under control, they could maintain appropriately valued exchange rates. In many developing countries, high inflation caused the domestic currency to rise in value against foreign currencies, making exporting difficult. In the East Asian countries, by contrast, governments were able to maintain exchange rates that allowed domestic firms to remain competitive in foreign markets. Third, East Asian governments pursued relatively conservative fiscal policies. They borrowed little, and when they did borrow, they tapped domestic savings rather than turning to international financial markets. This approach was in stark contrast to Latin American governments, which accumulated large public-sector deficits financed with foreign capital.

This stable macroeconomic environment had beneficial consequences for Asian economic performance. Low inflation promoted high savings rates and investment (World Bank 1993, 12). Savings rates in the Asian NICs averaged more than 20 percent of GDP per year, almost twice the level attained in other developing countries, whereas investment rates were 7 percentage points of GDP higher, on average, than in other developing countries (World Bank 1993, 16, 221). A stable macroeconomic environment also made it easier to open the economy to international trade. Because inflation was low and exchange rates were maintained at appropriate levels, trade liberalization did not generate large current-account deficits. Finally, the ability to maintain relatively stable and appropriately valued real exchange rates encouraged private actors to invest in export-oriented industries.

The interaction between the export orientation, the relatively liberal import policy, and the stable macroeconomic environment promoted economic development. As Doner and Hawes (1995, 150) summarize the World Bank perspective, the

> pattern of limited government intervention in the market, coupled with cheap labor and an open economy, [has] guaranteed the private sector stability and predictability, the means to achieve competitiveness on a global scale, and access to the international market so that entrepreneurs could actually discover areas where they have comparative advantage. In shorthand, the model is often reduced to "getting the prices right" and letting market-based prices determine resource allocation. Doing so results in export growth that is in turn positively correlated with broader economic growth.

According to the World Bank and the IMF, East Asia succeeded because

markets played a large role, and states played a small role, in allocating resources.

Other scholars have argued that East Asia's success had less to do with allowing markets to work and much more to do with well-designed government industrial policies (see Wade 1990; Amsden 1989; Haggard 1990). In what has come to be called the **East Asian model of development**, economic development is conceptualized as a series of distinct stages. Government intervention in each stage identifies and promotes specific industries likely to be profitable in the face of international competition. In the first stage, industrial policy promotes labor-intensive light industry, such as textiles and other consumer durables. In the second stage, industrial policy emphasizes heavy industries such as steel, shipbuilding, petrochemicals, and synthetic fibers. In the third stage, governments target skill- and research and development (R&D)-intensive consumer durables and industrial machinery, such as machine tools, semiconductors, computers, telecommunications equipment, robotics, and biotechnology. Governments design policies and organizations to promote the transition from one stage to the other (Wade 1994, 70).

These three stages of industrialization are evident in the paths traced by Taiwan and South Korea (see Table 7.3). In Taiwan, industrialization focused initially on light manufacturing, textiles in particular. By the mid-1950s, textiles were Taiwan's most important export. The government also encouraged production of simple consumer durable goods such as television sets. In the late 1950s, the Taiwanese government began to emphasize heavy industries. A joint venture between several Taiwanese firms and an American firm was formed in 1954 to produce synthetic fibers (Wade 1990, 80). In 1957, a plant to produce polyvinyl chloride was constructed under government supervision and then was handed to a private entrepreneur, Y. C. Wang (Wade 1990, 79). The government created state-owned enterprises in the steel, shipbuilding, and petrochemical industries. During the 1970s, attention shifted to skill-intensive industries, with particular emphasis on machine tools, semiconductors, computers, telecommunications, robotics, and biotechnology (Wade 1990, 94). By the mid-1980s, electrical and electronic goods had replaced textiles as Taiwan's largest export (Wade 1990, 93).

TABLE 7.3

Stages of Industrialization in Taiwan and South Korea, 1880–1968

	Commodity Exports 1880–1930	Primary ISI* 1930–1955	Primary Export-Oriented Industries 1955–1968
Main Industries	Taiwan: Sugar, rice South Korea: Rice, beans	Taiwan and South Korea: Food, beverages, tobacco, textiles, clothing, cement, light manufactures (wood, leather, rubber, and paper products)	Taiwan and South Korea; Textiles and apparel, electronics, plywood, plastics (Taiwan), wigs (South Korea), intermediate goods (chemicals, petroleum, paper, and steel products)
Major Economic Actors	Taiwan and South Korea: Local producers (colonial Japan)	Taiwan and South Korea: Private national firms	Taiwan and South Korea: National private firms, multinational corporations, state-owned enterprises
Orientation of the Economy	External markets	Internal market	External markets

* ISI, import substitution industrialization.
Source: Gereffi 1990, 19.

The South Korean government adopted similar policies (Amsden 1989). In the 1950s, the government emphasized textile production, and textiles became South Korea's first important manufacturing export. During the late 1960s, the South Korean state initiated the development of the chemical and heavy-machinery industries. It created the Pohang Iron and Steel Company, known as POSCO, which subsequently became one of the world's leading steel producers. The government also provided extensive support to Hyundai Heavy Industry, a shipbuilder that subsequently became a world leader in this industry. Then in the late 1970s, the South Korean government began to give priority to skill- and R&D-intensive

sectors, and it is during this period that the South Korean electronics and automobile industries began to emerge (Amsden 1989).

In the East Asian model of development therefore, government policy drives industrialization from low-skilled, labor-intensive production to capital-intensive forms of production and from there to industries that rely on high-skilled labor and technology-intensive production. Each stage is associated with particular types of government policies, and as each stage reaches the limits of rapid growth, emphasis shifts to the next stage in the sequence (Wade 1994, 71). Moreover, at each stage, governments stress the need to develop internationally competitive industries.

East Asian governments relied heavily on industrial policies. They used industrial policy to achieve four policy goals: reduce the cost of investment funds in targeted industries, create incentives to export, protect infant industries, and promote the acquisition and application of skills. Taiwan and South Korea created incentives to invest in industries that state officials identified as critical to development. To do so, governments in both countries provided firms investing in these industries with preferential access to low-cost credit. In South Korea, the government nationalized the banks in the early 1960s and in the ensuing years fully controlled investment capital. Control of the banks allowed the government to provide targeted sectors with access to long-term investment capital at below-market rates of interest (Haggard 1990, 132). Although the banking sector was not nationalized in Taiwan, the government did influence banks' lending decisions. During the 1960s, banks were provided with government-formulated lists of industries that were to receive preferential access to bank loans. During the 1970s, the banks themselves were required to select five or six industries to target in the coming year. As a result, about 75 percent of investment capital was channeled to the government's targeted industries (Wade 1990, 166).

Asian governments also implemented policies that encouraged exports. One method linked access to investment funds at low interest rates to export performance. In Taiwan, for example, firms that exported paid interest rates of only 6–12 percent, whereas other borrowers paid 20–22 percent (Haggard 1990, 94). In South Korea, short-term loans were extended "without limit" to firms with confirmed export orders (Haggard 1990, 65). Credit was also made available to exporters' input suppliers and to these suppliers' suppliers (Haggard 1990, 65–66). In addition, "deliberately undervalued exchange rates" improved the competitiveness of exports in international markets (World Bank 1993, 125). Finally, a variety of measures ensured that domestic firms could purchase their

intermediate inputs at world prices. These measures often entailed the creation of free-trade zones and export-processing zones—areas of the country into which intermediate goods could be imported duty free as long as the finished goods were exported. Export-processing zones allowed domestic producers to avoid paying tariff duties that would raise the final cost of the goods they produced.

The Taiwanese and South Korean governments also protected infant industries at each stage. In some instances, the measures they used were straightforward forms of protection. The South Korean government, for example, enacted legislation in 1983 that "prohibited the import of most microcomputers, some minicomputers, and selected models of disk drives," in order to protect domestic producers in the computer industry (Amsden 1989, 82). POSCO initially produced steel behind high import barriers. In other instances, protection was less transparent. Hyundai Heavy Industry, for instance, was protected in part through a government policy that required Korean oil imports to be carried in ships operated by a merchant marine that Hyundai Heavy Industry had itself created (Amsden 1989, 273). Taiwan adopted similar policies.

Finally, the Taiwanese and South Korean governments put in place policies that raised skill levels. Investments in education were made to improve labor skills. In Taiwan, enrollment in secondary schools had reached 75 percent of the eligible age group by 1980. Enrollment increases were accompanied by rising expenditures on education; per pupil expenditures increased eightfold in primary schools, threefold in secondary schools, and twofold at the university level between the early 1960s and 1980s (Liu 1992, 369). Similar patterns are evident in South Korea, where enrollment in secondary schools increased from 35 percent in 1965 to 88 percent in 1987 and "real expenditures per pupil at the primary level rose by 355 percent" (World Bank 1993, 43, 45).

Governments also invested in scientific infrastructure to facilitate the application of skills to R&D activities. In Taiwan, the Industrial Technology Research Institute was formed in 1973, and nonprofit organizations were created during the 1970s to perform research and disseminate the results to firms in the private sector. A science-based industrial park designed to realize agglomeration effects was created in 1980 (Haggard 1990, 142). In South Korea, tax incentives were used to induce chaebols, the large South Korean firms, to create laboratories for R&D purposes. An industrial estate for computer and semiconductor production was created, and the Electronics and Telecommunications Research Institute, a government-funded institute oriented toward product

development was established there (Amsden 1989, 82). These policies raised skill levels and created an infrastructure that allowed the more highly skilled labor force to work to its full potential. This skill upgrading was critical to the transition to the third stage of the industrialization process.

The two explanations discussed thus present different arguments for East Asia's success. One suggests that East Asia succeeded because governments allowed markets to work. The other suggests that East Asia succeeded because governments used industrial policy to promote economic outcomes that the market could not produce. Which argument is correct? Although we lack definitive answers, we may conclude that both explanations have value. By "getting prices right," the export orientation and the stable macroeconomic environment encouraged investments in industries in which East Asian countries had, or could develop, comparative advantage. By targeting sectors where comparative advantage could be created, by reducing the costs of firms operating in those sectors, by encouraging firms to export, and by upgrading skills, industrial policy encouraged investments in areas that could yield high returns. As Stephan Haggard (1990, 67) has summarized, macroeconomic "and trade policies established a permissive framework for the realization of comparative advantage, and more targeted policies pushed firms to exploit it."

Although the relative importance of the state and the market in accounting for East Asia's success remains in dispute, what is clear is that the experience of the East Asian NICs was vastly different from the experience of Latin America and sub-Saharan Africa. East Asian governments adopted development strategies that emphasized exports rather than the domestic market, and they realized substantial improvements in per capita income. The development strategies adopted by governments in other developing countries emphasized the domestic market over exports and generated economic imbalances and modest improvements in per capita incomes. Consequently, when economic crises forced governments to adopt reforms, the East Asian example provided a powerful guide for the kind of reforms that would be implemented.

A Closer Look

Economic Reform in China

China's emergence as a global economic power has also been driven by dramatic market reforms. China has followed a distinct path to the global market, however, because it embarked on the journey as a

centrally planned economy: all economic activity was conducted by state-owned enterprises in line with targets established by the Communist Party's central plan. China's move to a market economy has followed a strategy of "gradualism" in which it sought to "grow out of the planned economy" (Naughton 1995). Rather than quickly replacing the centrally planned economy with a market economy. China maintained the planned economy while simultaneously encouraging market-based activities. As China's market economy grew, the relative importance of the planned economy shrank. During the last 25 years, therefore, a market economy gradually emerged in place of the previous state-centered economy.

China based reform on three pillars. The first pillar, implemented in the late 1970s, brought market incentives to agricultural production. This Household Responsibility System encouraged farmers to lease land from their agricultural commune. The government required farmers that took advantage of this opportunity to sell some of their crop to the state at state-set prices. They could sell the remainder at market prices and retain the resulting profits. The Chinese government also changed state-set prices to more accurately reflect the supply of and demand for agricultural commodities. In doing so they encouraged farmers to respond to market prices rather than state production targets. By most accounts, the reform was a dramatic success, raising agricultural productivity and farm incomes sharply during the 1980s (Pyle 1997, 10). Agricultural reform also released labor from the Chinese countryside. Consequently, China has experienced substantial rural-to-urban migration of about 10 million people each year.

The second reform pillar, introduced in 1984, brought market incentives to manufacturing. This Enterprise Responsibility System encouraged enterprises to manage themselves like profit-oriented firms. Enterprises were increasingly required to acquire their inputs from and to sell their output in markets at market-determined prices rather than through state agencies at state-set prices. The government reduced production subsidies and required enterprises to turn to banks for working capital. This withdrawal of state financial support forced enterprises to care about profitability. Over time, private contracts based on market prices replaced state-determined targets as the basis for production (Jefferson and Rawski 2001, 247). By 1996, about 9.4 million non-state enterprises were operating in the Chinese economy, accounting for about 75 percent of total industrial output (Shen 2000, 148). Here we clearly see China growing out of the planned economy

—each year a larger share of total output is produced by non-state enterprises and a smaller share by the state-owned sector.

The third pillar of reform, the open-door policy, opened China to the global economy by liberalizing foreign direct investment and trade. The government attracted foreign investment by creating Special Economic Zones along China's southern coast. Special Economic Zones (SEZs) allowed more market-based activity than was permitted in the rest of the economy. Tariffs were reduced, labor market restrictions were relaxed, private ownership was allowed, and taxes were reduced in the SEZs. The SEZs thus provided useful "reform laboratories" in which officials could experiment before implementing reforms throughout the country (Shen 2000; Grub and Lin 1991). The decision to locate the SEZs along the southern coast reflected the desire to attract investment by Chinese nationals living abroad. The SEZs in Guangdong province bordered Hong Kong, for example, whereas the SEZ established in Fujian Province faced Taiwan. The policy was extended to the entire coastal region and selectively extended into the interior in 1988. The government also liberalized trade. It expanded the number of companies allowed to conduct foreign trade from 12 to more than 35,000 (Lardy 2002, 41). The government also reduced trade barriers, first shifting from a quota-based to a tariff-based system and then reducing tariffs sharply to the current average rate of 15 percent. In December 2002, China joined the WTO after almost 15 years of negotiations.

These reforms have transformed China from a sleeping dragon into a powerful force in the global economy. China has grown more rapidly than almost all other economies since the early 1980s, with the best estimates suggesting annual growth rates of 6 to 10 percent since the early 1980s. Such rapid growth has raised per capita incomes, which doubled between 1979 and 1990 and then doubled again during the 1990s. Rising incomes have in turn reduced poverty. According to the World Bank, the share of China's population living in extreme poverty fell from 53 percent in 1981 to just 1.9 percent by 2017 (World Bank 2006, 2017c). China has also emerged as an important player in the global economy. It is currently the leading recipient of foreign direct investment in the developing world, and now hosts one-third of all FDI based in the developing world. China's share of world trade has grown from less than 1 percent in the 1970s to 17 percent today (Lardy 2002, 55; WTO 2017). As a consequence, China is now the world's largest exporter of merchandise (WTO 2017).

China's transformation is not yet complete. The state-owned sector remains an important component of China's economy that requires reform. The state-owned sector is composed of a relatively small number (only 106) of very large firms (47 of these firms are among Fortune Magazine's 500 largest firms in the world). But together these enterprises account for between one-quarter and one-third of China's total output (Leutert 2016). These very large enterprises are (on average) inefficient and require substantial reform. It remains to be seen whether the Chinese government can effectively consolidate these enterprises, or encourage them to operate more efficiently. In late 2015, the Chinese government launched a new reform initiative In addition, rapid growth has widened the income gap between urban and rural regions, as industrial incomes rise more rapidly than agricultural incomes. In fact, farm incomes have even fallen a bit over the last 5 years. Rising inequality has sparked rural protests, which have been met with rather brutal government responses. Thus, China's government continues to face substantial challenges as it transforms its economy.

STRUCTURAL ADJUSTMENT AND THE POLITICS OF REFORM

By the early 1980s, governments in many developing countries were recognizing the need for reform. The imbalances generated by ISI created pressure for reform, and East Asia's success provided an attractive alternative model. It took a massive economic crisis, however, for governments to implement reform. We will examine this crisis in detail in Chapter 14; here, we say a few words about it in order to understand how it produced the wave of reform that swept the developing world during the 1980s.

Economic crises struck developing countries during the early 1980s in large part as a consequence of governments' decision to borrow to finance their budget and current-account deficits. Using foreign loans to finance budget and current-account deficits is not an inherently poor choice. But two factors made this decision a particularly bad one for developing countries in the 1970s. First, many of the funds that governments borrowed were used to pay for large infrastructure projects or domestic consumption, neither of which generated the export revenues needed to repay the loans. As a result, the amount that developing countries owed to

foreign lenders rose, but the countries' ability to repay the debt did not.

Second, between 1973 and 1982, developing countries were buffeted by three international shocks: an increase in the price of oil, a reduction in the terms of trade between primary commodities and manufactured goods, and higher interest rates on the foreign debt those countries had accumulated. These shocks increased the amount of foreign debt that developing countries owed to foreign banks, raised the cost of paying that debt, and greatly reduced export earnings. By the early 1980s, a number of developing countries were unable to make the scheduled payments on their foreign debt.

As crisis hit, governments turned to the IMF and the World Bank for financial assistance. The international institutions linked financial assistance to economic reform. The World Bank and the IMF encouraged governments to adopt such reforms under the banner of **structural adjustment programs**—policy reforms designed to reduce the role of the state and to increase the role of the market in the economy. The specific content of the reforms that the IMF and the World Bank advocated were shaped by their belief that East Asia's success had resulted from export-oriented and market-based development strategies (see World Bank 1991, 1993). In the World Bank's own words,

> the approach to development that seems to have worked most reliably, and which seems to offer most promise, suggests a reappraisal of the respective roles for the market and the state. Put simply, governments need to do less in those areas where markets work, or can be made to work, reasonably well.
>
> (World Bank 1991, 9)

To this end, structural adjustment emphasized changing those aspects of developing economies that were most unlike conditions in Asia. Governments were encouraged to create a stable macroeconomic environment, to liberalize trade, and to privatize state-owned enterprises (Williamson 1990, 1994). Macroeconomic stability was to be achieved by transforming government budget deficits into budget surpluses. Governments were encouraged to liberalize imports by dismantling import-licensing systems, shifting from quota-based forms of protection to tariffs, simplifying complex tariff structures, and reducing tariffs and opening their economies to imports.

The IMF and the World Bank also encouraged privatization of state-owned enterprises—that is, selling such enterprises to private individuals and groups. The IMF and the World Bank argued that reducing government involvement in the economy would foster competition and

that greater competition would in turn help create a more efficient private sector that could drive economic development. Through structural adjustment, therefore, governments were encouraged to scale back the role of the state in economic development and to enhance the role played by the market.

Many governments implemented structural adjustment programs between 1983 and 1995 (see Table 7.4). They began to liberalize trade in the mid-1980s. In Latin America, average tariffs fell from 41.6 percent prior to the crisis to 13.7 percent by 1990 (Inter-American Development Bank 1997, 42). They began to privatize state-owned enterprises in the late 1980s. In Latin America, "more than 2,000 publicly owned firms, including public utilities, banks, and insurance companies, highways, ports, airlines, and retail shops, were privatized" between 1985 and 1992 (Edwards 1995, 170; see also Corbo 2000). They liberalized investment regimes, thus opening to multinational corporations. They deregulated industries and reduced government intervention in the financial system.

Structural adjustment programs had a dramatic impact on average incomes in the short run and the distribution of income in the long run. The crisis and the reforms brought about a sharp contraction of economic activity. Income fell sharply as a result. In Latin America, income fell by about 8 percent between 1981 and 1984. In sub-Saharan Africa, incomes fell, on average, by about 1.2 percent per year throughout the 1980s (Thorp 1999, 220; World Bank 1993). The dismantling of ISI also redistributed income from urban import-competing sectors to agriculture and emerging export-oriented manufacturing industries. In The Gambia, for instance, structural adjustment tripled the prices farmers received for groundnuts and significantly increased prices that urban residents paid for petroleum products, public transportation, water, electricity, and telecommunications (Jabara 1994, 309). Privatization and civil-service reform resulted in large job losses. In Guinea, for example, the civil service was reduced in size from 104,000 in 1985 to 71,000 in 1989 (Arulpragasam and Sahn 1994, 91). In pursuing structural adjustment, therefore, governments redistributed income: export-oriented producers benefited these policies, whereas people employed in the import-competing and nontraded-goods sectors saw their incomes fall.

TABLE 7.4

Countries Adopting Trade and Domestic Policy Reforms, 1980–1996

Africa		Latin America	
Benin	Malawi	Argentina	Honduras
Burkina Faso	Mali	Bahamas	Mexico
Burundi	Mauritania	Barbados	Nicaragua
Cameroon	Mauritius	Belize	Panama
Central African Republic	Mozambique	Bolivia	Paraguay
Chad	Niger	Brazil	Peru
Congo	Nigeria	Chile	Suriname
Cote d'Ivoire	Rwanda	Colombia	Trinidad
Ethiopia	Senegal	Costa Rica	Uruguay
Gabon	Sierra Leone	Dominican Republic	Venezuela
The Gambia	Tanzania	Ecuador	
Ghana	Togo	El Salvador	
Guinea	Uganda	Guatemala	
Guinea-Bissau	Zambia	Guyana	
Kenya	Zimbabwe	Haiti	
Madagascar			

Sources: World Bank 1994a; Thorp 1999.

The economic consequences of structural adjustment drove the domestic politics of reform (see Nelson 1990; Remmer 1986; Haggard and Kaufman 1992; Oatley 2004). Groups that would lose from structural adjustment attempted to block the reforms, whereas those who stood to gain attempted to promote reform. Governments were forced to mediate between them, and in many countries governments were heavily dependent upon political support from the import-competing and nontraded-goods sectors. Thus, reforms were hard to implement. Over time, however, the economic crisis triggered a realignment of interests, discrediting groups associated with the old policies and giving greater influence to groups that proposed an alternative approach (Krueger 1993a). By weakening key interest groups and by forcing many to redefine their interests, the crisis gradually eroded many of the political obstacles to far-reaching reform. Yet, this process took time, as reforms could be implemented only after new governments responsive to new interests had replaced the governments that presided over ISI.

GETTING INSTITUTIONS RIGHT

As the 1990s progressed, members of the development community began to argue that "getting prices right" by using SAPs to liberalize and marketize developing economies, while perhaps a necessary step toward sustained development, was not sufficient to deliver sustained growth. As a consequence, policymakers and academics began to focus greater attention on the broader context within which states made policy. As attention shifted away from the rather exclusive focus on policy reform, the characteristics and quality of political and economic institutions moved to the center. By the turn of the century there was "widespread agreement among economists studying economic growth that institutional quality holds the key to prevailing patterns of prosperity around the world" (Rodrik 2004, 1).

Thinking about institutions led to the articulation of two broad institutional configurations—inclusive institutions and extractive institutions—that have very different consequences for economic performance (Acemoglu and Robinson 2012). **Inclusive institutions** have political and economic characteristics that encourage individual initiative and sustained economic growth. The most important political characteristics of inclusive institutions include the broad extension of the right to select and constrain governments, adherence to the rule of law and a strong but (by virtue of the rule of law) constrained state. Among the relevant economic characteristics, inclusive institutions have strong property rights and market structures that reward individual talent. Inclusive institutions are likely to provide high-quality public services that are important to growth, such as public education that is available to all and infrastructure investments that facilitate market development. The elaboration of property rights and their defense in the rule of law system encourages investment in productivity-improving activities. The fact that the opportunities for economic activity are open to the broad public rather than restricted to the chosen few creates incentives for individual initiative. Inclusive institutions are thus likely to generate economic growth that is sustained over time.

Extractive institutions, by contrast, lack most of these redeeming qualities. In terms of politics, extractive institutions allocate power very narrowly to a small ruling elite and systematically exclude other segments of society from access to power. In addition, the elite's power is relatively unconstrained by electoral institutions or by a clear rule-of-law-based judicial system. Economic institutions also do little to reward the initiative

of individuals. Property rights are often lacking, or where present are unevenly enforced. In such systems, the elite use their power to extract income from those who are excluded from politics and use it to provide benefits to the narrow group that rules or to the subset of society that keeps the government in power. Such systems become characterized by corruption within the state and among the ruling elite, and by rent seeking at the level of the society as a whole. As a consequence, the balance between productive and unproductive activity tips in a direction unfavorable to sustained economic growth.

One might illustrate the importance to economic performance of these institutional differences relative to other possible factors by comparing societies that share common cultures and geographies but have very different institutional characteristics. Consider North Korea and South Korea as one such comparison. South Korea has experienced sustained growth rates and dramatic improvements in the standard of living. North Korea, in contrast, has experienced exceptionally poor economic performance, even to the point of suffering widespread food scarcity. Acemoglu and Robinson's institutional perspective attributes these different economic trajectories to different institutions. They argue that the two countries occupy basically the same geographic space (the Korean peninsula), and thus confront the same climate and geographical constraints and opportunities. The two Koreas share a common language and culture, and (at least through 1940) they had a common history. The two differ primarily in their institutional characteristics, with South Korea benefiting from inclusive institutions and North Korean performance undermined by its extractive institutions. Acemoglu and Robinson offer other comparisons that are similar in nature, such as East and West Germany during and after the Cold War. Perhaps you can think of other comparative cases that either support or confound their institutional hypothesis.

Although the Acemoglu and Robinson institutional hypothesis holds considerable appeal, at least two important questions about the approach have been posed by its critics. The first critique points to potential issues of reverse causality. What we mean by reverse causality is the possibility that economic development outcomes are the underlying cause of institutional configurations rather than the Acemoglu and Robinson hypothesis that institutions cause development outcomes. Concerns about reverse causality arise from a large body of research that had been conducted prior to the more recent work by Acemoglu and Robinson. Indeed, almost 60 years ago Seymour Marin Lipset hypothesized that

economic development causes democratization: “the more well-to-do a nation, the greater the chances that it will sustain democracy” (Lipset 1959, 75). Subsequent empirical scholarship has found substantial support for the Lipset hypothesis (Boix 2011; Barro 1996; Przeworski et al. 2000). Indeed, as one highly influential recent study concluded, “the level of economic development, as measured by per capita income, is by far the best predictor of [democratization]” (Przeworski et al. 2000, 88).

The second critique concerns the origins of political institutions. If, as Acemoglu and Robinson claim, different institutional configurations generate different development outcomes, it becomes important to understand what accounts for cross-national variation in institutions. That is, why are some societies fortunate enough to have been endowed with inclusive institutions that promote development while other societies have had the misfortune to be burdened with extractive institutions that do not promote development? Acemoglu and Robinson (2001) have argued that institutions reflected colonial settlement patterns. Where colonial mortality was high, due to climate and disease, colonists did not expect to establish permanent residence. They thus created extractive institutions that maximized their short-run take. Where colonial mortality rates were low, colonists were more likely to establish permanent settlements and thus were more likely to create inclusive institutions that promoted economic development. And these distinct institutions persisted after colonialism ended. For A&R, therefore, contemporary institutions—and thus development outcomes—are reflect developments that occurred hundreds of years ago and continue to exert influence through the social processes that make it very difficult to change institutions. One potential problem with this argument is that it is difficult to isolate the causal significance of institutions from the impact of climate and geography (see Diamond 2012).

Other scholars also have explained institutions by focusing on the interaction between colonialism and resource endowments. Engerman and Sokoloff (2000) focus their attention on explaining divergent development outcomes in South and North America and the Caribbean. They argue that low-quality institutions—essentially the equivalent of extractive institutions—emerged in colonies in which land, climate, and labor endowments encouraged colonists to engage in plantation-based agriculture. On Caribbean islands, for instance, the climate and land were conducive to sugar production, while small indigenous populations forced the colonial powers to rely upon imported slave labor. Colonists built political institutions that enabled them to control sugar production and

income and to exclude slaves from participation in politics. The result was high inequality and low political inclusiveness. In contrast, in the northern parts of North America, climatic conditions and land endowments encouraged grain farming organized as small-holdings that relied on family labor rather than slaves. This small holding model generated less economic inequality which carried over into the design of political institutions which were more inclusive. In short, the interaction between geography and colonialism led to the establishment of particular institutional arrangements 250 and more years ago, and these institutions have exerted a powerful influence on development trajectories ever since.

The continued uncertainty about the origins or causes of institutions has important implications. Because different institutions are associated with different development outcomes, a central determinant of success lies in getting institutions right. Yet, this implies that societies stuck with extractive institutions can escape only if they can create more inclusive institutions. But if societies can change from extractive to inclusive institutions at will, then institutions aren't exogenous to state policy—they haven't really been inherited from 200 years ago—and cannot have the substantial independent impact on economic development that institutionalists claim.

Policy Analysis and Debate

Shifting from the Washington to the Beijing Consenus?

Question

Should the "Washington Consensus" be replaced by the "Beijing Consensus" as a development model?

Overview

The 1980s were turbulent for the developing world. The decade began with sovereign debt crises in several Latin American countries, and ended with the collapse of the Berlin Wall and political and market reforms in Eastern Europe. Responding to these events, economist John Williamson identified the "Washington Consensus" on the policies that developing countries must implement to ensure a return to growth. Williamson called this package the Washington Consensus because the World Bank, IMF, and U.S. Treasury Department—all based in Washington D.C.—concurred with these policy

recommendations. Key to the Consensus was eliminating government involvement in the economy: "stabilize, privatize, and liberalize."

The recent success of China and other East Asian countries as well as what some characterize as disappointing achievements from the Washington Consensus, have led some to suggest that a so-called "Beijing Consensus" is replacing or should replace the Washington Consensus. If the "Washington Consensus" espoused decentralized market fundamentalism, then the "Beijing Consensus" advocates a return to a state-led development strategy. This new development path appeals to many governments for two reasons: first, it promises rapid results without a loss of sovereignty to Western governments that many developing country governments saw as a major part of the Washington Consensus. Second, it increases the government's power within the country by creating a justification for state intervention and allocation. Advocates for the Beijing Consensus emphasize its potential for delivering rapid development. Critics ask why governments would be expected to have better success with a state-led strategy now than they experienced under ISI.

Policy Options

- Washington-based institutions should continue to promote neoliberal politics. If governments do not comply, Washington-based institutions should withhold aid and consider trade sanctions.
- Governments should be allowed to pursue development as they see fit, and development aid and trade relations should not be contingent upon the adoption of any particular policy orientation.

Policy Analysis

- What differences do you see between the Washington Consensus and the Beijing Consensus? What about between the Beijing Consensus and the ISI strategy?
- What interest, if any, does the United States have in promoting neoliberal reforms like those of the "Washington Consensus"? Why might the United States oppose diffusion of a state-led strategy?
- Why might developing countries resist neoliberal development programs and favor a more state-centric model?

Take A Position

- Should the United States pressure developing countries to pursue neoliberal policies? Should developing countries resist? Justify your answer.
- What criticisms of your position should you anticipate? How would you defend your recommendations against these criticisms?

Resources

Online: Do online searches for "Washington Consensus" and "Beijing Consensus." You might begin with a speech given by John Williamson titled "Did the Washington Consensus Fail?" (located at www.iie.com/publications/papers/paper.cfm?ResearchID=488). Kenneth Rogoff, former head of the IMF, wrote an open letter to Joseph Stiglitz in response to criticisms of IMF neoliberal policies (located at www.imf.org/external/np/vc/2002/070202.HTM). One influential criticism of the "Washington Consensus" is Dani Rodrik, "Goodbye Washington Consensus, Hello Washington Confusion?" (located at www.hks.harvard.edu/fs/drodrik/Research%20papers/Lessons%20of%

In Print: There are many lengthy criticisms of the "Washington Consensus", the best-known of which may be Joseph Stiglitz, *Globalization and Its Discontents* (New York, NY: W.W. Norton & Co., 2002), which prompted Rogoff's reply (linked above).

CONCLUSION

Neoliberalism supplanted structuralism as the guiding philosophy of economic development as a result of the interplay among three factors in the global economy. Import substitution generated severe economic imbalances that created pressure for reform of some type. The success of East Asian countries that adopted an export-oriented development strategy provided an alternative model for development. Finally, the emergence of a severe economic crisis in the early 1980s, a crisis that resulted in part from the imbalances generated by ISI and in part from developments in the global economy, pushed governments to launch reforms under the supervision of the IMF and the World Bank. By the mid-1980s, most governments were implementing reforms that reduced the role of the state

and increased the role of the market in economic development.

The implementation of these reforms has been neither quick nor painless. The depth of the reforms brought substantial short-run costs as average incomes fell and as this smaller income was redistributed among groups. The proponents of neoliberal reforms argue that the short-run costs are worth paying, however, for they establish the framework for strong and sustainable growth far into the future. Achieving that outcome will require developing societies to consolidate and build upon the reforms already implemented. In addition, it will require the advanced industrialized countries to accept short-run adjustment costs of their own in order to meet the legitimate demands that developing countries now make about market access.

The adoption of neoliberal reforms in the developing world is also transforming the global economy. For the first time since the early twentieth century, the developing world has integrated itself into that economy. In doing so, developing countries have altered the dynamics of global economic exchange. Standard trade theory tells us to expect trade between capital-abundant and labor-abundant societies. Yet, trade barriers have greatly limited such trade for most of the postwar era. As these barriers have fallen during the last 20 years, trade between countries with different factor endowments has become increasingly important. Businesses are increasingly locating their activities in those parts of the world where they can be performed most efficiently. Labor-intensive aspects of production are being shifted to developing societies, whereas the capital-intensive aspects of production remain in the advanced industrialized countries. The expansion of North–South trade is thus creating a new global division of labor.

KEY TERMS

Current Account
East Asian Model of Development
Export-Oriented Strategy
Extractive Institutions
Inclusive Institutions
Rent Seeking
Structural Adjustment Program

SUGGESTIONS FOR FURTHER READING

On the East Asian Model of Development, see Robert Wade, *Governing the*

Market: Economic Theory and the Role of Government in East Asian Industrialization (Princeton: Princeton University Press, 2003), Yin-wah Chu (editor) *The Asian Developmental State: Reexaminations and New Departures* (London: Palgrave MacMillan, 2016), and Dani Rodrik, *One Economics, Many Recipes: Globalization, Institutions, and Economic Growth* (Princeton: Princeton University Press, 2008).

The single best account of China's trajectory is Barry Naughton, *The Chinese Economy: Adaptation and Growth* (Cambridge: MIT Press, 2018).

For a detailed examination of the relationship between institutions and development, see Daron Acemoglu and James Robinson, *Why Nations Fail: The Origins of Power, Prosperity and Poverty* (New York: Crown Business, 2013).

For an application of the institutionalist perspective to contemporary sub-Saharan Africa, see Robert H Bates and Steven Block, 2017. "Political Institutions and Economic Growth in Africa's 'Renaissance.'" *Oxford Economic Papers*, 1–26.