

Explaining The Difference.

Successful East Asian Models of Economic Development versus Less Successful Latin American Models: South Korea and Taiwan Compared to Brazil, Mexico, Argentina and Chile.

A Research Project: Methodological Framework and Preliminary Findings

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"Development has never been generated by exclusion, only by inclusion"

UN-ambassador of Chile
(World Summit for Social Development, Copenhagen March 1995).

I. Introduction.

The research project, which will be presented in this essay in a preliminary form, is based on a set of provisional assumptions:

A. *The facts to be explained:* Abundant empirical evidence points to *South Korea* and *Taiwan* as outstanding economic and industrial performers among Third World Countries in the period after the II. World War. In comparison the Latin American countries *Brazil*, *Mexico*, *Argentina* and *Chile* must be estimated as far less successful economies. This holds true, whether standard indicators of industrial and economic performance are used (growth of GNP,

industrial production, export, productivity etc.), or more structural characteristics of industrial transformation (e.g. the degree of diversification, coherence and national integration of the industrial sector).

B. *Looking for regional explanatory factors*: The contrast between outstanding East Asian industrial success and more shaky and fluctuating development trends in Latin America should be explained, I believe, mainly by general differences that can be observed between the two regions. The underlying methodological principle is that differences should explain differences. Cross-regional differences between East Asia and Latin America are to be found at various levels:

- Basic *socio-economic* characteristics (agricultural structures, the character of elites, education, distribution of income, the character of economic actors, etc.).
- Characteristics of the *political dimension* (regime forms, economic policies, the character of the state and its interventions, etc.).
- *Culture and traditions* (social habits, moral values, prevailing ideas, etc.).
- The *international* setting (geopolitics, trade, aid, foreign investment, etc.).
- Characteristics of the *industrial sector and the process of industrialization* itself (entrepreneurial commitment, institutionalization of technological improvement and drive for productivity, the role of foreign direct investments, etc.),

C. *Looking for an explanatory ideal model*: The characteristics mentioned are complex in themselves, and they interact in complex ways to influence economic and industrial development. Nevertheless, I believe it is possible to construct a *general ideal-type model* (in the Weberian sense) that can explain the general features of successful economic transformation of Third World countries. I will call it "the *inclusive model* of economic development" - the term "*inclusive*" indicates a broad and comprehensive mobilization and expansion of the human and physical resources of a particular country.

Furthermore I believe it can be demonstrated that my East Asian test countries *South Korea* and *Taiwan* owe their industrial success to an inclusive model of social and economic transformation. On the contrary, the development barriers to be found in my Latin American test countries *Brazil*, *Mexico*, *Argentina* and *Chile*

are supposed to be closely connected to "exclusive" features of Latin American development paths.

D. Looking for country-specific explanations and avoiding over-generalization: The elaboration of a general theoretical-methodological framework to explain economic development paths should be a very fruitful instrument for empirical analysis. But the danger of overlooking individual and specific features of particular countries is inherent in the procedure. The method of comparing a general East Asian development model to a general Latin American model is not, however, intended to replace an empirical investigation of individual development experiences to be found in the 6 test countries. But the path to advance analytically will be to focus initially on general features and then gradually incorporate country-specific factors in the comparative empirical framework.

Based on these assumptions, which are going to stand to the test in the project, the research process will proceed as follows:

1. *Elaboration of theoretical and methodological framework:* Theoretical approaches. Inclusive and exclusive ideal types of successful and unsuccessful economic transformation. Factors and dimensions to be included in the analysis. Working hypotheses to be tested empirically. Elaboration of criteria of successful economic performance.

2. *Elaboration of empirical profiles* of the degree of successful economic transformation in 6 test countries - including structural changes as well as quantitative measures of economic and industrial performance.

3. *Empirical tests of hypotheses and ideal type model:* Comparative study of development-retarding and development-promoting "configurations" (i.e. clusters of interrelated causal factors) in 6 test countries.

4. *Theory-generating conclusions.* Political perspectives and lessons for the future.

The considerations and arguments below constitute my first attempt to give a more explicit formulation of the theoretical-methodological framework of the project.

2. Theoretical Approaches.

A vast body of scientific literature exists concerning *East Asian tiger economies*, and the literature bearing on *industrialization in Latin America* is overwhelming too. But it has been quite encouraging for me to discover, that a process of *making direct comparisons* between East Asia and Latin America is well on the way, expressed in numerous essays and some books too.

The initial question posed by development researchers comparing East Asian to Latin American countries very often goes like this: "*What are the lessons for Latin America from the East Asian experience?*" (see for instance Peter Evans 1987, Rhys Jenkins 1991a, David Felix 1994). Not surprisingly, the answers and conclusions presented are intimately connected with the basic theoretical orientation of the specific researcher.

A rough and simple classification of theoretical views must distinguish at least *three basic approaches*:

1. A market oriented approach.
2. A state oriented or statist approach.
3. A society oriented approach.

Only a brief characteristic of the contending approaches will be put forth here - with the intention of clarifying my own preliminary stand in the theoretical landscape.

2.1. Market-friendly approaches.

The pure market oriented interpretation of successful East Asia and problem-ridden Latin America has played a strange distracting and paralyzing role - although it is difficult to find the view expressed among informed participants in the debate today.

Stated in the most simple form the argument runs as follows: The economic successes of East Asian countries are an outcome of an "outward" orientation, an "openness" towards international economic integration and a commitment to the free play of market forces. Latin American economic stagnation is due to an "inward" orientation, a commitment to "closed" markets, and a "dirigist" attitude constraining the dynamic forces of the market. The East Asian export oriented industrialization (EOI) is the economic strategy to recommend, and the Latin American strategy of industrialization by means of import substitution (ISI) is the outdated economic model to leave aside. (cf. Belassa 1981).

This amounts to the creation of a false dichotomy between East Asian export orientation and Latin American import substitution. The description is *empirically false*, since it turns facts on the head and presents an invented mirage of what has been going on in Taiwan and S. Korea for at least 30 years.

But what is worse, it is *conceptually confusing*. The dichotomy EOI versus ISI is far too simple and incapable of clarifying the real differences between East Asian and Latin American economic development. In brief, Taiwan and S. Korea are the most export-oriented but at the same time the most import-controlling countries among my 6 test cases, ISI and EOI go together here and are not opposite strategies.

In Taiwan and S. Korea encouraging industrial exports does *not* go together with "openness" and "unregulated market". On the contrary, exports were heavily promoted by selective credit (and probably still are). The achievement of export quotas is often demanded as a condition of government support. Imports have been strictly controlled for many years, not only by selective tariffs, but by government control of foreign exchange. Obviously the purpose has been to import necessary capital goods and know how for industrial upgrading, and to prevent import of "unnecessary" consumer goods and goods which the national industry can supply itself.

The hands of the state have been very strong and clearly visible, in some cases a whole industrial sector has been built up from the ground under surveillance of the government (shipbuilding, steel in S. Korea). Foreign direct investments have been controlled and restricted, far more than what is typical in Latin America.

Consequently, to create a fruitful framework for understanding the contrast between Latin America and East Asia, we must first destroy the neo-liberal mirage:

Neo-liberal mirage	Actual profile of Taiwan/S. Korea
export-orientation	export-orientation
open	closed
unregulated	regulated
laissez faire	dirigism

How is the profile of Latin America, then? Actually, an orientation towards promotion of industrial exports is to be found in Brazil and Mexico from around 1970, accompanied by continued promotion of import substitution (see Gereffi and Wyman (eds.)

1990, pp. 17-22). Like Taiwan and South Korea, Brazil and Mexico must be classified as belonging to the EOI-type *as well as* the ISI-type.

As long as we apply those simplified labels we simply can't establish any clear contrast between Latin American and East Asian development trajectories. This is the case too with the conceptual pairs "open-closed" and "unregulated-regulated" - Brazil and until recently Mexico will go in the same category as Taiwan and S. Korea: closed and regulated.

Only in the fourth dimension a distinction appears: "dirigism" is a label one would put on Brazil and Mexico with some uneasiness, although the opposite label "laissez faire" appears out of place too. The investigation of what is behind neo-liberal empty phrases leads us to ask whether it is the attitudes of the state, which make the decisive difference between East Asia and Latin America. This is actually what is assumed by the statist approaches.

The neo-liberal interpretation is not easy to find anymore in a pure form in the ongoing debate. In a slightly less dogmatic version it has been promoted heavily by the World Bank (cf. World Development Report 1987, 1991). But in recent years substantial revisions have been made, notably in the World Bank report on "The East Asian Miracle" (1993).

The arguments and empirical evidence presented there need to be considered seriously in my research project. But the basic attitude of the study still leave us with a strong impression of a *bias*: The World Bank group apparently does not want to admit that the *selective* and *strategic* interventions by the visible hand of the state has proved itself an utmost valuable and efficient instrument of economic development in Japan, Taiwan and S. Korea, to the extent that the performance of these countries has not been matched by any country relying more on the invisible magic of the market. Pinching critiques by Dani Rodrik and Robert Wade of the conclusions and evidence presented in the "East Asian Miracle" report can be found in "Miracle or Design?" (Wade (ed.) 1994).

2.2 State oriented approaches.

During the 1980s and 90s, the neo-liberal view has been challenged by a gradually more forceful "*revisionist*" interpretation, putting the nature and the coordinated interventions of the East Asian development state at the center of the debate.

The pioneer was *Chalmers Johnson* (Johnson 1982), arguing that the secret behind the Japanese economic miracle is a strategic orientation of the economic policies of the state. Well-defined targets for industrial and economic expansion are formulated, and the necessary means to achieve them are selected and implemented by the institutions of the powerful state bureaucracy. The method is not dirigist suppression of actors and entrepreneurs in the marketplace, but controlled collaboration between selected companies and the state.

The path-breaking work of Johnson has been succeeded by important monographs on the strong developmental states of S. Korea, "*Asia's next giant*" (Alice Amsden 1989) and Taiwan (Robert Wade 1990). A lively debate has spread out in economic, political and social science periodicals, and Latin American countries has been pulled in the discussion too.

I find the statist approaches a very fruitful framework, that already has demonstrated it's ability of understanding what is going on in East Asia. The implications, however, of a statist interpretation of Latin American development trajectories, are far from clear.

But focusing at the state is not enough. There are obvious limitations of a statist approach, if "*statist*" is going to mean "*bringing the state back in*", but at the same time "*kicking society out*". A development state promoting national objectives and not vested, rent seeking interests does not come from heaven, it is embedded in society, of course. It is important to understand what kind of a society makes possible a national development effort coordinated by the state: Where does the developmental state come from? Why are its economic policies efficient and promote national consensus and economic development in society? To answer these questions we need a broader approach. In the case of Latin America we need to answer the question: How come that no Latin American country has generated a nationalist committed and development-promoting development state comparable to Japan, Taiwan and S. Korea?

Recently, a *neo-statist* approach has been formulated by Linda Weiss and John Hobson (Weiss and Hobson 1995). They assert that the most dynamic development context is to be found when a

symbiosis exists between a strong state and the dominant organizations in civil society (p.5). Economic brilliance is generated, when a strong state goes together with an *equally strong society*. Weiss/Hobson contend that the proposition has fairly general validity, applying to Third World countries in the present as well as European development trajectories in the past - and in the present.

The formulations of Weiss/Hobson are very intriguing and put the notion of "a strong state" in a new light. But when it comes to specific analysis of East Asian development trajectories (ibid., pp. 135-197), the concept of "a strong society" is reduced to "dominant entrepreneurial groups". State-society relations are conceived as government-business coordination and collaboration under state sponsorship. This is to narrow down the embeddedness of the state in society too much.

2.3 Society centered approaches.

No "paradigm" or well defined theoretical view exists, labeling itself "a society centered approach". It is my invention. But certainly theoretical approaches exist that can't be contained neither in a market-friendly nor in a state-friendly view.

In the introduction to "Governing the Market", Robert Wade lists two alternative views "in varying degrees of opposition" to the market-centered approach and his own state-centered approach (Wade 1990, p. 4f.):

First, a "culturalist" interpretation emphasizing "Confucian group-mindedness and frugal consumption preferences combined with a get-up-and-go entrepreneurialism". Ronald Dore could be mentioned as a pre-eminent representative of a culturalist view (cf. Dore 1987).

Second, an *internationalist* approach linking the development trajectories of East Asia to the "external demand generated by the rhythm of Western capital accumulation" and to US geopolitical considerations of defense against world communism .

The statist, the culturalist and the internationalist view are not mutually exclusive. They should be conceived as supplementary approaches, and they will all be taken in due consideration in my research project.

But still manifest empty spots exist, when we ask for an account of the societal forces and impulses responsible for the economic development of a particular society.

One obvious example is the honorable controversies of the class structures of society. The explanation of why economic

policies of the state, their implementation and efficiency are so different in the East Asian and the Latin American context are not to be found exclusively by looking at the state and its institutions.

Highly relevant is not only the configuration of the economical and political power of elite groups - and how power relations may be changed by structural interventions of the government. Equally relevant is the broader pattern of conflict of interests between elite groups, middle class groups and the dominated popular sectors - and how state power is used to reconcile or reinforce conflicts of interests. Clive Hamilton, Peter Evans, Stephan Haggard among others have made significant contributions to a comprehensive understanding of class-state relations in East Asia and Latin America (cf. Hamilton 1986, Evans 1987, Haggard 1990).

Still, some of the most basic forces and structures affecting economic and industrial development have not been put in the limelight by any of the listed approaches.

Almost anybody would admit, I believe, that the social and economic structures of the *agricultural sector* do influence not only agricultural output and productivity, but have a heavy impact on rural-urban relations. The perspective of generating industrial transformation based on the solid foundation of agricultural modernization has been demonstrated by Taiwan. The bad cases are found in Africa, where neglect of agricultural development has been a heavy impediment to industrialization. A non-synergetic relationship between agricultural and industrial transformation appears to be a serious problem in Latin America too.

The broad context of social and economic structures constraining or facilitating industrial development must be attributed uttermost importance, as I see it, in explaining the different economic performance of East Asian and Latin American countries. It includes income distribution, educational efforts and mobilization of human and physical resources in general.

Numerous development researchers have contributed to the understanding of the general societal basis of economic development. A very stimulating contribution to "holistic" society-centered development science has been presented by Dieter Senghaas, who shall constitute the first point of departure in my attempt to clarify the theoretical and methodological foundations of the research project.

The selective or "eclectic" character of my theoretical inputs may be illustrated this way:

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Theoretical approaches or dimensions of causation:

1. socio-economic structures and class relations -->	process of industrial trans- formation
2. government, state and state-society relations --->	
3. cultural and social traditions and attitudes ---->	
4. the international and geopolitical setting ----->	

3. Basic Socio-economic Dimensions of Successful Economic Transformation.

3.1 The Senghaas/Menzel inspiration - Lessons from the past.

The investigation of development trajectories of two East Asian and four Latin American countries has the purpose to throw some light on a more general question: How is it possible for Third World countries to initiate a process of industrialization and to catch up with economic dominant industrialized countries? What circumstances are needed, and which political instruments and strategies are efficient?

The question concerns national and international conditions of economic development in the post-war period after 1945. But in 1982 a path-breaking book was published by the German development researcher Dieter Senghaas (Senghaas 1982, English version Senghaas 1985). It extends the problematic to development experiences of the 19th century, when a second generation of countries made efforts to industrialize, faced with the overwhelming industrial power and competitiveness of Great Britain, the workshop of the world. Some countries succeeded, mostly European, others failed and were relegated to a peripheral position in the emerging economic world order - why? Why did the rich nations of the present become industrialized and not poor, peripheralized agricultural countries?

To elucidate these questions Senghaas offers a series of brief country studies.¹ He does not find only one, but actually *five*

¹ I will not refer much to Ulrich Menzel, the significant collaborator of Senghaas, but actually he has elaborated many of the country studies on

viable pathways of successful industrial development.² No simple recipe for the process of catching up with England is found. But a pattern of basic development-facilitating conditions show up in the country studies and in the accompanying analytical observations of Senghaas.

Denmark versus Uruguay.

I was particularly impressed by Senghaas' comparative discussion of *Denmark* and *Uruguay* (Senghaas 1982, pp. 126-77) - possibly because my own country is raised here to a kind of ideal case of interacting development-promoting conditions. I will deal with his analysis at some length, because it offers a clear contrast between development-promoting and development-retarding socio-economic conditions.

In the first half of the 19th century the two countries had comparable and favorable opportunities for industrialization, according to Senghaas. Both countries were small and not densely populated. They had rich agricultural resources. Illiteracy was reduced substantially, and political-democratic reforms were undertaken early in both countries. Actually Uruguay has been praised as "the Switzerland of Latin America" (Pendle 1963), an exceptional case of social harmony and peaceful change among Latin American states characterized by social tension, oligarchic power and violence.

Both countries had a good chance to avoid peripheralization faced with British industrial competition. But Uruguay became "underdeveloped" - Denmark became an industrial society. Both countries chose an "open door" trade policy, because they were agricultural exporters, the difference was not to be found here. What was the decisive difference, then?

The difference that mattered was *the agricultural reforms in Denmark* from the end of the 18th century. They generated a farmer society of small peasants. Each peasant had his own lot to cultivate and property rights to the land. They were eagerly

which the analytical conclusions of Senghaas are based: China (Menzel 1979), S.Korea and Taiwan (Menzel 1985), Switzerland, Denmark, Sweden, Canada (Menzel 1988).

² The five development paths are (Senghaas 1982, pp. 41-58): 1. Dissociative domestic-dynamic development (Belgium, France, Germany), 2. Associative export-led development (Switzerland, the Netherlands), 3. Associative-dissociative development (Scandinavia, Canada, Australia, New Zealand), 4. Dissociative state-capitalist development (Japan), 5. Dissociative state-socialist development (Russia).

committed to raise agricultural production and efficiency, because the fruits of hard work and innovations would go into their own pockets. Money income was dispersed widely, the fairly equal distribution of purchasing power stimulated manufacturing of standard consumer goods and equipment input to the agrarian sector. The landlord upper class with vested interests and privileges was substantially reduced and lost the power to define the "national interest".

Flexibility became part of the social legacy too. When Danish grain export was put in jeopardy by the economic crisis of the 1870s and by low-cost competition from USA and Russia, among others, agricultural production was rearranged. Cheap grain was imported as fodder for cows and pigs, and high-value-added animal products were exported to Great Britain and Germany.

While the first agricultural reforms from 1788-1807 were undertaken from above, the second wave of adjustments in the last decades of the 19th century was definitely carried out from below, by peasant co-operatives.

An outspoken feudal society dominated by "rent-seeking behavior" and strong social contrasts was transformed into an "inclusive society" marked by social cohesion, and by economic opportunities and political influence for the rising peasant middle class (and later the working class).

The historical trajectory of *Uruguay* differed substantially from Denmark in the latter half of the 19th century. Agricultural production and exports were quite diversified and successful already from the time of independence from Spain (1828), but predominantly based on cattle-products: leather, hides, salted beef, export of live-stock. Sheep and wool came later. Cattle-breeding ranchers constituted a strong middle layer in Uruguayan society.

But political tensions and a military regime after 1876 generated a new elite, comprising merchants and commercial groups ("comprador bourgeoisie") and big ranchers, who saw an interest in stronger economic relations with Great Britain.

Agricultural exports were shipped to England (by British ships, of course), in return Uruguay received consumer goods as well as luxury products for the urban and agrarian elite (partly the middle class as well). British capital was invested in railways, ports, banks, etc. to facilitate the export-import business. Even a substantial part of circulating money became British pound notes. In this way the classical division of labor between a peripheral and a metropolitan economic system was generated: primary

products exchanged against industrial products, wool against garment, accompanied by financial-infrastructure dominance by the leading economic power.

It worked well and generated substantial incomes for the Uruguayan elite and the middle class - for a while. In the long run, however, domestic industrialization and agricultural modernization were prevented or at least constrained. The historical trend in the 19th century was towards a more *exclusive* society with elite dominance, distorted economic relations, marginalization, and other social and political features characteristic of peripheral countries.

3.2 Identifying good and bad preconditions for development: the 5-component model.

As a *description* of different development trajectories, the cases of Denmark and Uruguay are clear enough and quite convincing. In Denmark the *preconditions* were set for a process of diversified industrialization and a transformation of societal patterns towards a modern metropolitan economy. In Uruguay a socio-economic and political pattern was generated, which strongly indicated a path of societal change towards a "modern" Third World country. Senghaas describes the process as a "Latin Americanization of Uruguay" (Senghaas 1982, p. 168).

When it comes to the question of how the different outcome in the two countries can be *explained*, Senghaas is much more elusive (*ibid.* pp. 168-77). Which elements were causes and which were effects? No simple answer is possible - we may imagine some kind of "*circular and cumulative causation*" (this expression originates from Gunnar Myrdal, cf. Mjøset 1993, p. 44, Menzel and Senghaas 1986, p. 30).

When causes and effects interact in a complex pattern, we can't expect to extract simple causal links between two or more observable factors. We can, however, attempt to identify more clearly the components belonging to a development-facilitating and a development-retarding socio-economic, political and cultural environment. Furthermore we can discuss the possibility that the configurative patterns found in the cases of Denmark and Uruguay could be generalized, in space (to other countries) and in time (to later historical periods).

Senghaas himself does not establish very clear theoretical conclusions in the wake of his country studies. Actually, part of the intention of my research project is to "finish the uncompleted work". There is a need to elaborate and refine the stimulating, but

inexact and often vague ideas of Senghaas and Menzel to a more specified theoretical explanatory framework - sufficiently precise to be put to the test by empirical studies. In the 1990s Senghaas and Menzel appear to be somehow disillusioned on behalf of their own contributions to the elaboration of "Grand Theory". It's disappointing that their analytical efforts have by now turned away from the development problems of peripheral countries (cf. Mjøset 1993, p. 51f).

Trying to explain the development failure of Uruguay, Senghaas is betting on *internal* factors. Although his theoretical ideas originate in the dependency paradigm, he does not think the dependent economic relationships of Uruguay with Great Britain are the determined outcome of external constraints and pressures. It is not a case of colonial dominance, strictly speaking (although we could put the spotlight on the *Spanish* legacy of Uruguay), but a process of voluntary "self-colonization" (Senghaas 1986, p. 32), caused by internal socio-economic and political forces. In the same vein he indicates internal reasons why Denmark could stand up to the competitive pressure from England and avoid peripheralization.

The Senghaas approach constitutes a revision of dependency theory. He shares with Andre Gunder Frank and Samir Amin the view that powerful industrialized countries constitute an external threat against economic weaker countries, which may result in peripheralization and underdevelopment. However, unlike Frank and Amin (and more in the vein of F.H. Cardoso) he contends that it is possible to counteract the distorting pressure from industrialized countries, when internal human and physical resources are mobilized in a determined national development effort.

Actually, Senghaas and Menzel has been accused of moving from one extreme to the other, from a dependency view (emphasizing external forces too much) to a mainstream modernization view (attaching too little importance to international constraints/pressures and opportunities). I agree in this critique advanced by Lars Mjøset, among others (Mjøset 1993, pp. 50ff.). The Senghaas/Menzel "paradigm" is valuable primarily as an alternative "third way" to modernization theory as well as to orthodox dependency theory. I hope my research project will show how.

Deep structures!?

In the search of internal conditions that are favorable respectively harmful for economic development, Senghaas introduces the stimulating concept "*historical generated deep structures*".³ I will attempt to use the concept as a guideline or compass needle in my research, although it is quite difficult exactly to grasp what it designates (Senghaas 1982, pp. 175-76, Senghaas 1977, pp. 65-72).

Senghaas conceives deep structures as a complex pattern of interrelated social-cultural, economic and political components. Single elements might change, but the configuration in total is difficult to transform by will or by government policy, because the pattern persists even if single elements or structures in the complex are removed. The deep structures are "over-determined" (Senghaas 1982, p. 176).

Actually, Uruguayan governments did try to break away from structural dependency and economic distortions in the first decades of the 20th century, in the period of "*Batllismo*" characterized by economic nationalism and political populism - but with limited success. A change of government policy will be unsuccessful, we may conclude, unless it is able to attack and remove development obstacles situated in the deep structures of society.

The attempt of Senghaas to indicate barriers against development in the deep structures of Uruguay and development-facilitating deep structures in Denmark is not very systematic and clear, particularly in the case of Uruguay. As I see it, he points to *five sets of factors* as characteristic for the social, economic and political structures generated in Denmark and Uruguay during the 19th century:

1. *Structures of production*: Agricultural structures and transformations of structures - and the influence on social mobilization, flexibility, innovation and productivity.
2. *Distributional dimension*: Distribution of resources and incomes - and its effects on patterns of demand.

³ Senghaas 1982, pp. 175-76, Senghaas 1977, pp. 65-72. The translation of "historisch gewachsener gesellschaftlicher Tiefenstrukturen" in Senghaas 1985 p.121 may not be quite to the point: "social core structures that have evolved over a period of time".

3. *Elite dimension*: The degree of concentration of economic and political power in the hands of "oligarchic interests" - and the influence on the ability of the country to adjust and select new solutions.
4. *Human resources and educational dimension*: The extension and character of formal and informal education on basic and higher levels - and its connections with social mobility, inventiveness and unfolding of human resources.
5. *Coherence or linkage dimension*: The extent of cumulative interactions between production, demand and employment, and between sectors and enterprises in the national economy - and its contributions to "virtuous" or "vicious" economic circles.

The principal reason why these dimensions may be conceptualized as a *holistic model* is that they are *interrelated*, not only by empirical coincidence, but by intrinsic logic.

In the case of *Uruguay*, Senghaas does not investigate the interconnections in detail, but he indicates the overall structural pattern using a set of suggestive labels: Concentration of land holdings (dim. 1) contributes to the formation of an "oligarchic structure" (dim. 3) promoting luxury consumption, "rentier capitalism" and "polarization" (dim. 2), which in turn contribute to "over-specialization" and make the "unfolding" of a "diversified and coherent domestic economy" difficult (dim. 5). Although an early commitment towards a high level of education was found in Uruguay, the orientation was more aesthetic-philosophical than pragmatic-technical, especially in higher education and at universities (dim. 4).

The causal chains go in numerous directions, of course, since causality is circular and cumulative. Political-economic competition and rivalry, alliances between social groups - to take just one example - may strengthen or weaken elite power, change control over resources of production, influence the function of education in society, etc.

The intrinsic logical connections between the dimensions can be illustrated by an example: Promoting a diversified, coherent and interlinked national economy (dim. 5) go well together with a fairly equal distribution of income, which can stimulate industrial production for the home market. It is difficult, however, to obtain in a country dominated by oligarchic economic control, unequal distribution of incomes and a propensity for luxury consumption (dim. 2 + 3).

This observation contributes a first clue to the understanding of why the desired outcomes of import substitution policies have failed to appear in many Latin American countries (but have worked well in our East Asian test countries).

In contrast, *Denmark* represents an illuminating case of development-promoting interactions between the five dimensions, starting with agrarian reform, defeudalisation, and the expansion of "invisible capital": basic education and agricultural schools (dim. 1 + 3 + 4). The development trajectory of Denmark is investigated far more thoroughly than Uruguay by Senghaas and Menzel (cf. Menzel 1988, pp. 159-270). In the theoretical and methodological part of my research project I will take a closer look at the experiences from Denmark and the conclusions of Senghaas and Menzel. Here I will abstain - the development-promoting connections of the 5 components will be discussed in a moment in relation to Taiwan and S. Korea.

The ideal character of the model.

Before the model is applied to contemporary East Asia and Latin America, the characteristics of the model should be clarified in certain respects.

1. The focus of the model is not the industrial sector itself and the actual process of building up an industrial society. This is a far more complicated discussion. At that point the theoretical-methodological framework must be extended substantially, a whole set of new variables must be taken in consideration - for instance, the process of industrial diversification and integration, the character and the abilities of the labor force, technological learning processes, how productivity growth is attained and sustained etc.

The model is strictly an attempt to identify important features of a societal *framework*, which is favorable for the initiation and continuation of industrial development.

2. The model's character of an *ideal type* construction implies that not all relevant factors are taken in consideration. It abstracts and refines a set of interlinked development-facilitating components, which may be effective in the real world, but never in a simple and pure form. The selected components are intended to conceptualize a few basic and very general differences between East Asia and Latin America, which are supposed to be central for

the explanation of the stronger economic dynamics of the East Asian region.

The limitations of the model must be transcended, when comparative empirical studies of my test countries are initiated. To take just one example: the size of a country, its population, its endowment with natural resources do matter in fact, and should be taken in consideration when a country with a modest population and scarce natural resources (e.g. Taiwan) is compared with a large country, rich in population and resources (e.g. Brazil).

The international setting is important too, as we know, and it may imply very different opportunities even for countries industrializing in the same period (e.g. different US geopolitical and economic attitudes towards Latin American and East Asian countries after the II. World War).

3. The model in construction has some comprehensive political perspectives. Several of the basic assumptions of the *inclusive society model* are not entirely new, since they line up with a significant "revisionist" or "structuralist" trend in development thinking.

Gunnar Myrdal should be kept in mind here, with his emphasis on agricultural reform, growth with equity, and peoples education and mobilization. *Barrington Moore*, in his historical studies, has enlightened the importance of agricultural social relations between "Lords and Peasants in the Making of the Modern World" (Moore 1966).

An important contribution is the impressive statistical-empirical analyses by *Cynthia Taft Morris* and *Irma Adelman*, published in three books (Adelman and Morris 1967 and 1973, Morris and Adelman 1988, the findings are summarized in Morris and Adelman 1989). They look for statistical correlations between social, economic and political factors relevant for the economic performance of Third World countries. Some of the conclusions clearly confirm the findings of Senghaas and Menzel: the emphasis on decreasing the social and economic influence of old landed elites and equalizing the distribution of land holdings (cf. Mjøset 1993, p. 48f.).

A brilliant contribution to critical "model reasoning" has been made by *Fernando Fajnzylber* (1990). He contrasts the "showcase modernity" of The United States, with emphasis on consumption, and the "endogenous modernity" of Japan, with emphasis on production. Subsequently, he applies the two models to Latin

America and East Asia, and comes up with observations convergent with the assumptions of my model.

These approaches as well as my own are clearly at variance with mainstream modernization thoughts supposing a trade off between growth and equity (Simon Kuznets and others), as well as the entire neo-liberal trend of the 1980s and 90s, with its ideologically based beliefs.

4. The 5 Components as an Explanatory Model for Contemporary Development Patterns.

Let us return to modern times. I will present a few arguments to stress the immediate *relevance* of the model for the understanding of economic development in Third World countries in the post-war period: First, I will argue that the model in fact identifies some basic societal patterns, which differentiate the East Asian from the Latin American test countries. Second, I will touch the question: do the contrasting patterns lead to different levels of economic performance?

4.1 The relevance of the 5 component model for East Asia.

The relevance for *S. Korea* and (especially) *Taiwan* is quite obvious, to my mind. Early *agricultural reforms* in Korea 1946-50 and Taiwan 1949-53 - to a certain measure initiated by Japan, later supported by USA and by a domestic awareness of "the communist threat" - obliged the land-holding elite to sell most of their property to the tenants. A structure of family farms were generated and with it a fairly equal distribution of access to agricultural resources. In Taiwan 80% of the tillers owned their land wholly in 1973, the corresponding figure for South Korea was 69,5% in 1965 (Sofia Moestrup 1991, p. 55).

Institutional support for innovation and increased agricultural efficiency generated important increases in output and productivity in Taiwan in the 50s and lifted demand for consumer goods. In *S. Korea* the positive effects did not materialize before the 1960s, when the regime of general Park started giving support to the small peasants, and the performance of the agricultural sector has generally been weaker.

The income distribution of a country is not determined alone by the agricultural sector, of course. But it is widely acknowledged that the agricultural reforms of Taiwan and Korea advanced the remarkable egalitarian distribution, which has characterized the two countries ever since. The ratio of the highest 20% to the lowest 20% was 5:1 in Taiwan 1973 and 8:1 in S. Korea 1976 (Gereffi and Wyman (eds.) 1990 p. 16).

Education was encouraged by both regimes in accordance with long-standing cultural values ("Confucian legacy"). *Stimulative linkage effects* between agriculture and industrial/urban development must be investigated more thoroughly, but they were apparently strong in Taiwan and to some extent weaker in S. Korea.⁴ It is generally agreed that the removal of the old *elite* contributed to give state and government "a free hand" to pursue national economic interests. But what has to be explained too, is why and how the new state-controlling elites became marked by a determined nationalist and developmentalist attitude (general references for Taiwan/S. Korea: Amsden 1985 and 1989, Moore 1988, Moestrup 1991).

The demonstration that the initial socio-economic conditions of *Taiwan* and *S. Korea* have been conducive to successful industrial transformation (and still are) should not be a matter of serious controversy, either. Most informed observers agree on that, although the World Bank fails to recognize it in the recent study of "the East Asian Miracle" (the World Bank 1993, cf. Rodrik 1994, pp. 23-26). The problem is rather to get a more precise understanding of how and why favorable initial conditions are transmitted into a continuous process of industrial catching up - without parallels in Latin America or in Africa.

4.2 The relevance of the 5 component model for Latin America.

In contrast to East Asia, landlord domination in agriculture and a *strong concentration of land holdings* have been ever-lasting problems in *Latin American* countries. The agrarian patterns constitute the structural basis of a marginalised peasantry at the bottom of an exclusive non-egalitarian society.

No static and general picture can be shown - the country-variation is considerable, and major land reforms have been

⁴ The term "linkage" is used here in a broad sense, encompassing physical backward and forward linkages, demand linkages, and fiscal linkages. The contributions to "linkage theory" by Hirschmann (1977), Senghaas/Menzel, Samir Amin, Simon Kuznets and others will be discussed and elaborated in the research project.

carried out in some countries, e.g. Mexico and Chile, often they have been rolled back later. In the 1950s and 60s large estates controlled 84% of privately owned land in Mexico, 60% in Brazil, the share was lower in Argentina, but still more than one-third (Rhys Jenkins 1991b, p. 207f). In Brazil in 1960 44% of the land was owned in properties of 1.000 hectares or more (Fajnzylber 1990, p. 338).

Patterns of *income distribution* show a similar contrast to East Asia. The ratio of highest to lowest 20% was 20:1 in Mexico 1977 and an extreme of 33:1 in Brazil 1972 (Gereffi and Wyman (eds.) *ibid.*). Recent figures mainly confirm the continuation of the pattern: Mexico 1984 13,6:1, Brazil 1989 32:1, Chile 1992 24:1 (World Development Report 1995, table 30 - no figures are given for Argentina).

The economic and political influence of *old and new elites* still appears strong in Latin America, and the imagination of a national integrated and social cohesive economy still appears subordinated to the protection and promotion of narrow vested interests. Higher *education* is still predominantly a privilege for rich people's children (Argentina is one exception), and in general the commitment to education is a far cry from the performances of S. Korea and Taiwan (cf. Fajnzylber 1990.).

According to the assumptions of my model, these societal structures in Latin America are severely damaging to healthy economic development and industrialization. To investigate this thesis thoroughly will be a central challenge of the empirical-analytical part of the research project. But some primary indications of the kind of development-retarding connections I look for can be exposed here.

The major problems, as I see it, are almost all centered around the fragmented character of Latin American societies: Social cohesion and national integration is weak, the polarization between social groups is strong, expressing itself in economic and political marginalization of the poor and self-complacency of the rich, taking no national responsibility.

These social characteristics have distinct economic consequences:

1. The first problem is the weakened demand stimulus from *home markets*. The failure to integrate large proportions of the population as consumers of industrial standard products, and a concomitant appetite for import of conspicuous luxury consumption by well-situated groups, have artificially restricted the size

and quality of the home market and reduced the beneficial effects of import substitution strategies in Latin American countries. No lasting industrial push has ever come from the export markets alone, the belief in this is "export fetishism" (Rodrik 1994, pp. 33-42). The expansion and upgrading of the home market is essential for a broad and diversified process of industrialization - and usually a necessary condition for long term success in international markets.

2. A second problem is the failure to generate a numerous well *educated and skilled* working population and management leadership - essential for efficient industrial organization, the absorption and mastering of new technologies, and the attainment of steady growth in productivity.

3. Third, *social tensions* prevent broad national consensus and stable development trajectories, making long-term and gradual political and economic reforms almost impossible. They contribute to the well-known Latin American pattern of abrupt changes of regime, the prevalence of violent "solutions" to conflicts, and a "go-and-stop" economy, with alternating phases of hectic growth and stagnation or serious crises (cf. Fajnzylber 1990).

This is a broad and impressionist picture. *The specification and operationalization* of the assumed causal connections, making them susceptible for more detailed empirical analysis and test, country by country, will be a central point of the agenda of the research project.

I have selected the four Latin American test countries, Brazil, Mexico, Argentina and Chile, because they belong to the most industrialized and economic successful countries with a fairly high GNP pr. capita. Even in these countries, I expect that the presence of social deep structures constituting serious obstacles to economic development can be demonstrated convincingly. A preliminary confirmation is given in a comparative historical study of Argentina, Chile and Brazil by Sjur Kasa (Kasa 1992).

The demonstration of retarded development and its causes would be much easier, of course, if the enclave economies of Central America or Bolivia/Equador were selected, but the intention is exactly to compare the most promising economic development paths in Latin America and East Asia.

Furthermore, Chile, Argentina and Mexico attract my attention, because neo-liberal experiments have been carried out in recent years. In the cases of Argentina and Mexico the outcomes are inconclusive or negative (especially since the "Christmas-meltdown" 1994 in Mexico). Chile, however, is often cited as the most successful Latin American economy in the last two decades. I assume the economic performance of Chile to be very limited in scope, actually it does not appear to be a case of ongoing *industrial* expansion at all (a serious de-industrialization occurred in the 1970s in the first years of the Pinochet-regime).

Generally I expect the examination of the market friendly experiments to show that they are not viable alternatives for Latin America. Setting the market forces free will not break the basic societal obstacles to the process of catching up with metropolitan economies, but could easily aggravate them.

The Philippines as a cross-example!?

Since my theoretical and methodological approach anticipates a general contrast between a Latin American and an East Asian ideal type of economic transformation, it is a tempting challenge to include *the Philippines* as an illuminating cross-example. The Philippines is outstanding as the only major Southeast Asian country showing poor economic performance in the 1980s and 90s. At the same time an unmistakable Spanish/Latin American legacy is still present in the country. Are these characteristics causally related? Peter Evans obviously thinks so:

"With regard to the role of the state, as with foreign direct investment the Philippines comes closer to the Latin American model..... In some ways Marcos is closer to the Latin American tradition of the caudillo than to the East Asian style of bureaucratic authoritarianism" (Evans 1987, 213). "The Philippines deviates from the East Asian model on the distributional dimension just as it does in terms of its history of transnational penetration. Its recent economic growth has been accompanied by rising inequality, and its income distribution is very similar to that in Argentina and Chile (though more egalitarian than in Brazil and Mexico)" (ibid. 218).

5. Conclusive Summary.

So far a theoretical model has been constructed, stating a general societal contrast between a Latin American exclusive model of

development and an East Asian inclusive development model. The ideal characteristics of the regional profiles are summed up in figure no. 1.

FIG. 1

Preconditions of economic development and industrialization	
<i>Exclusive LA Profile</i>	<i>Inclusive EA Profile</i>
Brazil, Mexico, Argentina, Chile (ideal type)	S. Korea, Taiwan (ideal type)
1. Concentration of land holdings (estate system)	Equal distribution of land holdings (farmer system)
2. Unequal distribution of income	Equal distribution of income
3. Oligarchic elite control (old and new elites)	Nationalist elite control (dissolution of old elites)
4. Weak mobilization of human resource (education, skills, work ethic, etc.)	Strong mobilization of human resource (education, skills, work ethic, etc.)
5. Weak economic linkage effects	Strong economic linkage effects
The historical and cultural embeddedness of economies "deep structures"	
<i>Spanish legacy</i> (ideal type)	<i>Confucian/Japan legacy</i> (ideal type)
destructive colonialism	developmental colonialism
fragmented/polarized society	integrated society
social disorder	social order
particularist	collectivist
oligarchic arbitrary authority	reciprocal paternalist authority
disrespect for the state	respect for the state
weak work ethic	strong work ethic
suppression of human energy	mobilization of human energy

The figure indicates the double sense of the concept "preconditions". In the upper part of the figure *contemporary* societal conditions of industrial transformation are identified.

In the lower part the embeddedness of the economic development process is interpreted in the *historical* sense, according to the Senghaas-concept of "deep structures".

It may be comprehended as a *cultural* interpretation too, when culture is taken as "the traditions of society". Traditions should

not, however, be conceptualized as static and unchangeable. Max Weber may have been correct to interpret Confucianism as an impediment to the economic modernization of the Chinese empire (cf. Weber 1951, chap. 8 "Confucianism and Protestantism", Johnson 1995, chap. 2 "Social Values and the Theory of Late Economic Development in East Asia"). This, however, does not necessarily contradict an interpretation of "Confucian values" (respect for the family, the social order and the state, education and work ethic, etc.) as conducive to the modern economic dynamics of Japan, S. Korea and Taiwan.

Anyway, the labels defining a Spanish versus a Confucian/Japanese legacy are idealized and should not be taken for more than suggestions, that need more thoroughly consideration. Furthermore, the causal connection between the lower part and the upper part of the figure does not imply any kind of determinism, of course, only a non-specified influence.

Next Steps

The next urging step in the clarification of the theoretical and methodological framework of the research project will be a *conceptualization of the process of industrial transformation itself*. Again, I will make the attempt to contrast an East Asian ideal type of industrialization to a Latin American ideal type, assuming that manifest regional differences could be found once again, country-specific variations notwithstanding.

At the macro-level of industrial economy, I suppose to find a degree of diversification, coherence and national integration of industrial structures in Taiwan and (especially) S. Korea without parallels in Latin America.

At the meso- and micro-level I suspect the attainment of ever-rising productivity, quality of products, and a steady upgrading of technological and human skills to be a distinctive mark of the East Asian development trajectory. In contrast, even the most industrialized Latin American economies Brazil and Mexico do appear to have serious problems with industrial productivity and quality control. Obvious contrasts should be found too, when industrial organization, networks of companies, the financing of investments and the like are considered - do Latin America have anything comparable to the chaebols of S. Korea or the kinship relations of small and medium sized companies in Taiwan?

Information and hard facts about these essential issues will probably be difficult to obtain at the general level. As a consequence of this, I intend to make a comparative case study of car

production in East Asia and Latin America, to find the reasons for the apparent gap in productivity and competitiveness existing in the auto industry.

After that, a crucial issue will have to be confronted: *How to put the assumptions of the constructed models to the empirical test?* The central assumptions of the models are about *causal connections*. They are more or less invisible, they can't be refuted or confirmed by reference to any simple fact.

A test procedure of indirect proofs must be established, using a combination of empirical study and theoretical informed reasoning. Probably I will have to go two ways at the same time:

One pathway will be the elaboration of *single country studies*, to investigate the complex interactions of central variables in the totality of national development. A second way to go is *cross-country studies* of some crucial development links, the relations between agriculture and industry in my six test countries, for instance. This is to insist on the possibility of combining a general and theoretical discussion with the demands of differentiated empirical study.

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