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LESSONS FROM EAST ASIA FOR PROMOTING TRADE IN AFRICA

DRAFT

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I. Introduction

For more than two decades, many observers of the phenomenal economic success of the East Asian Newly Industrialized Countries (NICs) have argued that an 'East Asian model' of economic development should be adopted by other developing countries. Citing the phenomenal growth rates, egalitarian distribution of income and thriving industrial sectors in Japan, South Korea, Taiwan, Hong Kong, and Singapore, such observers claim that a duplication of the NIC's development strategies could produce similar results elsewhere. Others dispute this claim, however, noting that while these positive results of East Asian development strategies are powerful, there is less agreement as to which policies and strategies actually led to those results. In looking to an East Asian model for Africa, this lack of consensus raises a number of questions as to both the relevance and replicative nature of such a model.

The role of the state is perhaps the most significant of these questions. Early neoclassical theorists such as Bela Balassa, Anne Krueger, and Jagdish Bhagwati argued that East Asian successes could be largely attributed to governments following an outward-oriented trade strategy characterized by the government limiting itself to providing a stable macroeconomic environment in which scarce resources can be allocated on the basis of undistorted, market-determined price signals. More recent writers such as James Riedel argue that the East Asian case should be interpreted as a validation of neoclassical principles precisely because these countries fulfilled the minimal functions of government as originally laid out by Adam Smith: the provision of public goods, including (1) international and domestic peace and security, (2) the administration of justice, and (3) the provision of infrastructure.[1]

In recent years, however, the pendulum has swung back in the direction of explaining East Asia's success in terms of more government involvement in the economy rather than less. Writers such as Alice Amsden and Robert Wade have argued that, contrary to popular opinion, East Asian governments have intervened quite extensively in their economies, actively promoting certain industries and eliminating others. That such intervention could produce such high rates of growth re-opens the question of the appropriate degree of government involvement in the development process. In examining the East Asian model for relevance to Africa, this is a particularly important topic. It raises a number of questions as to both the necessary and sufficient level of government capacity required for Asian-style, outward-oriented growth.

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[1] James Riedel, "Economic Development in East Asia: Doing What Comes Naturally?" in Helen Hughes, ed., Achieving Industrialization in East Asia . (Cambridge: Cambridge University Press. 1988): 28.

This paper reviews the literature on the East Asian experience in an effort to answer the following questions:

1. How did East Asia effectively adopt and implement an outward-oriented trade strategy?

2. What role did the East Asian governments play in that strategy?

3. What relevance does the East Asian experience with this strategy have, if any, to Sub-Saharan Africa?

Much of the existing literature on this topic is divided into four camps. The first two -- the neoclassical and statist camps -- embody the market-versus-state debate cited in the previous section. The World Bank falls somewhere between the two camps, taking what it calls a "market-friendly" approach. The third camp, represented primarily by Paul Krugman and Alwyn Young from the National Bureau for Economic Research, denies the existence of an 'East Asian miracle' and consequently questions the appropriateness of the conventional wisdom which looks to this region as a model for development. The fourth camp, based on the new institutional economics, offers new insights and suggestions for research into the institutional aspects of the East Asian experience. As each of these camps offers different answers to the three questions posed above, this paper will review each camp, and its answers, separately.

II. The Neoclassical Approach

Neoclassical development economics takes the position that the success of the East Asian countries is due to their adoption of an outward-oriented trade strategy in which the role of government is limited to the establishment of law and order, the provision of social and physical infrastructure, and the maintenance of a stable macroeconomic environment. In contrast, they argue, most African and Latin American governments intervene extensively in their product and factor markets, choosing inward-looking, import substitution policies that have resulted in stagnant industrial sectors, diminishing sources of foreign exchange, and zero to negative rates of growth. A review of the evolution of the neoclassical argument and its chief proponents is set out below.

In the post-world war period, many developing countries chose an import-substitution strategy. Economists at this time increasingly viewed the economics of developing countries as special. Structural rigidities such as low savings rates, small domestic markets, a reliance on primary-product exports and widespread underemployment suggested that a reliance on the price mechanism to allocate resources in these countries would not result in the degree of industrialization necessary for genuine growth to occur. In order to stimulate such growth, economists such as Raoul Prebisch and Hans Singer advocated for government protection of infant industries via overvalued exchange rates, import quotas and low interest rates. Such a phase -- or subphase -- of 'easy' import substitution was thought to redirect foreign exchange away from the consumption of consumer goods, towards the purchase of capital equipment, intermediate goods and the raw materials necessary for industrialization.[2] By limiting certain kinds of imports, developing country economists thought they could overcome at least one of the constraints inherent in Hollis Chenery's two-gap model: a lack of foreign exchange.

This primary import substitution subphase -- which Gustav Ranis has noted is a "common feature of all developing countries, if occurring at different points in time historically" -- involved the domestic production of nondurable consumer goods that had previously been imported.[3] As Bela Balassa has observed, however, once an economy completes this first stage of import substitution, the rate of growth of its industrial production cannot exceed that of its domestic consumption.[4] Such economies, he argues, face two choices: begin exporting these consumer non-durables or move to the second stage of import substitution which involves replacing the domestic production of both consumer and producer durables that had previously been imported.[5]

In the 1960s, Korea, Singapore and Taiwan chose the first option after experiencing only a brief primary import substitution sub-phase.[6] These countries had pursued a relatively mild version of import substitution in the 1950s in that they had overvalued their exchange rates only slightly, preferred tariffs over quantitative restrictions on imports and rarely allowed real interest rates to be negative. By the end of the decade, they had all shifted toward a primary *export* substitution sub-phase: exporting non-durable consumer goods to the rest of the world which they had previously only produced for their domestic markets. In so doing, the East Asian tigers became the only set of developing economies to rely on the international market rather than their home market for industrialization.

The neo-classical school draws two sets of conclusions or lessons from the East Asian experience in transitioning from controlled, inward-oriented economies to outward-oriented ones. The first pertain to the reasons why an outward-oriented strategy contributes to

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[2] Gustav Ranis, "Asian and Latin American Experience: Lessons for Africa." *Journal of International Development* 2 2 (April 1990): 152. Ranis articulates an evolutionary view of economic development in which countries transition from one sub-phase of the development process to another, beginning with an agrarian sub-phase and ending with the modern growth sub-phase typical of developed countries. The intermediate sub-phases include primary import substitution (PIS), primary export substitution (PES), secondary import substitution (SIS), export promotion (EP), and secondary export substitution (SES). Raoul Prebisch and Hans Singer were considered "export pessimists" in the 1950s - arguing that relying on primary commodity exports would not provide developing countries with the technology and industrialization processes they needed for true modernization.

[3] Ibid., p. 155.

[4] Bela Balassa, "The Lessons of East Asian Development: An Overview." *Economic Development and Cultural Change* 36 3 (April 1988 Supplement): S282.

[5] Ibid., p. S282-S283.

[6] Hong Kong did not experience an import substitution sub-phase.

growth. The second involves the identification of the policies that must be in place for such a strategy to be successful.

Outward-orientation and growth: the neoclassical view

In his role as the director of the World Bank project on effective protection in developing countries in the late 1960s, Bela Balassa emerged as an early proponent of outward-oriented trade strategies which he identified as adherence to the following four principles:

1. Preferential treatment of manufacturing activities, where warranted for infant industry considerations, should be applied on a moderate scale.

2. Equal treatment should be given to exports and import substitutes in manufacturing.

3. Variation in incentive rates within manufacturing should be kept to a minimum.

4. The system incentives should be stable and automatic to minimize uncertainty.[7]

Much of Balassa's empirical work established a positive correlation between economic growth rates and the growth of exports.[8] While he acknowledges that exports and output are also affected by other variables such as increases in the factors of production, he demonstrates a direct relationship between the two by incorporating exports into a production function relationship. Using domestic and foreign investment, labor and export data from nine semi-industrialized countries for 1960-66 and 1966-73, Balassa found that adding export variables (in addition to capital and labor) to explain GDP growth increased the explanatory power of the regression equation from 58% to 77%.[9]

Additionally, he confirmed these findings for less favorable world market periods such as those that occurred due to the external shocks of the 1970s (oil price increases and the world recession). He found, "the results are cumulative, indicating that both initial export

[7] Chung Lee and Seiji Naya cite Balassa's four principles of an outward-oriented strategy in "Trade in East Asian Development with Comparative Reference to Southeast Asian Experiences." *Economic Development and Cultural Change* 36 3 (April 1988 Supplement).
[8] Bela Balassa, "Exports and Economic Growth: Further Evidence." *Journal of Development Economics* 5 (June 1978): 181-189. There is also a wealth of literature that seeks to develop a coherent theory linking trade with economic growth. See, *inter alia*, Anne Krueger, "Comparative Advantage and Development Policy: 20 Years Later," in Economic Structure and Performance, ed. M. Syrquin, L. Taylor, and L. Westphal (Orlando, Fla: Academic Press, 1984). There is also a good deal of literature on trade as the "engine of growth," including: W. Arthur Lewis, "Slowing Down of the Engine of Growth," *American Economic Review* 80 (September 1980): 555-564; and James Riedel, "Trade as the Engine of Growth in Developing Countries, Revisited," *Economic Journal* 94 (March 1984): 56-73.
[9] Balassa, (1988): S279.

orientation and reliance on exports in response to external shocks contributed significantly to economic growth in developing countries during the period under consideration [1960-78].[10]

Balassa has suggested several reasons for the favorable effects of exports on economic growth:

1. Exports contribute to resource allocation according to comparative advantage.

2. Exports make it possible for developing countries to overcome the limitation of their domestic markets in exploiting economies of scale and ensuring full capacity utilization.

3. Exports expose domestic industries to international competition which, in turn, provides inducements for technological change.[11]

Regarding the role of government in export expansion and economic growth, Balassa takes the strongly neoclassical position that East Asia's success has been due to the response of entrepreneurs to incentives rather than to direct government intervention in the market. He notes that Korea's first two important export products were plywood and wigs, neither of which the government could have foreseen. Rather, he argues, Korea's success in exporting these products and others such as textiles and clothing occurred in response to the incentives provided rather than as the result of government decisions.

Nevertheless, Balassa does not deny that government played an important role in East Asia. He sees its principal contribution as the (1) creation of modern infrastructure, (2) provision of a stable incentive system (particularly a stable real exchange rate), and (3) a government bureaucracy committed to helping rather than hindering exports. The latter he sees as particularly important. In keeping with the neoclassical position, Balassa argues that free capital and labor markets and a small public sector in the East Asian NICs greatly contributed to their success. "The neutrality and stability of the incentive system, together with limited government interventions, well-functioning labor and capital markets, and reliance on private capital, thus appear to have been the main ingredients of successful economic performance in East Asia."[12]

Policies necessary for an outward-oriented trade strategy: the neoclassical view

Anne Krueger has observed, "the experience of the East Asian newly industrialized economies has demonstrated clearly that an outward-oriented trade strategy is not only viable, but essential for prospects for rapid growth."[13] She has also observed that, from this

[10] Ibid., p. S280.
[11] Ibid.
[12] Ibid., p. S288.
[13] Anne O. Krueger, "The Role of Trade in Growth and Development," In Sustaining Export-Oriented Development: Ideas from East Asia, ed. Ross Garnault, Enzo Grilli, and James Riedel. (Cambridge: Cambridge University Press. 1995): 16.

experience, economists now know those policies that are essential for an outward-oriented strategy to succeed. These include:

- Exchange rate stability.

- Free access to the world market for exporters. This includes duty-free importation of the inputs used in the production of exports and the use of tariffs rather than quantitative restrictions on imports.

- Uniformity of incentives and an expectation that any government assistance is temporary.

Other policies that she cites as contributors to growth, though not necessarily prerequisites to growth are:

- Free labor markets.

- Free financial markets (with positive real interest rates).

- Adequate infrastructure.[14]

While Krueger, and others, have identified these policies as having contributed the most to economic growth, they have been less able to determine the relative contribution of each policy or set of policies. For this reason, she, and other neoclassical economists, infer a great deal from the relative experiences of inward and outward-oriented economies. Krueger characterizes an inward-oriented economy as one that:

- relies on government controls and government pursuit of economic activity
- suppresses and regulates markets
- discriminates more against agriculture
- controls the banking system and relies more on credit rationing at negative real rates of interest
- regulates wages and conditions of work
- neglects infrastructure investment and maintenance
- uses intervention instruments that permit wide disparities in incentives for different policies

By contrast, she characterizes an outward-oriented economy as one that:

- has less regulated labor markets
- discriminates less against agriculture

[14] While infrastructure is certainly a precondition for export activity, Krueger argues that the definition of "adequate infrastructure" has yet to be quantified.

- controls government spending and therefore has small fiscal deficits and lower inflation
- has more realistic exchange rates
- offers positive real interest rates
- provides more statisfactory infrastructure
- allocates more resources to education

Such characterizations are fairly typical of the early neoclassical thinking on the relative benefits of emphasizing exports rather than import-substitution. In 1970, Ian Little, Tibor Scitovsky, and Maurice Scott published the results of their OECD-funded study comparing the economic development of Argentina, Brazil, Mexico, India, Pakistan, Taiwan, and the Philippines. This study was among the first to argue that the import substitution policies that had been followed since the second world war had resulted in the creation of inefficient, high-cost industries that had become detrimental to the economic development of these countries. It made the point that replacing imports with domestically produced output has never led to a reduction in total imports. On the contrary, the more inward-looking industrialization is, the greater its requirement for imported capital and technology. The study's recommendations, innovative and controversial at the time, emphasized the importance of relying on: (1) exports to earn foreign exchange, (2) the price mechanism to allocate scarce resources, and (3) the reorganization of agriculture and industry to develop a competitive industrial base.[15]

While it strongly advocated a shift away from direct governmental control of the market, this study also outlined a role for government very much in keeping with the traditional neo-classical view. They called for a government role in: (1) administering taxes and subsidies; (2) improving the domestic capital market by keeping real interests rates positive and influencing investment decisions; (3) providing information on export markets and arranging trade fairs; (4) providing and maintaining infrastructure; and (5) providing education and training facilities for industry. More deliberate government involvement in promoting industrialization, they warned, results in "a proliferation of administrative controls, and drastic intervention in the economy, whose costs may be considerable." While prices may occasionally be overruled, "such intervention can itself pull in the wrong direction; and it can be inefficient, oppressive, or cause excessive delays."[16]

Jagdish Bhagwati, one of the original contributors to the Little, Scitovsky and Scott study, subsequently directed a research project for the National Bureau of Economic Research (NBER) with Anne Krueger on *Foreign Trade Regimes and Economic Development*. The results of that research confirmed that an export-promoting trade strategy delivers results superior to any other development strategy. It underlines that the essential elements of such a strategy include:

[15] Ian Little, Tibor Scitovsky and Maurice Scott, Industry and Trade in Some Developing Countries. (Paris: Organization for Economic Cooperation and Development, 1970).
[16] Ibid., p. 4.

1. Keeping the equilibrium exchange rate on exports equal to that on imports ($EER_X = EER_M$).

2. Maintaining a uniform system of incentives for all economic activities.

Both the OECD and NBER research studies acknowledge the important limitation of export-led growth strategies: that such strategies rely fundamentally on the stability and continued openness of the international trade regime. Increased protectionism among OECD countries, for example, does not bode well for Sub-Saharan Africa's turn at such a strategy. Nevertheless, the Bhagwati/Krueger study demonstrates that even if protectionism prevents the world market from accommodating increased exports, countries are still better off pursuing liberalized trade regimes and utilizing relatively neutral across-the-board tariffs than they are if they attempt to control their exchange system. Such attempts at controlling exchange via quantitative restrictions, currency overvaluation and an overly complex system of rebates, subsidies and credits tend to be "chaotic" in that they distort producer incentives without regard to questions of efficiency or social development objectives.

Thus the early neoclassical position, as it had emerged by the early 1980s, is best summarized as viewing the East Asian model as a market-based, outward-oriented development strategy. This strategy was characterized by relatively low and uniform restrictions on imports, a stable macroeconomic environment with a stable real exchange rate, well-functioning domestic markets in which factor prices reflected scarcity values, and a private sector that - via a set of market-determined incentives - made investment and production decisions that launched an effective industrialization strategy.

III. The Statist Approach

Over the past decade, the neoclassical explanation of East Asian growth has come under attack from a group of theorists who argue that the state rather than the market in East Asia should be credited with the region's economic success. Where the neoclassical theorists derive empirical support for their case by contrasting the wealth and dynamism of that region with the relative stagnation of other developing regions -- arguing that governments in East Asia intervened far less in their economies than did governments in Latin America and Africa -- statists refute this claim on two points:

1. Evidence from South Korea and Taiwan reveals that the governments in these countries have actually intervened quite extensively in their market economies, and
2. The real difference between East Asia and other developing regions has not been the *absence* of government intervention but the *quality* of that intervention.

The two leading scholars from the statist camp are Alice Amsden and Robert Wade.[17] Based on her work in South Korea, Amsden developed a "late industrializing model" of development. In the sense that "industrialization was late in coming to 'backward' countries because they were too weak to mobilize forces to inaugurate development," Amsden argues that a strong state in South Korea helped overcome this deficiency.[18] Via five types of control over firms, the Korean government was able to create price distortions and thereby direct investment and the types of economic activity pursued by South Korea's large industries (or *chaebol*).[19] In fact, Amsden attributes the rise of big business in Korea to the state's ability to exert its discipline over it through a system of performance-based incentives. She argues that firms would be rewarded with licenses to expand in exchange for stellar performance in exports, R & D, or new product introduction. With this type of carrot-and-stick incentive system in the 1960's and 1970's, she argues, "every major shift in industrial diversification...was instigated by the state."[20]

Robert Wade has made a similar claim, arguing that "the state in Taiwan has been doing much more than the neoclassical accounts recognize to increase supply responsiveness and to steer the direction of industrial growth."[21] While he makes some distinction between Taiwan's treatment of its larger and smaller firms, where small firms have traditionally operated with much greater freedom, Wade is committed to demonstrating that Taiwan's government designed and implemented a labor-intensive manufacturing growth strategy that emphasized the production of plastics, artificial fibers, cement, glass, fertilizer, plywood, and, above all, textiles. Like Amsden, he argues that this was done by government manipulation of relative prices and other, more direct, methods of shaping investment patterns.

Wade argues that the "basic weakness of neoclassical development economics is its inattention to the idea that governments differ in their *capacities* to guide the market."[22]

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[17] Other writers who have asserted that state economic intervention is an essential component of economic growth include: Alexander Gerschenkron (1963), Raoul Prebisch (1950), Walt Rostow (1971), Christopher Chase-Dunn (1975), James Caporaso (1978), Samuel Huntington (1968), and Robert Kaufman (1979). Others who have suggested that East Asian NICs (other than Hong Kong) have benefited from a consistent, developmentalist, state-led strategy that entails continuing selective intervention by state agencies in private-sector decision making and market transaction to achieve strategic goals, include Frederic Deyo, Chalmers Johnson, Richard Barrett, Stephan Haggard and Bruce Cumings. Many of their arguments can be found in Deyo's edited work, *The Political Economy of the New Asian Industrialism*.

[18] Alice Amsen, Asia's Next Giant: South Korea and Late Industrialization. (New York: Oxford University Press, 1989).

[19] Ibid., pp. 16-18. Amsden argues that the Park administration from 1961-1979 controlled: (1) commercial banks and, thereby, the investments made by Korea's large firms; (2) the number of firms eligible for subsidies or protection; (3) prices; (4) capital flight: and (5) social services.

[20] Ibid., p. 19.

[21] Robert Wade, Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization. (Princeton, NJ: Princeton University Press): 73.

[22] Robert Wade, "The Role of Government," In Achieving Industrialization in East Asia, ed. Helen Hughes. (Cambridge: Cambridge University Press, 1988): 130.

Taiwan, South Korea, and Japan, he observes, have an unusually well-developed capacity for selective intervention that is derived from:

1. A powerful set of policy instruments (financial, trade and foreign investment).

2. A certain kind of organization of the state and its links with other major economic institutions in the society.

3. Superior economic performance -- notably with the rapid restructuring of the economy towards higher technology production.

Wade attempts to explain the causal connections between these three by establishing that the East Asian governments do have powerful instruments of selective industrial promotion at their disposal and asking about the conditions which have allowed these potential net benefits to be realized in the East Asian cases and which may not be present in other developing countries. The next section considers Wade's argument *vis-a-vis* East Asian trade strategies.

Trade instruments

In sharp contrast to the neoclassical position that the success of these three East Asian countries can be directly attributed to their adoption of a neutral policy regime, the core of which is a free trade regime and a small public sector unable to impose 'political' prices, Wade asserts that "trade controls have been important instruments of steerage in all three countries (Japan before 1970s, if not after)."[23] He goes on to argue that the governments have not allowed the domestic market for tradables to be directly integrated into the international market; they have not allowed the use of foreign exchange, the composition of imports, to be decided by domestic demand in relation to prices set outside the country. Rather, they have influenced the volume and composition of imports by a combination of selective controls on trade, both (non-discretionary) tariffs and (discretionary) quantitative controls.[24]

How does Wade reconcile this with the evidence used by the neoclassical position? In 1977, Bela Balassa prescribed a 10-15 percent uniform rate of effective protection for all manufacturing other than the infant industries, which should get a uniform rate of no more than double the normal rate. Wade finds that Taiwan's tariff structure is minutely differentiated by product, with tariffs ranging from zero to well over 100 percent.

He also argues that Taiwan used a 'referral' mechanism to control imports in order to further its secondary import substitution strategy for certain industries like petrochemicals, chemicals, steel, other basic metals, machine tools, forklift trucks, bearings and other

[23] Ibid., p. 139.
[24] Ibid.

machinery and components.[25] By requiring would-be importers to obtain special permission for any of these items or others listed on a 'covertly controlled permissibles list,' the government sought to enhance the ability of local suppliers to respond the increased demand from the export market. Wade offers several possible explanations as to why neoclassical writers such as Ian Little and Maurice Scott did not notice these import controls in the 1970s when they claimed that "progressive trade liberalization occurred through the 1960s 'until the 1970s Taiwan was virtually free of trade controls.'[26] He suggests that "what may have happened in the liberalization of trade controls was a switch of items from the formally controlled to the *de facto* controlled list, so as to permit the planners more flexibility to manage trade quantities while appearing to liberalize."[27]

Wade goes on to challenge the neoclassical assertion that the most important reason for Taiwan's success in increasing manufactured exports is that exporters faced a virtually free trade regime. While exporters were exempt from tariffs on intermediate imports used in the production of exports, he notes that "exporters have to pay duty on many capital goods (often of 20 or more percent in the late 1970s) and cannot freely import some very important intermediates as well as some capital goods."[28] This, he argues, must qualify the neoclassical assertion.

The link between industrial policy and economic growth: the statist view

To explain *how* the governments of Japan, South Korea and Taiwan were able to reap the potential benefits of industrial policy, Wade observes that:

1. The opening of the US market for cheap, labor-intensive manufactures was instrumental to their success;

2. The government interventions employed were (generally speaking) aimed at promoting competitive production;

3. The selective nature of the interventions meant that only infant industries or industries with links to other sectors that could affect the entire economy's growth faced positive

[25] Ibid., p. 140.
[26] Wade cites both Little's (1979) and Scott's (1979) work in "The Role of Government," In Achieving Industrialization in East Asia, ed. Helen Hughes. (Cambridge: Cambridge University Press, 1988): 141.
[27] Ibid., p. 141.
[28] Ibid., p. 142. See Rhee (1985) and Wade (1988) for a more comprehensive analysis of Taiwan's tariff-rebate scheme. In short, most major established exporters in Taiwan do not pay duties on imports; rather, the duties they owe are cancelled if they can prove that the imported inputs were used to produce exports within a year and a half. Other exporters normally get reimbursed once they actually export. However, duty rebates are based on input coefficients established by the government. While these are well-defined for established products, new products must be considered individually. Wade has observed that the administrative requirements necessary to provide free-trade incentives to exporters but not the domestic market are significant.

industry bias. Other, more established industries, did face a relatively neutral policy regime;

4. The interventions had a high degree of coherence, in the sense that their impact is cumulative. Those activities that received help from trade controls also received assistance through preferential investment finance and/or fiscal incentives too.[29]

[29] Ibid., p. 157.

Conditions necessary for industrial policy: the statist view

To explain *why* these countries were able to reap the potential benefits of industrial policy, Wade observes again that their governments were (potentially uniquely) disciplined and exhibited an organizational capacity that few other developing country governments can match. He outlines six key points why selective industrial policy worked in these countries and why they may *not* work elsewhere:

1. The central decision-making structure is staffed by the best managerial talent available.

2. The central decision-makers are relatively insulated from all but the strongest pressure groups.

3. The insulation of the central decision-makers, in turn, is based on an authoritarian, executive-based political structure, in which the executive jealously guards the feebleness of the legislature.

4. None of the countries has a powerful labor or left-wing movement.

5. None of the countries experiences the conflict chronic in many other countries, between powerful natural resource owners and manufacturers.

6. In all three countries, the political elite sees a pattern of growth which makes sense in the long run as essential to its own survival. Political legitimacy is to an unusual degree based on economic success.[30]

Dwight Perkins and Michael Roemer have also observed that many of the Asian governments viewed rapid economic development as essential to the survival of their regimes, as in Indonesia and Malaysia, or even of their countries, as in Korea, Taiwan, and Singapore.[31] Yet these authors note that African regimes have not made a similar political choice to pursue long-term development over short-term political and personal gain. Rather, they have extracted rents without heeding the sustained economic growth necessary to produce them.

While most Sub-Saharan economies were, and continue to be, based on the export of primary commodities, few have been able to effectively utilize the resources from this primary export sector to develop an industrial base adequate for manufacturing non-durables for export. In the early 1980s, Robert Bates offered one explanation for this. In his landmark study, *Markets and States in Tropical Africa*, Bates demonstrates how many

[30] Ibid., p. 160.

[31] Dwight Perkins and Michael Roemer, "Differing Endowments and Historical Legacies," In Asia and Africa: Legacies and Opportunies in Development eds, David Lindauer and Michael Roemer. (San Francisco: ICS Press, 1994): 25-58.

African governments use the power of state marketing boards to extract resources from rural areas in a manner that created serious disincentives to production for export.[32] He makes the case that these monopsonies -- the sole purchasers of cash crops for export -- use their market power to keep domestic prices paid to agricultural producers below world prices, thereby accumulating funds ostensibly for developing other sectors of the economy. By examining both the content and the political process behind the formation of agricultural policies, however, Bates demonstrates how African political elites manage to divert much of these funds to build organized support for themselves rather than for the development of the society as a whole. Bates argues that most African agricultural policies are designed not to create a system of rational, price-based incentives for producers in an effort to increase output and move resources from agriculture to industry as the East Asian countries did, but to secure advantages for particular political interests.

Comparative advantage and political will: the statist view

One of the most interesting contributions made by Wade, Amsden and other state-oriented writers is the notion that comparative advantage can be created. Amsden's late industrialization model incorporates a version of 'dynamic comparative advantage' which argues that industries in East Asia *learn* rather than *invent* or *innovate* as they did in the industrialized countries. Thus a resource-poor country can create a comparative advantage in technology by acquiring that technology from *inventors* in the rest of the world and by training its human resource base in its use. In this case, selective government intervention in capital accumulation and skill acquisition in technology-intensive manufacturing industries can actually create comparative advantage where there was none.

As a rebuttal of the neoclassical position that markets are the most efficient determinants of the allocation of resources, this statist version of the concept of comparative advantage is worth consideration. However, it and other aspects of the statist argument rest on an assumption that East Asian governments are motivated to intervene in the economy for essentially neutral, altruistic reasons. While both Wade and Amsden fall short in their examination of the political analysis of state motivations, Peter Evans has recently made an effort to fill this gap in the statist argument.

In his 1995 book, *Embedded Autonomy*, Evans expands on his previous assertion that the reason state involvement works in some cases and fails in others is largely due to the way the state is organized and tied to the rest of society. Taking state involvement in economic activity as a given, Evans does not ask "how much" states intervene, but "what kind" of intervention they attempt to put forward. Since states vary dramatically in their internal structures and relations to society, he concludes, they posses different capacities for action.

[32] Robert Bates, Markets and States in Tropical Africa: the Political Basis of Agricultural Policies. (Berkeley: University of California Press, 1981).

Based on empirical research into the development of local information technology industries in Brazil, India and Korea during the 1970s and 1980s, Evans is able to demonstrate the difference between a 'predatory state,' defined as one that extracts resources "at the expense of society, undercutting development", and a 'developmental state,' that has "not only presided over industrial transformation, but can be plausibly argued to have played a role in making it happen."[33] The success of the developmental states in East Asia, he argues, derives from their 'embedded autonomy' such that they are not insulated from society, but "embedded in a concrete set of social ties that binds the state to society and provides institutionalized channels for the continual negotiation and re-negotiation of goals and policies."[34] In this way, Evans claims that states can become "midwives" to private entrepreneurs, assisting in the emergence of new groups or inducing existing groups to venture into more challenging kinds of production via a "greenhouse" of tariffs or subsidies or helping local entrepreneurs bargain with transnational capital. Because of the highly mutual nature of the state-society relationship in a state like Korea, the political possibilities for state involvement are greater and more dynamic than the traditional state-versus-market debate would previously have been able to explain.

In contrast, Lindauer and Roemer have contended that applying this model of a state-society relationship to Africa or even Southeast Asia would be ill-advised: "African regimes, like those in Southeast Asia, have limited capacity to intervene decisively in private decision making to accelerate development, as Korea once did. In both regions, clientelism and rent-seeking are characteristic of most regimes. In Africa, these regimes have weakened only where economies were largely destroyed, as in Ghana and Uganda. In contrast to Southeast Asia, Africa's low government salaries, declining standards of performance, and weak official leadership have eroded morale in the civil service and forced many of the most competent officers to seek jobs elsewhere, often overseas. Until these conditions can be overcome, African developers should choose strategies that are no more interventionist than those in Southeast Asia, where civil service capabilities have been improving."[35]

IV. The Market-Friendly View

Somewhere in the middle ground between the neoclassical and statist camps lies the World Bank. While few economists anywhere strongly advocate active government intervention in the market, the World Bank has been particularly loath to do so given the tremendously poor performance of governments from Madagascar to Mongolia. However, the World Bank has identified itself as taking a position somewhere between the two extreme views on the state-

[33] Peter Evans, Embedded Autonomy: States and Industrial Transformation. (Princeton, NJ: Princeton University Press, 1995): 12.
[34] Ibid., p. 12.
[35] David Lindauer and Michael Roemer, eds. Asia and Africa: Legacies and Opportunies in Development. (San Francisco: ICS Press, 1994): p. 9.

versus-market debate when it comes to East Asia. In its 1991 *World Development Report* as well as its 1993 Policy Research Report entitled, *The East Asia Miracle: Economic Growth and Public Policy*, the World Bank adopts what it calls a "market-friendly view:"

> In the 'market-friendly' strategy...not only do governments need to do less in those areas that markets work, namely the production sector, they also need to do more in those areas where markets cannot be relied upon. The appropriate role of government in a market-friendly strategy is to ensure adequate investments in people, provision of a competitive climate for enterprise, openness to international trade, and stable macroeconomic management.[36]

In its 1991 *World Development Report,* the Bank argues that sustained economic growth is the result of "the positive interaction of four critical aspects of economic policy: macroeconomic stability, human capital formation, openness to international trade, and an environment that encourages private investment and competition."[37] They explain East Asia's economic success as the result of these four policies reinforcing each other in a type of feedback loop. While no single policy can be directly attributed with ensuring success, the Bank argues that consistent interaction among all four -- including government intervention in human capital formation -- is a recipe for success.

With respect to trade policy, the World Bank acknowledges that the eight Asian economies they considered in their 1993 study used a variety of policy combinations, from hands-off to highly interventionist.[38] While Hong Kong and Singapore adopted essentially free trade policies from the beginning, Japan, South Korea and Taiwan (as well as Indonesia, Malaysia and Thailand) were more interventionist. The mechanisms the World Bank identifies as having allowed them to tap the efficiency-enhancing benefits of international competition through mixed trade regimes are:

- granting exporters duty-free imports of capital and intermediate goods while continuing to protect consumer goods;

- setting export prices in the international market at levels that were often substantially less than current marginal or average costs;

- offsetting losses on export production with profits in protected markets, while ensuring that firms did not suffer from a loss of cost discipline by exposing them to international competition;

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[36] World Bank, The East Asian Miracle: Economic Growth and Public Policy. (New York: Oxford University Press, 1993): 84.
[37] Ibid., p. 85.
[38] The World Bank study considers Japan, Hong Kong, the Republic of Korea, Singapore, Taiwan, Indonesia, Malaysia, and Thailand.

- more recently, reducing the protection of import-substituting industries.

As for the East Asian NIC's success with industrial policy and "picking winners," the World Bank argues that such policies, overall, failed to guide industrial development along paths that it would not have taken if it had been guided by market forces.

V. Factor Productivity and the Absence of an East Asian Miracle

In 1993, Alwyn Young presented an NBER-financed paper at the European Economic Association Conference in Helsinki that boldly challenged the conventional view that the East Asian countries have succeeded by adopting relatively outward-oriented trade strategies. Young maintained that "the wrong inference is being drawn from the East Asian growth experience. While it is true that the East Asian NICs have had a strong outward orientation, it is also true that they have experienced extraordinary rates of crude factor accumulation. Once factor accumulation is taken into account, productivity growth in the economies in the NICs, and in particular in their tradable manufacturing sectors, does not appear to be extraordinarily high. Consequently, while outward orientation may or may not be associated with more rapid productivity growth, the rapid growth of the East Asian NICs should not be viewed as evidence of the potential dynamic gains from outward-oriented policies."[39]

Using the Summers and Heston (1990) purchasing power parity data set, Young looks at output per worker rather than output per capita (to get at productivity).[40] Looking at GDP growth this way, he argues, takes about 1 percent per annum (each year from 1960-1985) off of the growth rates of Korea, Taiwan and Hong Kong, and about 1.6 percent off that of Singapore. Thus in terms of labor productivity, the NICs overall growth record is not as astounding as previously thought. In fact, Young demonstrates that the majority of output growth can be explained by rising participation rates. With the same data set, he shows that a 1 percent increase in participation (largely due to population growth) leads to a .85 percent increase in growth of output per capita.

Next, Young uses the data set to look at the rise in investment-to-GDP ratios in all countries between 1960-1985. He shows that this ratio doubled in Taiwan, tripled in Korea and quadrupled in Singapore. This, he argues, helps explain the unusually rapid growth in the NICs output per worker.[41] Finally, looking at total factor productivity (TFP) growth

[39] Alwyn Young, "Lessons from the East Asian NICS: A Contrarian View." (Cambridge, MA: NBER Working Paper No. 4482, 1993): 1.
[40] Robert Summers and Alan Heston. "The Penn World Table (Mark 5): An Expanded Set of International Comparisons,, 1950-1988." *Quarterly Journal of Economics* 106 (May 1991): 327-368.
[41] Young developed detailed estimates of total factor productivity growth in the NICs, decomposing capital input into its component parts (e.g. residential, non-residential, machinery, etc.), adjusting for hours of work and the changing sex, age and educational characteristics of the working population, and using actual data on

(defined as the increase in productivity that cannot be explained by measured increases in inputs). Young also observes that the Summers and Heston data reveal that TFP growth rates for Taiwan, Korea and Singapore are not significantly differentiated from that of the rest of the world economy. He concludes, therefore, that rapid factor accumulation, of both capital and labor, explains the lion's share of the East Asian growth miracle, both in the aggregate economy and in the manufacturing sector."[42]

Paul Krugman has joined Young in his effort to debunk the conventional explanations of rapid growth in East Asia. In a 1994 paper, Krugman compares the debate over sources of Soviet growth in the 1950s with that occurring today over Pacific Rim growth. In both cases, he argues, simple growth accounting reveals that rapid growth in inputs and *not in the efficiency with which those inputs are used* can explain each region's growth completely. That is to say, "Asian growth, like that of the Soviet Union in its high-growth era, seems to be driven by extraordinary growth in inputs like labor and capital rather than by gains in efficiency."[43]

Singapore is the most pronounced case. Krugman claims that Singapore's growth rate of 8.5 percent per year from 1966 to 1990 can be completely explained by its dramatic increase in employment (27 to 51 percent of the population) and its dramatic gains in educational standards and investment in physical capital (investment-to-GDP ratio rose from 11 to more than 40 percent).[44] While he observes that the other East Asian economies have not increased their labor force participation as much, made as significant improvements in educational standards or investment/GDP ratios, there is equally little evidence of improvements of efficiency in each case. This leads him to conclude that these economies were already, on the whole, relatively efficient; they merely lacked capital and educated workers.

One critique of the methodology employed by both Krugman and Young is that total factor productivity growth in an economy, identified as the residual in a simple cross-sectional regression of the growth of output per worker on a constant and the growth of capital per worker, is not only subjective, but can be easily mis-interpreted since technical change in the world economy is likely to be captured in the coefficient on capital per worker, thus overstating the elasticity of output with respect to capital input.[45] As an indication of the dispute over TFP, the World Bank has argued that only "about two-thirds of East Asia's extraordinary growth is attributable to rapid accumulation; that is, to unusually rapid growth in physical and human capital. The remaining third of this

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compensation to estimate the output elasticities. From these, he estimates total factor productivity growth rates of 2.4% (71-91) for Hong Kong, -1.1% (70-90) for Singapore, 1.8% (70-90) for South Korea, and 2.1% (70-90) for Taiwan. See Young, "The Tyranny of Numbers," 1993.

[42] Young, "A Contrarian View," (1993): 15.

[43] Paul Krugman, "The Myth of Asia's Miracle." *Foreign Affairs* 73 6 (November/December 1994): 70.

[44] Krugman takes these figures from Young, (1993).

[45] Young uses the equation: $\vec{Q}_i - \vec{E}_i = -.21 + .45(\vec{K}_i - \vec{E}_i) + E_i$

growth cannot be explained by accumulation and is therefore attributable to increased efficiency or TFP."[46]

The TFP debate is linked to that regarding international trade strategies in that the World Bank and others see an outward-oriented trade strategy as positively related to TFP growth. Anne Krueger writes, "rates of total factor productivity growth have been much faster in economies with outward-oriented trade strategies than in economies with import substitution."[47] Reasons for this link are hypothesized to be:

- the ability of low-cost producers to increase their share, and expand beyond the scale, of the domestic market;

- the increasingly competitive environment, and incentives provided by it for finding more efficient ways of combining inputs; and

- the more productive utilization of newly accumulated resources and with it, the rapid shift of the labor force towards more productive employment.[48]

Additionally, Krueger cites a once-and-for-all increase in output per unit of input due to outward orientation as firms increase their rate of capacity utilization (as firms are no longer constrained in their access to imported inputs). She also cites a 'technological catch-up' that many economists believe occurs when firms have free access to imported inputs which they can "take apart" and reassemble and as they learn about modern production methods in general.

As a point of comparison, the World Bank has also noted that "far and away the major difference in predicted growth rates between the high-performing Asian economies and Sub-Saharan Africa derives from variations in primary enrollment rates. Investment accounts for only about 20 percent of the difference. Education is the main theme of the story of the differences in growth between Sub-Saharan Africa and the East Asian high performers."[49]

Nevertheless, the World Bank has argued that public policy did *not* play an important role in the rapid growth of TFP in the East Asian NICs. Rather, they believe that the "rapid growth of exports, a result of the export-push policies of the high-performing Asian economies, combined with the superior performance of these economies in creating and allocating human capital, provided the means by which they attained high rate of productivity-based catching up and TFP growth."[50] They see the static factors Krueger

46 World Bank (1993): 48.
47 Anne Kreuger (1995): 20.
48 Ibid.
49 World Bank (1993): 53-54.
50 Ibid., p. 316.

mentioned such as economies of scale and capacity utilization as accounting only for an initial surge in productivity, but inadequate in explaining continuing TFP growth rates. To explain these, the World Bank sees the relationship between exports and productivity growth as arising from "exports' role in helping economies adopt and master international best practice technologies. High levels of labor force cognitive skills permit better firm-level adoption, adaptation, and mastery of technology. Thus, exports and human capital interact to provide a particularly rapid phase of productivity-based catching up."[51]

VI. The New Institutional Economics

In 1986, Chung Lee and Seiji Naya were among the first to apply principles from the new institutional economics (NIE) to the problem of explaining sources of East Asian economic growth.[52] While they do not dispute that trade and a favorable world economic environment have been important to this growth process, they raise the question, like Young, of whether or not the lesson to infer from the East Asian experience is that a simple outward-orientation is sufficient in explaining growth. Rather, they argue that the role of government in these countries is better captured by the "internal organization" theory proposed by NIE theorist Oliver Williamson than by the mere removal of man-made obstacles to international trade. This removal of trade-related obstacles such as tariffs, licensing requirements and quantitative restrictions for imports, in their view, assumes a supply response too highly elastic on the part of private entrepreneurs than the evidence suggests.

Lee and Naya concede that neoclassical theory falls short in its attempt to fully explain East Asian growth largely because it neglects or dismisses as inconsequential the role of direct government intervention on economic growth and export expansion in these countries. At the same time, however, these authors fault the statist position for not persuasively explaining why direct government intervention was required in the East Asian NICs since, in principle, governments could correct market failure with tax-cum-subsidy schemes and since economies of scale could be realized in an outward-oriented economy without the distortionary effects of monopoly. Lee and Naya also fault Robert Wade for not adequately explaining why the political leadership and bureaucracies in East Asia were committed to achieving economic growth rather than pursuing the self-enriching rent-seeking schemes that are so prevalent in Sub-Saharan Africa. To convincingly demonstrate that the type of direct government intervention observed in East Asia was both necessary and sufficient for economic growth, they argue that such

[51] Ibid., p. 317.

[52] Lee and Naya (1988). An earlier version of this paper was presented at the conference, "Why Does Overcrowded, Resource-Poor East Asia Succeed -- Lessons for the LDCs?" held at Vanderbilt University, October 17-19, 1986.

intervention must be proven to be *more efficient than the market* in implementing growth policies.

Oliver Williamson's theory of internal organization, they argue, gives several persuasive reasons why the type of hierarchical, internal organization witnessed between the East Asian governments and large, private enterprises is more efficient than the market. Williamson derives his theory, in part, from that of Ronald Coase which posits that firms might replace the market as a means of allocating resources and coordinating exchanges because it reduces transaction costs and thus represents a more efficient means of organization.[53] Williamson's reasons why a private, hierarchical organizational structure might do this include:

- *Bounded rationality*: Hierarchy extends the bounds on rationality by permitting the specialization of decision-making and economizing on communication expense.

- *Opportunism*: Hierarchy permits additional incentives and control techniques to be brought to bear in a more selective manner, thereby serving to curb small-number opportunism.

- *Uncertainty*: Hierarchy permits interdependent units to adapt to unforeseen contingencies in a coordinated way and furthermore serves to "absorb" uncertainty.

- *Small numbers*: Hierarchy permits small-numbers bargaining indeterminacies to be resolved by fiat.

- *Information impactness*: Hierarchy extends the constitutional powers to perform an audit, thereby narrowing (prospectively at least) the information gap that obtains between autonomous agents.

- *Atmosphere*: As compared with market modes of exchange, hierarchy provides, for some purposes at least, a less calculative exchange atmosphere.[54]

Lee and Naya expand on this to argue that the public-private cooperation prevalent in East Asia represents a type of "quasi-internal organization" that shares many, if not all, of Williamson's characteristics. They claim that "direct contact between the government and enterprises, which may be maintained through "deliberation councils" and discussion groups," permits sharing of information between the two that would otherwise have to be done indirectly through prices. The government possesses additional incentive and control techniques to be brought to bear in a more selective manner, it can coordinate interdependent enterprises to adapt to unforeseen contingencies, and it can resolve with

[53] Ronald Coase, "The Nature of the Firm," *Economica* (November 1937).

[54] Lee and Naya (1988) adopt this theoretical model from Oliver Williamson, Markets and Hierarchies: Analysis and Antitrust Implications. (New York: Free Press, 1975): 257-58.

fiat small-number bargaining indeterminacies among enterprises to the benefit of the public good."[55]

Looking at the East Asian state-enterprise relationship this way, they argue, provides an approach for analyzing the effects of direct government intervention on economic growth. To answer the question, "what is there that will prevent perpetuation of wrong policies once they have been adopted?" They contend that because of external competition, "the quasi-internal organization in an outward-oriented economy is more likely to be flexible and quick to change wrong policies than an inward-oriented economy."[56] Because prices for an outward-oriented economy are determined by the rest of the world, the government cannot change prices arbitrarily because wrong prices would be translated into losses for private enterprises and, ultimately, for the economy as a whole.

To assess whether the hierarchical reciprocity of the quasi-internal organization between state and industry might work in Sub-Saharan Africa, it is import to note that both Williamson and Lee and Naya emphasize that such organizational efficiency cannot be independent of the social context within which transactions take place. The historical and cultural origin of close government-business cooperation has been documented by others and may be reinforced by the situational imperatives of Amsden's late development, a lack of natural resources, a large population, and the need to trade.[57] Looking to Southeast Asia, which shares more in common with Sub-Saharan Africa than East Asia does, Lee and Naya note that "the governments in Southeast Asia are engaged more in the role of distributing rents and less in the role of promoting exports and economic growth, while the governments in East Asia, lacking natural resources, saw their role more in growth promotion than in rent distribution."[58] Certainly the role of both government and natural resources in economic development and their cultural and historical specificity are topics for further consideration.

More recently, David Kang has also attempted to go beyond the state-versus-market debate, remarking that the debate "has become old and potentially irresolvable" in that, empirically, the East Asian NICs may be an anomaly anyway.[59] In an effort to identify a potentially unifying perspective, he too looks to the new institutional economics and its emphasis on transaction costs.

Like Lee and Naya, Kang observes that the NIE has been centrally concerned with explaining why institutions develop and how they affect economic outcomes by reducing transaction costs. As such, Kang suggests that the NIE could effectively be used as a

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[55] Lee and Naya (1988): S145-46.
[56] Ibid., p. S147.
[57] Among those who have outlined the extent of state-business cooperation in East Asia are R. Hofheinz, Jr. and K.E. Calder, The Eastasia Edge. (New York: Basic Books, 1982): 23-24.
[58] Ibid., p. S152.
[59] David Kang, "South Korean and Taiwanese Development and the New Institutional Economics." *International Organization* 49 3 (Summer 1995): 559.

methodology to explain the existence of the Korean *chaebol* in that a transaction cost analysis may explain how internalizing the relationships among various firms minimized both bureaucratic and legal costs. He also urges an analysis of the role of the East Asian governments in setting the 'rules of the game,' defining and enforcing property rights and contracts, and providing a secure political foundation for production and exchange since that role clearly served to reduce costs for private enterprise. He suggests that "the NIE offers potential insights into the subject of bureaucratic control and internal conflicts in the state and how informal and formal institutions mediated, enforced, and monitored state-society relations."[60]

VII. The Relevance of Southeast Asia for Africa

As a result of the state-versus-market debate and the contribution of others such as Young, Lee, and Naya, the emerging consensus has begun to view East Asia as a continuum of development strategies.[61] These strategies range from the pure, neoclassical non-interventionism of Hong Kong, to the highly interventionist case of Korea. Common to all of the East Asian NICs, as well as the Southeast Asian emerging economies of Indonesia, Malaysia and Thailand, however, are a stable macroeconomic environment characterized by a stable exchange rate, and flexible and responsive factor markets. What distinguishes the Southeast Asia countries and makes their experiences perhaps more relevant than that of the East Asian NICs to Sub-Saharan Africa, are their trade and industrial policies. David Lindauer and Michael Roemer have argued that as natural resource-rich, ethnically diverse countries which lack the human capital and bureaucratic capacity to manage trade the way Korea and Taiwan did, Indonesia, Malaysia, Thailand, and the Philippines "have more in common with many African countries and may therefore offer more relevant development legacies than any of the four East Asian tigers."[62]

These Southeast Asian countries adopted trade regimes which promoted exports by establishing mechanisms, such as duty-free zones and drawback schemes, to insulate exporting enterprises from the high costs of protection and rent-seeking.[63] Catherine Hill has considered three of these export promotion schemes used by Southeast Asian countries and compared their use in Africa.[64] The three schemes she considers are: export processing zones (EPZs), duty drawbacks and exemptions, and government support for marketing.

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[60] Ibid., p. 574.
[61] David Lindauer and Michael Roemer (1994): p. 5.
[62] Ibid., p. 5.
[63] Ibid., p. 6.
[64] Catherine Hill, "Trade Policies and the Promotion of Manufactured Exports," In Asia and Africa: Legacies and Opportunies in Development eds, David Lindauer and Michael Roemer. (San Francisco: ICS Press, 1994): 367-400.

Export Processing Zones (EPZs)

Export processing zones have been prevalent in Asia and Latin American for over twenty years. As industrial parks established by the government to provide exporters with duty-free imported inputs, infrastructure, subsidized utilities, and a favorable regulatory and tax environment, these zones are meant to increase the profitability of investment in the export sector. They are also frequently used as a means to reduce unemployment, earn foreign exchange, transfer technology and "demonstrate" to local firms certain international best practices. Because EPZs can be established relatively easily in countries still characterized by trade with policy distortions. As such, they have been popular in Southeast Asia where broader liberalization efforts have been unsuccessful.

Peter Warr has evaluated a number of cost-benefit studies of EPZs in Indonesia, Korea, Malaysia and the Philippines. He concludes that the benefits have been quite small. In general, few inputs are purchased locally due to relatively high prices and low quality. Technology transfer has been largely limited to basic training of assembly workers. What benefits there have been in Korea, Malaysia and the Philippines, Warr concludes, result from employment and foreign exchange earnings; yet the ability of EPZs to have an impact on the overall unemployment problem is only slight due to their relatively small contribution to output.[65]

In Africa, Hill finds that EPZs are relatively scarce. If the definition of EPZ includes in-bond or duty exemption arrangements, such schemes exist in Liberia, Senegal, Togo, Ghana and Mauritius. Of these, only Mauritius is considered a success. Hill explains Mauritius' success by citing its relatively well-educated population (90 percent literacy rate), and the presence of an active entrepreneurial class. The Mauritian government has also maintained a stable macroeconomic environment and good road system.

Hill argues that EPZs have played only a limited role in a few Asian countries and that Africa should not take from this experience an indication that these arrangements can replace sound macroeconomic management and overall trade liberalization. EPZs have, in general, not been effective in countries just starting to produce manufactures and are not considered a dynamic source of economic development. Their limited linkages to the rest of the economy and slight contribution to labor absorption, she argues, do not, on balance, foster long-term growth in manufactured exports.

Duty Drawbacks (or Rebates) and Exemptions

Many of the Asian countries have used duty-free access to imports for exporters to offset any anti-export bias resulting from tariffs and quantitative restrictions on imports used in

[65] Hill finds that EPZs accounted for 4 to 5 percent of developing country manufactured exports in 1988, with the lion's share coming from Korea, Malaysia and Taiwan.

the production of exports.[66] Under an exemption scheme, exporters are exempt from paying duties on imported inputs. Under a duty drawback scheme, exporters get reimbursed for duties paid on such imports.

Of the Southeast Asian countries, Indonesia has enjoyed the most success with its duty rebate and exemption scheme. By 1987, all qualified exporters had access to duty drawbacks and firms exporting 65 percent or more of their production were exempt from import licensing and duties. Hill observes, however, that the success of these schemes is largely due to a larger reform package that included a Swiss firm monitoring import values and duty rates (to eliminate corruption and bureaucratic delays), two devaluations, import liberalization and the conversion of non-tariff barriers, including licensing, to tariffs.[67]

Thailand, the Philippines and Malaysia have also implemented duty drawback and exemption schemes. However, the World Bank and others have documented the unsatisfactory results of these schemes in these countries, largely due to their administrative intensiveness.[68] Bureaucratic inefficiencies have prevented universal access of exporters to the schemes, creating a new set of biases. The World Bank has noted, "in none of these countries have these systems been as comprehensive in coverage, automatic in access, and effective in administration, as has been in the case in Korea."[69]

The African experience, with the exception of Botswana, appears to mirror that of the Southeast Asian countries. Kenya has perhaps gone the farthest -- implementing an Export Compensation Scheme and import duty and VAT remission schemes -- and yet it has seen little success. Hill contends that this is largely explained by Kenya's overall negative environment toward exports. In general, Hill observes that duty drawbacks and exemption programs cannot compensate for high levels of import protection and little real commitment to liberalization.[70] Due to their high administrative costs and opportunities for rent-seeking, she does not recommend them except in the context of a wider trade reform effort.

Marketing

The four East Asian tigers have had tremendous success in using trade promotion organizations (TPOs) to identify foreign markets for their exports. Nevertheless, Hill is quite reluctant to recommend such organizations to other developing countries. While the four East Asian NIC's established these organizations (both public and private) in the

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[66] Hong Kong and Singapore have no tariffs or quantitative restrictions on imported inputs.
[67] Hill , p. 377.
[68] World Bank, World Development Report 1987. (Washington, DC: The World Bank).
[69] Ibid.
[70] Hill, p. 382.

context of an overall environment that supported exports, this has not been the case in other countries. In Africa, more than a dozen countries have such organizations and very few have been effective in promoting exports. Hill cites the following reasons for this:

- TPOs could not offset macroeconomic disincentives to exports.
- Public sector TPOs tend to have too many political objectives, which tends to reduce their ineffectiveness.
- Public sector TPOs tend to hinder private sector provision of the same services, even though the private sector could do so more effectively.
- TPOs tend to operate out of Ministries of Trade which renders them ineffective, with little access to resources or influence over policy.
- Government employee are often unsuited to the task of international marketing.[71]

Other authors, such as Donald Keesing and Andrew Singer, have argued in favor of Africa increasing the role of the private sector to supply international marketing services, both for the reasons cited above as well as the constraints on government expenditures.[72]

VIII. Areas for Future Research

It is well beyond the scope of this paper to summarize and evaluate all of the literature on East Asian economic growth. While an effort has been made to summarize the major arguments and identify works associated with each argument, there are clearly other arguments and issues that remain. On the basis of the works and ideas discussed in this paper, however, several areas where future research might be best directed can be identified.

The state-versus-market debate has been fairly well explored, and yet there are no clear presciptions for state intervention or non-intervention that have come from it. In the context of Sub-Saharan Africa, the statist observation that government *capacity* to intervene constructively rather than destructively seems to have the most relevance. There is recent evidence that some African countries are only too eager to adopt the authoritarian political regimes they perceive contributed to success in Singapore.[73] To do

[71] Ibid., p. 392.
[72] Donald Keesing and Andrew Singer, "How Support Services Can Expand Manufactured Exports: New Methods of Assistance." (Washington, DC: Policy, Research, and External Affairs, Country Economics Department, The World Bank, 1991).
[73] Howard W. French, "Africans Look East for a New Model." *The New York Times*, February 25, 1996.

so without consideration of the type of state-society partnership that exists in Asia may be a mistake, however. Future research into whether and how African countries might develop such a partnership and vest the interests of their political leaders in the long-term economic development of the country rather than in their short-term personal gain may be worthwhile.

As Lee, Naya, and Kang have illustrated, the new institutional economics may provide a useful methodology for evaluating the relationship between the public and private sectors. They have argued that both the neoclassical and statist schools assume that governments are able to effectively reduce transaction costs for private enterprises like removing certain man-made obstacles to trade; yet neither school has been able to argue effectively why the government should be any better able to do so than the market. Lee and Naya's proposition that the state must be proven to be *more efficient* than the market in implementing trade and growth policies is an important launching point for further research in Africa. The NIE offers a good mechanism for determining whether or not African states are efficient providers of services like export promotion or the provision of credit. By estimating the relative transaction costs faced by firms when the government or the market provides these services, researchers may be able to make a more persuasive argument for one or the other.

Another, related topic for possible research concerns the effectiveness of individual policies in affecting economic activity. In the relatively small, tightly controlled East Asian countries, the ability of the government to regulate imports and exports at the port and along other major routes is taken as given. In Africa, however, the evasion of government efforts to intervene in international trade are frequently circumvented. Informal trade flourishes across the continent. This raises the question of whether or not certain policies are more effective if the are coupled with others. For example, a devaluation in the real exchange rate may not immediately alter incentives in favor of exports if other measures of trade liberalization (such as export taxes, licensing requirements, and foreign exchange restrictions) are not undertaken simultaneously. Future research could address this issue.

Any research that is undertaken with the goal of adapting lessons learned from Asian experiences with outward-oriented trade strategies, should keep in mind the caveat underscored nearly universally by other writers on this topic: the Asian countries do not represent one, distinct model of development, but rather a continuum of development strategies. In looking to this region for solutions to Africa's attempts to reform its international trade strategies, therefore, bilateral comparisons -- especially with the resource-rich Southeast Asian countries that also lack bureaucratic capacity -- should be more fruitful than multilateral comparisons. In short, any attempt to simply replicate the 'East Asian miracle' by implementing a basket of policies is misinformed and may lead to delayed development rather than the rapid rates of growth that the African countries seek.

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