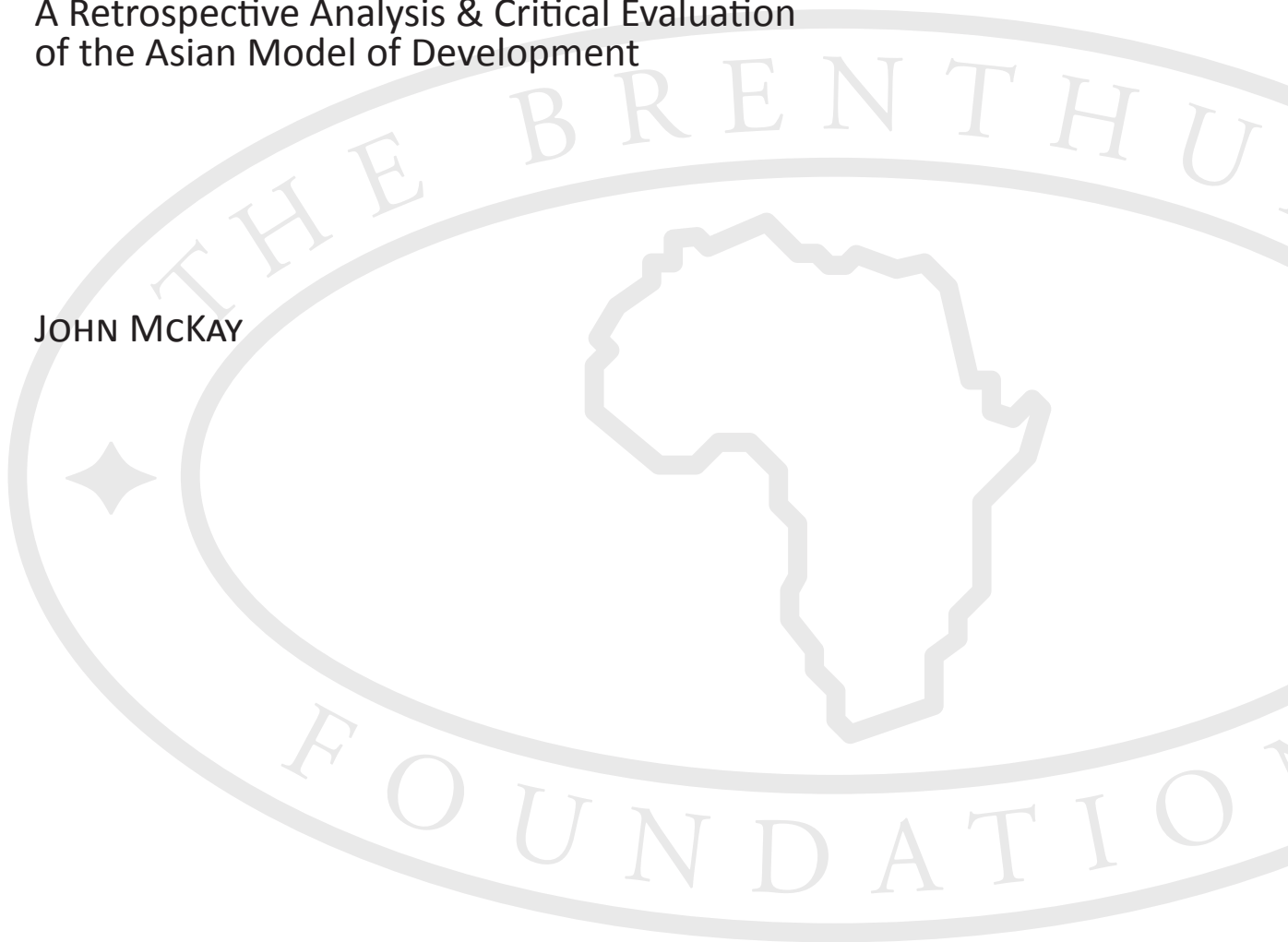


THE ASIAN 'MIRACLE' AFTER THE GLOBAL FINANCIAL CRISIS: SOME LESSONS FOR AFRICA

A Retrospective Analysis & Critical Evaluation
of the Asian Model of Development

JOHN MCKAY



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About the author

Professor John McKay is Director of the Australian APEC Study Centre, and a Partner in Analysis International, a research institute and think tank based in Melbourne. He is former Director of the Monash Asia Institute.

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PO Box 61631, Marshalltown 2107, South Africa
Tel +27-(0)11 274-2096 · Fax +27-(0)11 274-2097
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Executive Summary

This Discussion Paper addresses several key questions about the much-discussed 'Asian economic miracle' and evaluates the applicability of the Asian experience to other underdeveloped regions – and Africa in particular – seeking to enhance their own rates of progress. The focus is very much on policy lessons from the Asian experience and the extent to which these are transferable to quite different situations. These questions have been given new life in the aftermath of the recent global financial crisis from which Asia has emerged rather quickly and relatively unscathed, leading some commentators to suggest that the long-predicted move to greater Asian dominance in the global economy has now been accelerated. In this paper the author argues that there is an Asian model that is identifiably different from the neo-classical paradigm that has dominated most discussions in the literature on development theory and policy – and critically, that this approach cannot be separated from some other key political, cultural and other components. He also contends that whilst China has been significantly reformed, its basic approach to policy is not converging to a standard Western model, but rather is still in line with an identifiable Asian model. The author concludes by looking at the policy implications of this analysis for other parts of the developing world, such as Africa, in terms of the new opportunities provided by emerging relations with Asia.

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of development

Introduction

Asia is now of enormous interest to the rest of the world, and to the poorer countries in particular, because several Asian nations seem to have discovered the secret of very rapid economic growth sustained over several decades. There are some remarkable stories of success especially in East Asia, with most attention now being given to the remarkable growth of China. As Asia has grown at these spectacular rates, its place in global trade, patterns of foreign investment and technological development have shown similar levels of increase. There is also a widespread opinion that the recent global financial crisis has accelerated the shift of power from the West to the East.

Japan began its rise as a global economic power in the 1960s, followed by the 'Four Tigers' – South Korea, Taiwan, Singapore and Hong Kong. More recently China has become a major player in global manufacturing in particular: it is now the world's second largest economy and the largest exporter. In many areas China now has established a staggering level of global dominance, but is also establishing itself in a range of more technologically demanding industries, notably computers. To supply this industrial transformation, China now consumes more than half the world's cement, and a large proportion of global output of steel. Its demands for oil and natural gas have had a dramatic impact on the global market and the price of these products.

Another economic transformation that may turn out to be equally influential seems to also be underway in India, although this began rather later and hence its dimensions and the precise nature of its trajectory are more difficult to discern. While China's rise has been based on manufacturing, India is becoming a global leader in services of various kinds, especially in the rapidly expanding areas of computer software, biotechnology and medical technology, but also in more routine customer services.

The emergence of India and China as economic superpowers has encouraged some commentators to predict that by the middle of this century, these two nations will have the largest economies in the world. Thus, they argue, wealth and power are moving remorselessly towards the East. Clyde Prestowitz, for example, has pronounced that the arrival of three billion new capitalists in Asia is resulting in the dramatic transformation of the world as we know it.¹ Similarly, Mahbubani argues that Asia is now returning to the centre of the world stage, a position it enjoyed for 18 centuries before the rise of the West in the late eighteenth century.²

Commentators in Africa, Latin America and even parts of Europe and North America have at various times asked how they can learn the lessons of Asia and apply them to their own situations. Why, asks Alice Amsden, isn't the whole world

The dominant framework remains distinctively Asian in one form or another

adopting the Asian model of development?³ In fact there is still a lively debate about the causes of the 'Asian miracle' and the extent to which the model has wider applicability, and this interest has generated a vast and intriguing literature, and part of the aim here is to distil some of the major findings from this large amount of research.

Importantly, these questions have been given new life in the aftermath of the recent global financial crisis from which Asia has emerged rather quickly and relatively unscathed, leading some commentators to predict that the long-predicted move to greater Asian dominance in the global economy has now been accelerated. In the process there has been widespread scepticism about the continued relevance of an old neo-liberal model of development: former British Prime Minister Gordon Brown famously declared at the end of a G20 meeting that the Washington Consensus was dead. At the same time there has been renewed interest in the Asian model, which in the eyes of many had been dealt a fatal blow by the Asian economic crisis of 1997. Some particularly interesting work has emerged on how Asia responded to this earlier crisis and how this put many countries in a much stronger position to face the more recent global turbulence.

In this paper I seek to address some key questions about this supposed miracle in Asia, and to evaluate the applicability of the Asian experience to other underdeveloped regions – and Africa in particular – seeking to enhance their own rates of progress. The focus is very much on policy lessons from the Asian experience and the extent to which these are transferable to quite different situations. This involves trying to unravel the extent to which key factors in Asia were special to that region, or to the time when many Asian countries began their transformations. One basic question concerns whether there is really such a thing as an Asian model that is identifiably different from the neo-classical paradigm that has dominated most discussions in the literature on development theory and policy, especially in international institutions such as the World Bank and the IMF. I argue that the answer here is a clear 'yes', and move on to suggest that while there were differences between individual nations in how the model was applied, there are enough commonalities to support the idea of a basic set of ideas informing policy across the region. I then summarise the basic features of this model, but importantly I suggest that the economic basis of the Asian approach cannot be separated from some other key political, cultural and other components, and that Asian success cannot be understood without examining the global and regional environments, including the strategic situation, in which these momentous changes took place. With this contextual analysis in mind I also look at the different variations in the basic model

It is clear that cultural and political change is moving rapidly in Asia along with economic transformation

that were applied to individual countries in the region, and present a general classification of these approaches. Next I bring the discussion to the present day and consider two key issues. Some ten years ago the East Asian region was engulfed by a financial crisis of epic proportions, and this led some commentators to suggest that these events have discredited the Asian model to such an extent that it is now irrelevant in terms of the policy debates about development alternatives for the rest of the world. Along similar ideological lines, such commentators also contend that the continued spectacular rise of China has resulted directly from its adoption of a standard Western and capitalist model of development. In fact, I argue, both of these propositions are incorrect. While there have been reforms in East Asia after the crisis, there has not been the convergence on a standard Western model that had been predicted. Similarly, while China has also been significantly reformed its basic approach to policy it is still in line with an identifiable Asian model. In fact China's confident drive into the rest of the world – in search of resources, market and influence – has been accompanied by the enunciation of a Beijing Consensus that is challenging the power of the older and discredited Washington Consensus. This leads naturally to the last part of this paper which looks at the policy implications of this analysis for other parts of the developing world, such as Africa, in terms of the new opportunities provided by emerging relations with Asia, and the lessons that might be applied from the Asian experience for new approaches to development policy.

The Asian Model: A Challenge to Economic Orthodoxy?

For much of the period since the Second World War ideas about the most appropriate policies that should be implemented to encourage significant and sustainable levels of growth have been dominated by an orthodoxy based on the tenets of neo-classical economics. While there have been some challenges from other schools of thought, these have been generally short-lived.⁴ The dominance of this paradigm has been particularly marked in the last two decades or so, at least until the onset of the global financial crisis which, as I have already noted, has seen it completely discredited in the eyes of many commentators. Throughout this period there have been many opponents of the prevailing orthodoxy who have pointed to the Asian model as a viable alternative, and these voices have now become much louder and more influential. Here I want to review the history and particular nature of this continued and now revitalised challenge, stressing that the Asian model is much broader, more complex and more fundamental than has been appreciated by many commentators particularly in the West.

The Asian model did not involve just a narrow concern with the economy - it was about the transformation of entire societies

The Challenge of the Asian Model: Basic World View

Most fundamentally, Asian success has called into question many of the dominant assumptions about the kinds of societies and institutions that are likely to emerge as nations go through a process of development, especially in an era of globalisation. For much of the post-war period there has been an assumption that as societies develop they also go through a process of 'modernisation' that involves the emergence of a range of Western-style institutions. Under globalisation this also involved an assumption that nations would converge on some kind of international 'best practice'. In fact, this does not seem to have happened. Rather, individual economies continue to differ from one another in quite fundamental ways and much attention has been given to the factors that account for these multiple trajectories, and why these differences persist and are even magnified. It is no accident that almost all of this analysis has revolved around developments in Asia.⁵

Individual Asian nations have developed sufficient confidence in their distinctive modes of organisation to withstand external pressures for conformity to a 'normal' Western model. Some individual Western elements may have been introduced, but the dominant framework remains distinctively Asian in one form or another. This self confidence has been derived from a deep pride in their own historical and cultural legacies and identities, but this has been sharpened by both recent economic successes and a determination that there must be no repeat of earlier failures and humiliations at the hands of Western powers.

One result of Asia's economic success is the creation of increasingly powerful economic, financial and trade links that are binding Asia together ever more tightly, giving rise to what some see as a new form of pan-Asian identity, one that is based on some common cultural patterns, historical trading links going back several centuries and a shared colonial experience, but more importantly on a new sense of success and confidence derived from the remarkable growth that has taken place in the region since the 1960s. In his much quoted essay on the 'Asianisation of Asia', Funabashi Yoichi argues that the realisation of shared values and interests in Asia, and the strong ties and co-operation emerging in the region can make a valuable contribution to a new world order.⁶ Such a view has been developed further by that very eloquent Singaporean commentator on Asian affairs, Kishore Mahbubani who has stressed that the reassertion of Asian values represents a complex process of regeneration and rediscovery that is an inevitable aspect of the rebirth of societies, an argument I will return to in relation to Africa.⁷

Very much in keeping with Mahbubani's interpretation are the current debates raging in Asia about the applicability to local societies of concepts of democracy,

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human rights and the whole structure of what constitutes legitimate political life derived almost exclusively from the experiences of Europe and North America. Sylvia Chan, for example, has presented some provocative arguments about the complex relationships between liberalism, democracy and development in Asia, and in the process has challenged much of the conventional wisdom, or perhaps wishful thinking, about the universal applicability of these values.⁸ In the Asian development experience, the guarantee by the state of certain economic, civil and political liberties has been essential, but the forms of these have not corresponded with the conventional Western templates. More specifically, a number of authors have examined alternative approaches to democracy and human rights in various parts of Asia, moving the debate well beyond any suggestion of mere justifications for authoritarian regimes, while at the same time highlighting some quite distinctive Asian models.⁹ It is clear that cultural and political change is moving rapidly in Asia along with economic transformation. New structures and aspirations are emerging, yet these do not arise from a vacuum. Asia's rich historical legacy, and the institutions that have been shaped over the years, give a particular and distinctive feel to these new forces and forms – a complex mix of tradition and transformation.

The Challenge of the Asian Model: Economic Systems and Policy Frameworks

This dissent from a Western norm certainly also extends into the design of economic policies. There is little acceptance in most Asian countries of Western inspired prescriptions for successful economic and financial management, such as those enshrined in the 'Washington consensus'. A number of researchers have suggested that the Asian model of growth is in fact a case unto itself. Chalmers Johnson has gone so far as to argue that the success has been based on the combination of some of the best features of both the capitalist and socialist systems, yet avoiding the major weaknesses of each.¹⁰

It is perhaps the role of the state in Asia that has given rise to most controversy. The theory of the developmental state has drawn on a number of important strands of economic thought that highlight the key roles that governments may play.¹¹ Rosenstein-Rodan's theory of the 'big push' was one such key foundation, based on the argument that a minimum quantum of investment was necessary to kick start growth, something that could not be achieved by small increments of finance.¹² So was Alexander Gerschenkron's work on late industrialisation in which he affirmed that as global production increases and hence the minimum scale of efficient output is raised so the size of investments must also increase markedly, and only through state involvement can nations seek to join the club of industrialised powers.¹³

Development policy is not just a technical matter, but is highly political and therefore contested

The Asian policy framework has been characterised by Robert Wade, one of the most influential researchers on this model, as involving two key elements: 'a politically-empowered exercise of foresight and a bureaucratically-empowered array of measures to promote the industries and technologies needed for the economy's future growth' (p. 110).¹⁴ Here I will summarise some of the key elements within this approach, but stress that it is the way in which these individual components have fitted together to produce a coherent whole that is most important. It should also be noted that there was some variations between different Asian countries in the precise nature of these policies, but there were also some general similarities of approach. The Asian model did not just involve 'picking winners' as has been suggested rather simplistically by some of its critics: the reality was much more subtle and complex.

From the vast literature on the Asian model let me draw what I think are its most salient features:

- The identification of *clear goals* and a strategy for the remarkably *single-minded pursuit of these targets*. In South Korea, for example, there was not simply a plan for the economy, but for all parts of the society, including foreign and defence policy, to create a prosperous, strong and self-reliant nation.¹⁵
- It has often been noted that certain cultural elements and historical circumstances were particularly favourable especially during the early stages of Asian growth, but it must be conceded that these governments were extremely adept at *responding effectively to initial advantages and in meeting crucial challenges*.
- This concerted exercise in long-term policy development, project implementation and community mobilisation could not have been successful without strong and effective *leadership*; however its precise form varied markedly between different Asian nations.
- A key task for each ruler was to help build *effective bureaucratic systems* and ensure that these evolved to keep up with the rapid changes that were taking place in the economy and the wider society. Such systems partly grew out of the political and cultural traditions of each nation, but governments were also active in the building of new institutions to meet emerging needs but that were also compatible with existing structures and traditions.
- But it must also be remembered that good leadership can only be truly effective with the compliance of a mass of *willing followers*. It has often been argued that the Confucian heritage of much of East Asia gave rise to a particular form of group identification, however in Confucianism the ruler must earn the respect of his people. Thus the successful economic performance of East Asia has enhanced the legitimacy of its rulers, and in turn produced an enhanced

Do nations that adopt such a high growth path to development risk the sort of damaging crisis that befell Asia in 1997?

willingness to follow these leaders. Governments in the region have generally been at pains to ensure that the fruits of development have flowed down in a reasonably equitable fashion to the bulk of the people, ensuring more harmonious social and political relations.

- The *state played a central role* in all aspects of development planning and implementation, and policies and priorities were clearly articulated through a series of industrial policies that set in place a comprehensive approach to the achievement of national prosperity. Key industries were identified, protected and supported until they were strong enough to be competitive in world markets. Extremely large investments were made in physical infrastructure such as ports, roads and telecommunications systems, and in social infrastructure such as education.¹⁶
- One result was that *government-business relations* were so close that in some ways it was impossible to define clear boundaries between the two entities, but in most cases – and especially in the earlier stages of development – the government played a very important role as initiator and co-ordinator of new initiatives.¹⁷
- *Exports* were the key engine of growth. Competitiveness in export markets required close attention to labour and other production costs, and to the careful management of macro-economic policy and exchange rate settings.
- To support these ambitious goals and targets Asian governments also embarked on massive and ambitious programmes of *investment*. In part this was financed through the mobilisation of *local savings*, which throughout East Asia reached very high levels.¹⁸
- All national governments maintained *tight control of their financial and banking systems* and mobilised them to support national development priorities. *Preferential credit facilities* were provided for industries targeted as especially strategic in the long term.
- Above all the Asian model did not involve just a narrow concern with the economy: it was about the *transformation of entire societies*, and involved all sectors making their contribution to the achievement of national goals. The population felt that it was involved in a great and vital national enterprise, and was willing to work enormously hard and *make sacrifices in the interest of future generations*.

The Challenge of the Asian Model: Production Systems and Networks

In the features of the Asian model presented so far it could be argued that there is a reasonably high level of uniformity in the historical experience of the major nations, and a general agreement on the general factors that are important in the

There has been a long history of borrowing ideas and methods in the international development field

stimulation of high growth rates. However it is in the operationalisation of these broad principles that distinctly national variants in the model emerge very clearly, especially in the creation of particular production systems to generate the competitive exports at the core of the model.

In a landmark report, the United Nations Industrial Development Organisation (UNIDO) has argued that rapid technological advances has made possible the fragmentation of production into a series of stages performed in various locations around the world and reintegrated at a later stage.¹⁹ This can generate considerable increases in efficiency and reductions in costs, and allows some developing countries to upgrade their industrial capacity. While the development of such systems has been a global phenomenon, it is in Asia that they are most developed: indeed, they are central to the Asian model and to the recent success of the region. The precise forms of these networks have varied significantly between economies such as Japan, South Korea and Taiwan, but they all share certain common features. Biggart & Hamilton argue that the real secret of Asian economic success does not lie simply with the nature and effectiveness of Asian culture, management systems or governments, but with the fact that each country has adopted a different strategy based on its own culture, traditional ways of organising things, and the nature and capacity of its government.²⁰

In Japan, the early success of the industrialisation process was based on the role of the large enterprise groups, or *zaibatsu*. These were groupings of firms, usually owned by families. Each of these firms kept separate books, but all of the enterprises in the group had shared investments, co-ordinated business plans and shared staff. On the insistence of the United States, these groups were disbanded at the end of the Second World War, but they quickly re-established themselves in the form of the large companies of today – Mitsui, Mitsubishi, Sumitomo and so on. In most cases, a major bank sits at the centre of the group, helping to provide access to investment finance and other services. Each group also has its own network of suppliers, small or medium sized companies that provide spare parts for the parent group. These are separate companies, but they are given assistance by the group in areas such as the development of improved management, the introduction of new technologies, and the achievement of high standards of quality control.

In Korea there are also large business groups (*chaebol*), such as Hyundai, Samsung and LG, and in some ways they are similar to the Japanese system just described. This is not surprising, given that Korea was a Japanese colony for much of the first half of the twentieth century. The dominance of a small number of large firms was established from the very beginning of the transition to the modern

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economy in Korea, and this in turn determined the structure and nature of the production networks that linked these large companies to their smaller suppliers.²¹

In Taiwan a very different system has emerged, partly reflecting traditional Chinese cultural values. Here the majority of traded products have come from small and medium family enterprises. The production system has been dominated by networks of small firms that often work together to respond quickly and flexibly to new market demands. As orders for particular products dry up, these networks dissolve and re-form to respond to a new wave of orders for quite different products. These networks are held together by social and family bonds rather than a commitment to any particular product; hence they can react quickly and creatively to new conditions.²² A few large scale state-owned firms were important in Taiwan's industrialisation history, but almost all of these acted as larger scale producers of basic materials (such as steel and chemicals) for the small company sector.

In diverse ways, the distinctive networks in each economy were nurtured by a range of government policies and incentives, and in attempting to understand the dynamics of the various systems of networks an understanding of the role of the state is absolutely essential.²³

In the growth of Asia, it is not just production networks at the national level that have been crucial, but also at the regional and international scales. The internationalisation of production has been well established for several decades, but grew particularly after the early 1980s. It was with the development of a set of sophisticated production systems centred on Japan that the region really entered the new era of global sourcing. Japanese control of advanced technology was a key ingredient here, allowing parent companies to control the entire process.²⁴ Given the high value of the Yen in the early 1990s and the very high cost of labour in Japan, many companies found it advantageous to set up factories in various parts of the region to supply component parts or finished items to the Japanese and global markets. As part of this internationalisation, many firms that had acted as sub-contractors in Japan were also encouraged to set up their own operations in close proximity to the new offshore plants.

As growth progressed in Korea and Taiwan, currencies appreciated and labour costs also increased, prompting similar international investment. A series of new production zones and growth triangles were emerging, straddling the borders between nations.²⁵ This increased level of integration within East Asia has encouraged a number of plans for greater level of regional co-operation through free trade agreements and other mechanisms.²⁶

The dramatic growth of China has also encouraged the emergence of new production networks in the region. China is, for example, increasingly integrated into

It is now possible
for African nations
to play off East
against West
in a way that is
reminiscent of the
Cold War situation

the production networks of Japanese and Korean companies, and much has also been written about the networks created by communities of Overseas Chinese. These groups have been massive investors in China, so much so that there has been speculation about the emergence of a 'Greater China' or a 'China Circle'.²⁷ Naughton argues that the development of a functional economic region consisting of China, Taiwan and Hong Kong 'represents in certain respects the triumph of economics over politics' (p. 3).²⁸

Varieties of Asian Development Models

As has been clear in the above discussion, while there have been some important commonalities in various Asian approaches to development, there have also been significant differences, particularly at the level of the production system, reflecting local conditions, priorities and institutional foundations. By way of summary and conclusion to this section of the paper let me give a brief sketch of some of the key features of each of the most important national approaches:

1. *Japan*. Emphasis on building a strong, integrated and balanced industrial structure, including the identification of key sectors needed for national security. Strong central control and co-ordination through a key government agency, the Ministry of International Trade and Industry. Central role of large industrial conglomerates, usually built around a strong bank. Construction of elaborate and long-term networks of suppliers of components. Strong emphasis on the generation of continued technological upgrading through the research and development activities of the parent firm, and through the positive encouragement of improvements within component manufacturers.
2. *South Korea*. Use of most of the features of the Japanese model, but central government control even more marked than in Japan. Strong nationalistic element in response to threats from North Korea. Conglomerates – often controlled by key families – very dominant, but banks kept separate from them and under tight government control. Much government assistance to efforts to upgrade technologies and move to higher value products. Discouragement of foreign direct investment – overseas finance brought in where necessary by government and re-lent to conglomerates chosen to build up new target industries.
3. *Taiwan*. Emphasis on small and medium enterprises as key drivers of exports. Government-owned companies established to provide key inputs for industry, such as steel and chemicals. Encouragement of constant restructuring of the economy to meet changing needs through nimble and flexible smaller

A clear sense of vision is needed, but one that is compatible with local resources and institutional capacities.

companies. Considerable government assistance for the development of new technologies.

4. *Malaysia*. Attractive tax and other incentives provided to attract foreign investment, especially from Japan. Large programs of assistance provided to emerging enterprises owned by Malays. Positive discrimination in education and other areas also provided to Malays. Large government investment in various programs to encourage new technologies.
5. *Thailand*. Similar reliance on foreign investment, but also strong support of local businesses. Many large industries and strong exports built around the agricultural base of the country. Identification of a small number of key industrial sectors, notably the car industry, for special attention.
6. *China*. Massive industrial base inherited from earlier phases of development, but many state-owned enterprises in desperate need of restructuring. Very large inflows of investment, especially from other Asian countries to supplement very high domestic savings rates. Very large trade surpluses used partly to help secure future supplies of raw materials and energy.

The Asian Model in the New Millennium

Several relatively recent developments have now brought the Asian model into a rather different perspective. The onset of the Asian financial crisis in 1997 was seen by some as completely discrediting this form of development theory and policy, however more recent developments in the region, and some new interpretations, have forced us to rethink many of these hasty judgements. Also, the rise of China and its continued dramatic growth have also redirected our attention to theoretical and practical approaches coming out of Asia that are both plausible and effective, both within their own terms and as models for other developing countries. Of considerable interest is the emergence of what is becoming known as the 'Beijing Consensus' as a challenger to the existing orthodoxy.

Did the Asian Crisis Render the Asian Model Irrelevant?

Several commentators have argued that what has in fact emerged in much of East Asia is a bitter ideological and policy struggle between the neo-liberal school and a more nationalistic group that stresses the need to return to some of the core values of the Asian model, albeit with some modification. Influenced by the international financial institutions and a number of Western governments, the reformers in countries such as Korea urged the complete restructuring of the entire political and

The rise of Asia was accompanied by a strong sense that Asia was the successor to a proud and productive history

economic system in line with neo-liberal doctrine. But it is far from clear that such an outcome has been achieved. There have been reforms, but also some reversals of earlier policy initiatives, and the existing domestic policy and economic regimes are, in the views of many, substantially intact.²⁹ Changes have been most apparent in the countries most directly affected by the crisis and by the need to seek International Monetary Fund (IMF) assistance – Indonesia, Thailand and Korea. But even here there has not been the wholesale movement to neo-liberal approaches that many had predicted. The actions of the IMF and a number of Western governments in the immediate aftermath of the Crisis continue to be seen by many in Asia as an attempt to impose neo-liberal prescriptions on an unwilling region that had its own ways of stimulating growth.³⁰ Wade has argued that in many cases Asian countries have deliberately tried to give the impression of going along with IMF prescriptions but in fact they have returned to many of the policies that had been dismantled during the 1990s.³¹ There has been a return to the practices of the developmental state but often – with World Trade Organisation (WTO) rules and norms in mind – ‘below the radar’. There was a widespread feeling in much of Asia that the 1997 crisis was the result not of internal shortcomings but of a premature liberalisation of the financial system, largely in response from intense pressure from Western governments. This explanation has been given added weight by the current crisis, and many Asian commentators are urging their governments – and those of the developing world more generally – to eschew such early liberalisation and avoid the impacts of financial shocks originating in the West.³²

The experience of the last decade has shown that development policy is not just a technical matter, but is highly political and therefore contested. In many cases political elites have simply used the new situation to their continued advantage. Importantly the state has also used this new opportunity to reassert its influence over the economy: the precise nature of instruments of state control or leverage may be different but the state’s role is just as central as ever.

But perhaps even more interesting than the adjustments that have taken place at the national level has been the development of renewed interest in regional co-operation to directly address the internal and external problems that led to the crisis of 1997. Asia’s rising self-confidence was severely dented by the crisis and there has been a grim determination to build structures that would ensure that there could be no repeat. Willingness to invest political capital in regional organisations such as the Association of Southeast Asian Nations (ASEAN), ASEAN Plus Three (the nations of ASEAN plus Japan, South Korea and China) and the Asian Summit process could all be interpreted as direct responses to the crisis and as symbols of Asian solidarity. A range of financial measures known as the Chiang Mai Initiative were

Building new societies from scratch in the image of the West is not a viable strategy.

agreed to encourage co-operation, especially to head off any potential problems, and new regional bodies such as an Asian Monetary Fund (AMF) and an Asian bond market are being actively discussed.³³

Is China Following an Asian Model?

The seemingly inexorable rise of China is particularly significant, but can it be considered as part of the tradition of the Asian development model? Many commentators from the orthodox economic school have argued that China's success has been grounded on its abandonment of its old Communist agenda in favour of a capitalist system, but this would appear to be a gross oversimplification. Liew has argued that history, geography and institutional structure are all important in the choice of paths to development, and in particular the role of the Chinese Communist Party – albeit undergoing constant reform in the post-Mao period – has been central.³⁴ The party has been able to reinvent itself and hold its monopoly position over power, and the market has been used as a tool of state power rather than as a replacement for it. Similarly, Baek has argued that China has adopted many features of the earlier East Asian developmental model.³⁵ The state has continued to maintain strong control over the financial system, gives strong support to a large number of state-owned enterprises, has fostered a range of national heavy industries, and has based its growth on the fostering of both export competitiveness and of domestic savings – all familiar features of earlier growth strategies in East Asia.

The example of China has renewed interest in the old question of 'flexible rigidities' in East Asia.³⁶ Orthodox economic theory makes a strong push for complete flexibility in markets, in allowing entry and exit of firms in any sector, and in the role of the financial system. But as Dore has pointed out, countries in East Asia have attempted to set out a strong vision for the future, have developed industrial policy frameworks for key sectors, and at least in the earlier phases have controlled the banks and the provision of credit very carefully.³⁷ This has inevitably meant some degree of 'rigidity'. However at the level of the individual firm, and especially for smaller enterprises, there has been a greater emphasis on flexibility, allowing entrepreneurs to take advantage of new opportunities.

The Beijing Consensus

The term 'Beijing Consensus' has been around since at least the mid-1980s, but it was popularised in a paper by Joshua Cooper Ramo, but since then has taken on a variety of economic and political connotations.³⁸ In his formulation, Ramo argued that the rise of China is having enormous ramifications both inside the country

Regional
co-operation is
now more valuable
than ever to meet
the new challenges
of globalisation

and in the wider world. China is achieving nothing less than the reshaping and reordering of the international system through the introduction of 'a new physics of development and power' (p. 2). This not only promises to other nations the development of new and effective development policies, but also ways to achieve true independence and freedom of action within a new international order, and is therefore a replacement of the highly prescriptive Washington Consensus. It is based around three key 'theorems', he suggests:

- Rather than assuming that developing nations must start with simple and often outdated technologies and then graduate to more leading-edge approaches, it urges the immediate adoption of the most modern innovations 'to create change that moves faster than the problems that change creates' (p. 12).
- In periods of rapid change it is impossible to control everything from the top. Sustainability and equality are central to new policy directions, so that income growth and quality of life are maintained, and social disruption and instability are minimised.
- Self determination must be maintained through the creation of the leverage necessary to resist any hegemonic powers that might seek to dominate the nation.

In terms of economic policy, we have seen that China has already adopted many of the tenets of the Asian development model as it emerged in countries like Japan, Korea and Taiwan, and all three of those nations have a significant stake in the current Chinese economy, tending to maintain and reinforce many of these methods and approaches. Such economic models are now being transferred into Africa and Latin America as China quickly expands its influence there. But it is in the political and security domains that the particular attraction of the Beijing Consensus rests. Beijing now offers a rallying point for all those who oppose what they see as a US-oriented project of imperialism, as well as the exploitation that goes hand in hand with the policy prescriptions of international organisations such as the IMF and the WTO.

As such, this approach encourages the use of state power to achieve key national goals, and this includes the continued use of methods that the rich countries were able to adopt during the earlier phases of their rise, but which they now seek to deny to poorer nations now seeking a development transition of their own. In what is now a very influential book in much of the developing world, Ha-Joon Chang argues that it is a tragic mistake for richer countries to attempt to deny developing countries the right to adopt policies and institutions that are most appropriate to their needs and their current stages of growth.³⁹ Robert Wade, in looking at the legacy of his own important book on the role of the state in Taiwan's development,

makes a similar point.⁴⁰ While governments in rich countries are allowed much flexibility in setting policies aimed at upgrading those industries most crucial for their stage of growth, WTO regulations severely restrict such intervention in industries that are important for nations in transition to industrialisation. This seems designed to ensure that already wealthy countries will not be challenged, while underdeveloped countries will remain trapped in poverty. It is to this kind of perceived unfairness in the current global system that the Beijing Consensus has a particular political resonance.⁴¹

We must be careful of course to try to separate out the impact of the intellectual arguments that have surrounded the success of East Asia as a whole, from the narrower appeal of China's foreign policy agenda. China is now heavily involved in trying to further its own economic prospects through the signing of large resource deals with a range of countries around the world, but at the same time it has launched what has been called a 'charm offensive' to further its general influence in the world. In Africa, for example, a recent World Bank Report has argued that economic growth in East Asia generally, and in China in particular, offers the continent its own 'Silk Road'.⁴² But this economic appeal is supplemented by large new aid initiatives and assistance in fields such as health care.

Two kinds of criticism of these initiatives from Beijing have emerged. The orthodox economic response has of course been to question the wisdom of adhering to the East Asian style industrial policies. For example, it argues that growth in Asia was the result of good macro-economic management, and the contribution of industrial policies was minor or even negative.⁴³ Hence the case for other countries following such policies is weak, and under current rules governing world trade may be illegal. Other critics have pointed to Chinese support for African regimes with somewhat questionable human rights records, suggesting that principles of non-interference in the internal affairs of others may not be justified in such circumstances.

There is also the question about the role, if any, of industrial policy and government initiatives as countries attempt to move up the value-added chain into more technologically advanced forms of production. Emphasis on technology is one of the key elements of the Beijing Consensus, and certainly Chinese planners express concern that China must take care not to be trapped in the role of a low-cost, low-technology producer. The difficulties that both Korea and Taiwan have experienced – and indeed are still suffering – as they attempt to consolidate such a transition to high technology status serves as an important object lesson in the immediate region.

A great deal has been written about the next stage of East Asia's growth, especially in the light of the Asian crisis of 1997.⁴⁴ While much of this work has echoed the assumptions of the dominant economic orthodoxy, there are an increasing number of voices coming out of Asia itself suggesting a return to some of the ideas of the developmental state, albeit in a significantly modified form.⁴⁵ Such writers argue that a significant state role is still needed to accomplish some of the key tasks that will be needed for a successful transition to a new kind of economy: coordination and planning for complex new situations, development of innovative vision, building of new institutions of various kinds, the management of the conflicts that are bound to accompany such profound societal changes.⁴⁶ Globalisation does not reduce the need for state action, rather there needs to be redefinition of the key tasks that must now be undertaken to control and mould these forces to meet national needs through the management of currency appreciation, investment flows and industrial restructuring.⁴⁷ These messages have been given extra weight since the global financial crisis. Wade, for example, has argued that we have entered a new era in which the old neo-liberal model will no longer have unquestioning acceptance, and it has been the example of Asia that has undermined this old edifice and opened the way to a whole new set of possibilities.⁴⁸ One result may well be that many countries around the world will now find what Stefan Halper has called Beijing's 'market authoritarian model' increasingly attractive.⁴⁹

Policy Implications for Africa and the Rest of the Developing World

Several commentators, as well as policy makers from around the world, have urged various governments to adopt the Korean or Taiwanese models of development, but it is far from clear whether such a transfer can work. As we have seen, many aspects of the Asian transformation can be interpreted as being very culturally and historically specific. Cultural values in regions such as Africa are far different from those in Korea, and countries could not now expect to derive the economic advantages that Korea and Taiwan were able to derive during the Cold War. Even if it were possible to transfer development models in this way, do nations that adopt such a high growth path to development risk the sort of damaging crisis that befell Asia in 1997? Is it possible to adopt these methods in the early stages of growth and then undertake a careful and appropriately sequenced series of reforms that can avoid later instability? This latter question is of great relevance to China at the moment.

These issues are particularly problematic for those commentators who believe that cultural factors have been central to the success achieved in Asia. It has been argued, for example, that virtues of thrift, saving, hard work, respect for proper authority, and the high value placed on education, have been at the core of Asian success, many of them deriving from a common Confucian heritage. The impact of such a special cultural complex is extremely difficult to dissect in detail, and would, of course, be next to impossible to replicate in different environments.

These are subtle and persuasive arguments, but there are other important points to make in defence of comparative analysis. It should be noted that there has been a long history of borrowing ideas and methods in the international development field. The basic notion of the developmental state, and some of its key institutions, have been transferred and adapted within various Asian countries from Japan to Korea, Taiwan and Singapore, often within radically different political and institutional settings.⁵⁰ Chang has even suggested that many features of the Japanese model were in fact adapted from much earlier policies developed by Britain, Prussia, the United States and others to initiate their own early stages of industrialisation.⁵¹

Mainstream, neo-classical economics has, of course, no qualms in making pronouncements and policy prescriptions that are independent of both regional variations and historical or institutional context. Economics has propounded a set of invariant laws and policies, based on theoretical positions on the invariant superiority of markets, free trade, free flows of investment and the presence of a set of 'correct' institutions. As a result, a number of institutions favouring such theoretical underpinnings have been criticised for their 'one size fits all' approach to policy making. I am certainly no advocate of such an approach; however I do believe that with proper concern for historical and institutional contexts some useful insights can be gained from cross-regional comparisons. Useful work has been done on comparisons of the role and nature of the state in Asia and Latin America.⁵² Some studies of comparing Asian and African models of development do exist, but such research is comparatively poorly represented in the literature.⁵³

One key question about the transferability of the Asian experience to Africa concerns the ways in which the world has changed since the rise of the Asian Tigers, beginning in the 1960s. Back then the pressures deriving from the Cold War ensured that developed nations were happy to receive large levels of imports from emerging nations in East Asia. But since then competition has increased, pressures on producers in Western nations resulting from growing Asian competitiveness have intensified, and new rules enshrined in the WTO have made it much more difficult to adopt many of the policy measures used so effectively in Asia.⁵⁴ Indeed,

some critics have argued that the rich countries have attempted to 'kick away the ladder' by refusing to allow developing countries to adopt the development strategies that have been successful in the past.⁵⁵ However, some authors have suggested recently that there may still be ways in which governments can play a constructive role in triggering development.⁵⁶ This is a key area for policy concern and one that needs to be explored in more detail. As Wade and others have pointed out, many countries simply ignore WTO rules in this area, and any attempts to enforce compliance even when they are successful take a very long time to have any effect.⁵⁷

By way of conclusion then, let me draw out what I see as the key policy issues and recommendations coming from this paper on the Asian experience that are important for countries like those of Africa.

1. The Asian model was extremely successful in lifting a large proportion of the global population out of poverty. It represents a quite distinctively different approach to development and one that still deserves a great deal of analysis.
2. While lessons can be learned directly from the Asian experience, it is more important to learn some more basic truths from Asia: alternative pathways to development outside the dominant paradigm are possible, and the most effective development strategies are those that harness local institutions, social systems and political realities.
3. The recent Global Financial Crisis did much to discredit what had been the dominant neo-liberal paradigm of development, hence it is now much more possible to discuss the applicability of alternative models such as those derived from the Asian experience.
4. The Global Financial Crisis also accelerated the movement of the centre of gravity of the global economic and political system towards the East, and it is clear that China in particular is advocating a quite different approach to development from that favoured by the West. For its own reasons of self interest China is also investing very large amounts into Africa, Latin America and other developing regions. Hence it is now possible for African nations to play off East against West in a way that is reminiscent of the Cold War situation.
5. Development policy is not just a technical matter, but is a profoundly political process that involves intense contestation. A strong and effective state is needed to oversee and co-ordinate these processes and to ensure that serious destabilisation does not take place.
6. A clear sense of vision is needed, but one that is compatible with local resources and institutional capacities.

7. Such visions of the future need to reflect an appreciation of the past and a willingness to accept that the past did have value and should be celebrated. Building new societies from scratch in the image of the West is not a viable strategy.
8. In the early stages of development many of the strategies adopted in Asia in its rise still have merit, although WTO rules now make it more difficult in certain areas. The state can still lead the development process and is likely to be more effective than the unaided market, but only if state capacity can be brought to a high enough level. Developing countries need to work together to demand from the international system the development space needed to allow them to move through these crucial early phases more easily.
9. The Asian crisis of 1997 did not signal the end of the Asian model of development, and the emergence of the Beijing consensus is providing a renewed challenge to the prevailing orthodoxy in development policy, especially in the aftermath of the global financial crisis.
10. Regional co-operation is now more valuable than ever to meet the new challenges of globalisation and to assist individual countries dealing with emerging problems. Regional solidarity is also important in working for the rights of the developing world in an international system controlled by the rich countries and largely operated for their benefit.
11. Crucially, as we have seen, the rise of Asia was accompanied by a strong sense that Asia was the successor to a proud and productive history, and that individual nations in the region shared many common characteristics and viewpoints. As the region prospered this process of the 'Asianisation of Asia' gathered pace and assumed great importance. A key task may be now for other regions such as Africa to reassess their own histories and initiate a process of the 'Africanisation of Africa'.

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