The Significance of the Newly Industrialising Countries for the Development Debate

MANFRED BIENEFELD

The debate about economic development in the less-developed parts of the world has been decisively influenced by the remarkable economic success of the so-called "newly industrialising countries" (NICs), whose rate of industrialisation and growth between 1965 and 1985 surpassed all earlier examples by a considerable margin. Moreover, the fact that in the most dynamic cases this growth was accompanied by a relatively favourable distribution of income provided prima facie evidence for the proposition that, even in a less-developed country in the latter half of the twentieth century,
capitalist development could narrow significantly the enormous
gap separating the less-developed and the industrialised worlds
and allow welfare benefits to "trickle down" to the poorest
sections of the community.

For those seriously concerned with development policy it
was clearly essential to understand the circumstances and the
policies that had triggered the remarkable and sustained trans-
formation of these economies. The first comprehensive and
detailed analysis to gain wide currency argued that the key to
the experience of the NICs lay in their domestic economic
policies and especially in their trade and exchange rate poli-
cies. Specifically, it was suggested that success was linked
primarily to their willingness to allow international market
forces to determine price relativities, including the exchange
rate, thereby ensuring that resources would be utilised effi-
ciently and allocated in accordance with the principle of com-
parative advantage.

Evidently this interpretation of the NICs gave a powerful
impetus to the neo-classical view of the development process.
Indeed, it quickly became the single most important pillar of
the "new orthodoxy" that has come to dominate the develop-
ment policy debate during the course of the 1970s and that is
now being widely imposed on the developing world by inter-
national financial agencies wielding sharply increased powers
(in view of the Third World's accumulated debts). Since the
resulting policies directly affect the welfare of millions of the
world's poorest people, it is important to examine the validity
of this interpretation of the NICs—the more so since the initial
impact of these policies is generally so painful and so politically
unpopular that a leading neo-classical scholar concluded, in a
study published just prior to his move to the World Bank as
a senior advisor, that "a courageous, ruthless and perhaps
undemocratic government is required to ride roughshod over
... special interest groups" that would generally stand in the
way.

At the very least, such a dangerously militant conclusion
could only begin to be defended if the validity of its proposi-
tions had been established beyond any reasonable doubt. This
paper will briefly review the content of the "new orthodoxy"
and show why it relies so heavily on the neo-classical inter-
pretation of the NICs; it will then examine both the main chal-
lenges to that interpretation and the response of some leading neo-classical analysts to these challenges; finally, it will conclude with a brief discussion of the implications of some of these alternative interpretations of the NICs for the development debate as a whole.

**The New Orthodoxy and the NICs** At the heart of the "new orthodoxy," which is also known as the "export promoting" (EP) strategy, lies the claim that the optimal development policy is a liberal trade policy leading to prices that do not discriminate between production for the domestic or the international market and which therefore induce a pattern of production that reflects an economy's comparative advantage. Thus "by EP strategy, the literature now simply means a policy such that, on balance, the effective exchange rate . . . does not show a 'bias against exports.'" In Bhagwati's view, this is not to be equated with *laissez-faire*, although he accepts that some proponents might "answer [this question] in the affirmative." Such minor differences apart, he suggests that the belief in the superiority of the "EP strategy" is now all but universal among economists, at least "insofar as any kind of consensus can ever be found in our tribe."

Theoretically, the source of the new orthodoxy's propositions can be traced back directly to the trade models of neo-classical theory which have long asserted the general desirability of more liberal trade policies. These theoretically derived conclusions had long been contested by development economists (and by some trade theorists), who argued that the presence of increasing returns, substantial externalities and a variety of market imperfections potentially justified extensive intervention. The result was a stalemate in which the majority of economists, together with a sizeable proportion of policy-makers, strongly advocated trade liberalisation in practice, while a sizeable minority of economists (though possibly a majority of those working directly with the problems of the developing world), together with a majority of Third World policy-makers, remained more cautious and gave only heavily qualified support to such policies in practice. This balance shifted decisively in favour of the trade liberalisation view in the 1970s, but not because of some major theoretical breakthrough; rather it occurred because the multilateral agencies used their increas-
ing leverage to impose this view on hard-pressed governments, on the grounds that the empirical evidence had unambiguously resolved the issue.

Anne Krueger, a leading exponent of the new orthodoxy, highlights the critical importance of this "empirical evidence" as follows:

In its present state, trade theory provides little guidance as to the role of trade policy and trade strategy in promoting growth.

Turning first to theory, there are many static propositions but few useful theorems about the effects of alternative trade policies on growth. . . . Even the trade and growth models along Corden-Johnson lines . . . provide little indication of the quantitative importance of trade as a contributor to growth, and still less insight into the probable orders of magnitude of the losses in attainable growth rates that may be incurred with departures from free trade.

Worse yet, there is nothing in theory to indicate why a deviation from the optimum should affect the rate of economic growth. Most growth models suggest that there are once-and-for-all losses arising from nonoptimal policies with lower levels of income resulting from them but no change in growth rates.5

In short, it appears that those who had for so long used trade theory to advocate liberal trade policies, in practice had very little legitimate basis for doing so. Fortunately for them, however, it was now being suggested that the evidence of history had come to their rescue. Thus Krueger goes on to say:

Experience has been that growth performance has been more satisfactory under export promotion strategies . . . than under import-substitution strategies.

While it is impossible to specify a particular model of the growth process that will simultaneously satisfy all observers, the relationship between export performance and growth is sufficiently strong that it seems to bear up under many different specifications of the relationship. . . . In all of these specifications, rate of growth of exports has turned out to be a highly significant variable. While the "success stories" of Korea, Taiwan and Brazil are well known, there are enough other observations, both for different time periods in the same country . . . and of countries . . . that there is little doubt about the link between export performance and growth rates.

Moreover, it seems clear that export performance is a function in large part of government policies. While an export promotion strategy will not always be successful in generating more export
growth . . . certainly policies adopted to encourage import substitution . . . retard the growth of exports.6

This same conclusion is reiterated frequently and with varying degrees of “caution” with regard to just exactly what this evidence shows. Deepak Lal, in his recent onslaught on the “Dirigiste Dogma,” claims that

the final attack on the protectionist aspects of the Dirigiste Dogma was made by detailed empirical and historical studies of the effects of different trade and industrialisation policies followed by a number of countries falling broadly into the two groups [of export promoting and import substituting countries.] They have provided an impressive empirical validation of the theoretical case against protection and for the view that, even though laissez-faire may not be justifiable, free trade remains the best policy for developing (and developed) countries.7

These views have also come to dominate the international agencies. Indeed, these agencies played a decisive role in disseminating and popularising the research results that lay at the heart of the new orthodoxy. The agencies are tireless in their advocacy of “the market” as the ultimate arbiter of efficient and desirable government policies. Although they do accept that “ideal” market outcomes cannot always be achieved, and even that moving towards them is sometimes fraught with difficulties, they are adamant in their insistence that “the record” shows that those that have allowed the market to allocate resources have performed better, both in good times and in bad.

In a passage that could be reproduced a thousand times, the International Monetary Fund (IMF) had this to say in a recent survey of the world economy:

Another noteworthy element of policies in developing countries has been an increasing emphasis on a wide range of structural adjustment measures intended to improve the allocation of resources and enhance growth prospects. For the most part, these measures have involved restructuring prices and price-setting procedures toward a more market oriented approach. In the financial field, such efforts include the adoption of more realistic exchange rates and more market-determined interest rates. . . . Over the longer term, these measures may be expected to lead to an increase
in private domestic saving as economic stability and better growth prospects translate into improved investor confidence.

With respect to goods markets, progress has been made in reducing the distortions in resource allocation often found in developing countries, for example, because of unrealistic exchange rates, artificially low agricultural producer prices, overexpanded consumer subsidies, and inefficiencies in public sector operations. Although there remains considerable scope for further improvement in these areas, the measures taken to date with respect to exchange rates, subsidies, tariffs and investment priorities do point to a more efficient resource allocation than in the past. These measures are already leading to more robust development in some countries, and should bring further benefits as their efforts become more widely felt.[emphasis added]8

This supreme confidence is said repeatedly to be derived from the post-war “record.” Thus, having indicated that “export growth is crucial to the developing countries’ ability to import the goods and services necessary for overall growth,” a recent World Bank report suggests that a review of “the different patterns of development of the past thirty years . . . shows emphatically that the degree to which countries managed to participate in international economic expansion was determined largely by the policies they pursued,” so that “outward-looking developing economies with vigorous export promotion policies captured growing shares of the market for manufactured goods.”9 While this borders on tautology, at the level of description, analytically the problem lies in the inference that this success was primarily the result of liberal market- and export-oriented policies.

Even with respect to the desperate problems of sub-Saharan Africa, these “lessons” are used as the basis for policy advice. Thus, in its 1984 report on that region, the World Bank argued as follows:

Outside Africa, many governments face the same task of increasing the efficiency of resource use. [They] are trying to develop a new vision of economic management. This vision typically embodies four major themes:

• using pricing policy more widely
• . . . greater use of community efforts and the private sector
• . . . more responsibility to managers of parastatals to operate their enterprises in a businesslike manner. . .
• avoiding discrimination against exporting.

There is a growing consensus on the need for such policy reforms in sub-Saharan Africa.10

This "vision" is, of course, the new orthodoxy, except that the carefully qualified "lessons" of many of the leading researchers have been transformed in the heat of the policy debate into "lessons" about the virtues of the market. Thus, while Bhagwati is careful to restrict the lesson of the NICs to the desirability of effective exchange rates that are neutral in relation to both imports and exports, the agencies and their more ideological supporters have gone much further, arguing that this experience justifies a "free trade" approach or even that it shows the value of "market-oriented" policies.11 Though the agencies are careful to distance themselves from laissez-faire, the central thrust of their policy advice is aimed at removing "distortions" wherever possible.

This may be the reason why President Reagan, "the great communicator," and the head of the single most influential government within the Fund and the Bank, could remain unchallenged when, on the occasion of their 1986 annual meetings, he characterised their mission in the following terms:

Throughout the world these last five years, we have seen men and women begin to challenge old dogmas and rediscover timeless truths. We have seen that nations that have embraced the enduring principles of economic growth [sic] have become more prosperous and secure. And those that have not, have weakened, faltered, and fallen behind.

We have heard many names given to these rediscovered economic insights—and the many theories with which they are associated—come down in the end to one word. The word is "freedom," in this case economic freedom....

The IMF, of course, plays a central role in the drama of growth in debtor nations. The United States wants to see that role continue. We welcome the increased emphasis in the IMF on growth-oriented reform packages even while continuing the focus on financial stability. For the same reason we welcome the recent establishment of the Structural Adjustment Facility. And we urge the IMF to put even more emphasis on market-oriented structural reforms.

The World Bank also has a critical role to play in promoting growth in less developed nations.... We welcome an increase in the practice of lending contingent on countries' turning to more market-oriented policies.12
By this time, one could find substantial agreement that these conclusions were outstripping the available evidence by a considerable margin.

Before examining that evidence in somewhat greater detail, the political problems confronted by those seeking to "sell" the new orthodoxy to the Third World will be considered briefly.

**The Politics of the New Orthodoxy** Put simply, the problem is that if the benefits of the new orthodoxy's policies have been so clearly and unambiguously established by experience, then why is there such an apparently serious problem in having them implemented in many places?

Although the agencies would not use Lal's language about the unfortunate need for "courageous, ruthless and possibly undemocratic governments" to implement (impose?) such policies, they are well aware of the political problems of implementation. Hence, they speak frequently of the importance of "political will" and express deep concern about the fact that, once reforms are initiated, there is so much "backsliding" due to "the inability and unwillingness of governments to make hard political decisions."14

In general, the agencies respond to this problem by placing much emphasis on the need for external support to encourage "appropriate" reforms and to strengthen the resolve of governments once they have embarked on this road. Hence, in the African context, the Bank urges that "aid programs should . . . be more flexible and selective, so that external support can be mobilized for a country implementing major reform programs."15 But, in essence, the Bank's position is not so very different from that of Lal, as becomes evident when it states that "however difficult the policy reforms may have been to adopt, in due course they will create much easier conditions for developing countries than would prevail if the reforms were diluted or abandoned."16

Such open-ended commitment to a policy, *whatever its short-term consequences*, is obviously dangerous—especially when the length of time required to achieve the promised benefits remains unspecified. Of course, "painful choices" do sometimes have to be made, even in a good cause; so one cannot reject the argument for this reason alone. One must, however, demand a very high level of confidence in the conclusion that
the policies in question will ultimately deliver benefits that will more than offset the costs of implementing them.

In practice the defenders of the faith "justify" the suppression of political opposition to their policy package on the grounds that such opposition usually represents an attempt by some rent-seeking minority to satisfy narrow, short-sighted and sectional interests at the expense of "the general interest," which is defined in terms of a global application of the narrow and contested principles of welfare economics.\(^\text{17}\)

Some opposition to the orthodox reforms is, however, exempted from such blanket condemnation since it is recognised that the cost of shifting to the orthodox policy package will be unequally distributed. In principle, if not in practice, it is widely accepted that such opposition should be overcome by compensating the losers, which is clearly easier in an expanding economy. Hence the Bank speaks of the need to give sufficient financial support to reforming governments so that they are "able to offer rising incomes to their people," since "otherwise they cannot sustain the reforms against the opposition of those who are adversely affected."\(^\text{18}\) Ironically this creates the very real danger that such policy packages will lure already beleaguered economies even deeper into debt, while leaving them to further expand an essentially unsustainable consumption pattern.\(^\text{19}\)

Given these political realities, is it really the case that the efficacy of the "orthodox" policy package has been established beyond reasonable doubt?

**The Empirical Evidence for the New Orthodoxy** The evaluation of macro-economic policy is notoriously difficult in view of the enormous number of variables involved. Nevertheless, the policy packages of the IMF and the Bank, which are said to be "justified" by the alleged success of the "outward oriented developing countries," are sufficiently important that much effort has gone into "measuring" their impact. A recent IMF Occasional Paper, entitled *Fund Supported Adjustment Programs and Economic Growth*, reviewed the evidence and came to some remarkably tentative conclusions.\(^\text{20}\) The paper is worth citing at some length.

As its title implies, the study sets out to "analyse the effects of Fund-supported adjustment programs on the level or rate
of growth of output" (p. 2). It begins by acknowledging some major methodological problems that effectively undermine the new orthodoxy's claims, since it concludes:

Given such problems, it is easy to see why no empirical studies are available that undertake the relevant comparisons between Fund programs and alternative programs. Consequently, there is no obvious way of determining whether or not Fund programs are "too harsh."

Of course, performing counterfactual experiments with existing models is possible, but . . . these comparisons of policies can at best be only illustrative.

Little empirical evidence exists on the long-run effects of Fund programs, and none at all on the effects of various combinations of stabilization policies on economic development. . . . Even the informal evidence that is available is ambivalent on the relationship between financial stability and economic development.

For the reasons outlined above, any study of the quantitative effects of Fund programs has to be severely limited in scope. At this stage the only question on which there is some empirical evidence is whether policies designed to reduce absorption and increase supply, including exchange rate policies, have a significant effect on the growth rate in the short run. [p. 7]

This is surely a devastating admission in view of the fact that, as we have seen, these policies are to be implemented, "however difficult the policy reforms may [be] to adopt," and on the grounds that it is known that "in due course they will create much easier conditions for developing countries."21 The problem thus posed is compounded by the fact that, even with respect to the short-term effects of the Fund's policy packages, the empirical evidence allows only highly tentative and contradictory conclusions to be drawn.

Time-series analyses seeking to establish the effects of the main policy instruments that make up the Fund's adjustment package appear to provide little support for the orthodox position. With the sole exception of the relationship between investment and growth, the empirical evidence does not provide strong support for the efficacy of these instruments. Indeed, in many cases, the results appear perverse. Let us consider Khan and Knight's summary of the evidence in each policy area:

**Demand Side: Monetary Policy:** "Most empirical results reported . . . suggest that a monetary contraction does indeed tend to
exert a deflationary effect on domestic output in the short run, although in a number of cases the effect appears to be quite small. [though in others it is quite large!] Generally, the total effect lasts for about two to three years” (p. 10).

**Demand Side: Fiscal Policy:** “The effects of fiscal deficits on growth also turn out to be difficult to establish empirically .... There is ... considerable uncertainty as to whether, on balance, public sector investment raises or lowers private investment.... Specific evidence on the relationship between public sector investment and private investment is not easy to obtain.” On balance, “the issue whether a contractionary fiscal policy taking the form of a cut in real public sector investment will reduce or expand capital formation is far from settled” (pp. 12-3).

**Supply Side: Improving Resource Allocation:** “Attempts to eliminate distortions present a number of practical difficulties ... the removal of distortions can cause unemployment and in some cases may even reduce welfare” (p. 13). In fact, there is little general empirical evidence reported under this head, except in two specific areas, namely energy and agricultural pricing. On energy it is said that “it is widely accepted that countries should systematically pass through higher prices of oil and petroleum products to final users” (p. 13), though this hardly amounts to “empirical evidence.” On agriculture, it is reported that there is evidence to suggest that “price responsiveness of primary commodities is not as small as might have been thought” (p. 13). However, this observation is by no means incompatible with the possibility that some degree of farm price management may be a desirable way of dealing with problems of uncertainty, food security, long term growth, environmental degradation or the need for economic diversification.

**Supply Side: Interest Rates:** “Despite the amount of research expended on the interest responsiveness of savings in general, and in developing countries in particular, it is still uncertain whether an increase in interest rates will, on balance, raise the savings rate .... [Indeed,] it is evident from the empirical studies ... that the direct response of domestic private savings to variations in real interest rates is weak” (pp. 14-5).
Supply Side: Investment and Growth: Here, for once, the empirical evidence is clear. Hence, “the expected positive relationship between economic growth and investment in developing countries has been documented in a number of studies [and] the estimated effect of a change in the ratio of investment to GDP or GNP on the rate of growth is quite similar across studies” (p. 15). Unfortunately, this does not provide much support for the Fund’s policy package in view of the fact that the evidence on monetary, fiscal and interest rate policies provided little support for the notion that this package actually increases investment.

Exchange Rate Policy: “It is probably fair to say that, of all policy measures recommended by the Fund, devaluation has provoked the most criticism” (p. 15). “The main conclusion that follows from this analysis is that the direction and magnitude of the growth effects of exchange rate changes depend crucially on such issues as the extent and duration of the real exchange rate change, the structure of production, and the responses of trade flows to relative price changes. . . . On the other hand, no strong empirical evidence supported the proposition that devaluation necessarily reduces the growth of real output even in the short term” (p. 17). While the authors accept that “some type of controls on imports . . . can be successful in the short run in certain circumstances,” they reject this alternative on the grounds that “there is substantial evidence now that countries that have adopted outward-looking development strategies have experienced more satisfactory economic growth, employment, and economic efficiency” (p. 17). This, of course, takes us back to the NICs, though it is a surprising comment in a paper that “excludes case studies of the experience of individual countries . . . because of the difficulties in trying to generalize from the evidence of a particular country” (pp. 7-8).

Finally, when the paper turns to cross-country studies it begins again by noting the formidable methodological problems that “have led to considerable doubt about the usefulness of the cross-country approach,” but then suggests that “it is nevertheless interesting to see what empirical evidence is provided by selected cross-country studies” (p. 19). Its slightly
back-handed conclusion is that “most cross-country studies show an absence of overwhelming negative effects and in fact indicate that in a substantial number of instances growth performance turned out to be better in the course of an adjustment program than it had been prior to its implementation” (p. 20).

On balance, the authors conclude that available time-series studies “indicate that certain policies of the type normally included in Fund programs may in fact reduce growth, while the cross-country studies showed no clear pattern” (p. 20). While the paper presents this as a refutation of the view that “Fund supported adjustment programs adversely affect growth” (p. 24), these conclusions are hardly compatible with the assertion that the benefits of these policies have been established beyond reasonable doubt and that governments should be strongly encouraged and supported in their efforts to persevere with the imposition of such policies whatever the short-term costs.

The NICs Reconsidered As has been indicated, the “success” of the NICs provides a reference point to which defenders of the new orthodoxy return time and time again to support their case. The problem is that over the past decade an active and interesting debate has developed over the “real lessons" to be drawn from the experience of the NICs. Moreover, new research findings have emerged which yield sharply different conclusions from those on which the orthodoxy rests so much of its case.

These new challenges will be discussed briefly in relation to South Korea and Taiwan—undoubtedly the most resilient and significant NICs. Their experience will be considered in relation to trade and exchange rate policies, and then in relation to the general issue of state intervention in the economy. Taken together, this new evidence suggests a very different interpretation of the NIC experience.

This new interpretation suggests that the two “super-NICs" have achieved such a phenomenal and solidly based economic success because they were able to sustain a coherent national development strategy that created a relatively stable domestic investment climate. Within that context, a dynamic and heavily state-directed process of accumulation could become the basis
of an ambitious and long-term-oriented process of industrialisation and technical change. Moreover, this was combined with a small-holder-based agricultural development, again fostered by means of heavy state involvement, which integrated the rural sector into the national economy and allowed the supply price of rural labour to be raised progressively. Finally, it was the success of these national policies that allowed a careful and gradual process of liberalisation to proceed—just as it was the firm control exercised over the country's capital markets that allowed exchange rates to be maintained at economically desirable levels and investible resources to be channelled into strategic areas identified by the state.

**Trade and Exchange Rate Policies** Bhagwati has been quoted to the effect that the main lesson stemming from the NICs is the desirability of “neutral” effective exchange rates in relation to imports and exports, allowing resources to be allocated in accordance with the principles of comparative advantage. This theme has been at the heart of the new orthodoxy and it has persisted even in the face of a mounting volume of evidence which suggests that things are not so simple. For the true believers, such “evidence” is easily transcended. Thus, after reviewing some of the recent objections raised by Amartya Sen and others, Lal insists that “the case for liberalising financial and trade control systems and moving back to a nearly-free trade regime is now incontrovertible.” However, Lal clearly derives his unshakeable faith in these policies, not from any empirical evidence, as he frequently suggests, but from pure theory, for he goes on to say that “most countries . . . including the East Asian success stories . . . retain dirigiste spots in their trade policies, and few have seriously attempted the full-scale liberalisation that is required.”

Since the NICs have never even attempted the “required” policies, their experience cannot be the basis on which the efficacy of these policies is known. Moreover, since Lal does not give any indication of which “few” countries may have implemented such policies, and implies that none have successfully done so, his knowledge of the desirability of these policies can only be based on purely theoretical foundations.

Lal reveals the same impatience with the empirical evidence when he seeks to come to terms with “the dirigiste spots” in
the trade policies of the NICs. He simply asserts that "it could be argued that success has been achieved despite intervention," without apparently realising that this line of argument simply abandons the NICs as a source of empirical validation of his theoretical assertions. This indefensible, but increasingly common, defence of the orthodoxy will be considered again later.

The problem is that Lal's "dirigiste spots" are actually large areas of highly discriminatory, strategically determined areas of protection and subsidy. Even Ian Little, a central architect of the new orthodoxy, was careful to claim no more than that these countries "adopted virtually free-trade policies for exporters in the early or mid-1960s" (emphasis added). This caution was well founded, since on the import side protection remained substantial in many areas; was extremely uneven between sectors; and was frequently applied in a highly discriminatory manner—a far cry from the liberal, across-the-board, non-discretionary tariffs that are extolled in the neo-classical textbooks, or embodied in the "ideal reform packages" of the international financial institutions (which are allegedly derived from the example of the NICs).

In fact, in Korea, "despite the import liberalisation attempts since the early 1960s, most of the import-substitution industries are still highly protected by various import controls." Indeed, "there seems to have been little if any overall import liberalisation during the 1968-78 period." Thus, as late as 1978, effective rates of protection were 135 per cent in transport equipment, 131 per cent in consumer durables, and 47 per cent in machinery production. In addition, "tailor made' infant industry protection has typically been afforded via quantitative restrictions on imports."

A similar situation in Taiwan is described by Wade:

Indeed, the separation of the domestic and the international market by administrative controls is basic to Taiwan's industrial policy . . . . Private domestic firms have a great (but by no means complete) latitude to do whatever they wish to do—until their decisions directly involve international transactions. Then, on the import side, they face an elaborate, "made-to-measure" tariff structure; comprehensive import licensing; a highly selective and discretionary mechanism of quantitative restrictions; and controls on choice of foreign technology and foreign investors. On the export side, producers face export licensing; government-organised quality con-
trol for important exports; and that nemesis of free trade theory, government sponsored export cartels.  

Moreover, the reasoning behind the establishment of these export cartels is described as follows:

Unorganised production and export often lead to excessive production and cut-throat competition in foreign markets, which inevitably cause a sharp decline in price, deterioration in quality, and finally loss of export markets. To combat these shortcomings, the Government has encouraged unified and joint marketing of exports in foreign markets through limitation of production by means of export quotas, improvement of quality and unified quotation of export prices.

In other words, the evidence indicates an extensively "managed" trading system that is not compatible with the price-dominated, "nearly-free-trade" regimes described by the defenders of the new orthodoxy, even when they acknowledge the existence of some "dirigiste spots" in the trade policies of the NICs.

The picture that emerges from this evidence is the basis of this paper's thesis that it was the existence and the effectiveness of these various control mechanisms, embedded in an efficient and nationalist "developmental state," that allowed these countries to maintain exchange rates close to an equilibrium level, while at the same time fostering and/or protecting a wide range of specific economic sectors, chosen on the basis of their strategic importance for the long-term development of the economy.

This formulation accepts the desirability of maintaining exchange rates at levels that broadly balance the country's foreign exchange claims, including long-term, sustainable capital flows. What it rejects is the assertion of a causal connection running from such "appropriate" exchange rate policies to economic growth, which is implicit in "advice" suggesting that such exchange rate policies are highly desirable for developing countries in general, including those of sub-Saharan Africa. In fact, the causal connection probably runs more strongly in the other direction, in that a strong, coherent and successful economy is more likely to be capable of sustaining and benefitting from a liberal exchange rate policy—just as a weak
economy may suffer extensive damage as a result of "prema-
ture" liberalisation.

One must agree with Anne Krueger who, writing from a
strongly neo-classical perspective, has pointed out that "it is
not enough to know that export promotion outperforms im-
port substitution. It is equally important to understand why."

State Involvement in the Economy The preceding brief dis-
cussion of trade policy in Taiwan and South Korea has already
indicated some of the reasons that the experience of these
most successful NICs cannot be used as the empirical basis for
the new orthodoxy's assertions regarding the general desira-
bility of "moving towards liberalisation and the market," as
currently enshrined in the policy packages of the Bank and
the Fund.

Of course, such a discussion cannot sensibly be conducted
in relation to some vague, aggregate measure of state involve-
ment. It must be focused on those areas of decision-making
in which "national control" is thought to be of potential im-
portance. In trade, it has already been shown that "national
control" was extensive, while the discussion of Taiwan's "export
cartels" has shown that this pattern extended to the area of
industrial policy. Let us look briefly at some other significant
policy areas.

Foreign Investment: For Korea, the evidence clearly shows an
extensive and effective degree of state involvement that was
designed to attract foreign capital only on terms and conditions
that would allow its activities to be integrated into a nationally
defined development strategy. Numerous analysts have drawn
strong conclusions to this effect after extensive and detailed
studies of Korean industrial sectors:

The basic government attitude appears to be that business (whether
domestic or foreign) should serve the government and not vice-
versa.... For LDCs, the implication is that the Korean experience
supports rather than contradicts the view that directive state inter-
vention is necessary if FDI is to play a constructive role in national
development.

The government was able to exert comprehensive influences on
the pattern of foreign investment in Korea ... competition with
domestic firms was seldom allowed, both in domestic and export markets, and Korea became one of the few countries with very restrictive foreign investment regulations.34

The extent of this control was reflected in a comparative survey of 187 U.S. multinationals in 66 countries, which showed that the proportion of wholly-owned subsidiaries was even lower in Korea (30 per cent) than in Japan (33 per cent), both being well below the sample average of 69 per cent.35

In Taiwan, the control of direct foreign investment has been less extensive, although it has still been substantial, and some observers have remarked on a recent increase in this regard, which they have attributed to the fact that “labour has become scarcer and [that] Taiwanese firms have acquired technological capacity in many sectors.” In this context, “Government officials exercise a considerable amount of discretion as to what incentives . . . a foreign firm is offered and what obligations are imposed on it.” Moreover, the government has made use of these powers by “reducing the enclave nature of foreign firms . . . scrutinising the flow of imports to foreign firms, seeing which could feasibly be produced in Taiwan, [and] encouraging local suppliers.”36

Industrial Policy: This includes all measures to discriminate purposefully in favour of, or against, the development of specific industrial sectors, firms or products in order to shape market outcomes in accordance with the state’s strategic objectives. In both Korea and Taiwan, such measures are widespread and implemented actively by a large, well organised bureaucracy exercising considerable discretion “within a national consensus that economic development is paramount.”37 Even though this consensus never included all social groups or classes and is now, in any case, apparently disintegrating in the case of Korea, it did unite their bureaucratic and business élites behind a coherent, nationalist development strategy. Indeed, this may rank as one of their most striking features, contrasting them with most other developing countries where such a “consensus” is rarely encountered, as ruling élites are culturally, ideologically and institutionally increasingly fragmented and integrated into the international bourgeoisie—a process that has been accelerated by the debt crisis and the
"international individualism" that lies at the root of the new orthodoxy.

In fact, the approach to industrialisation in these two countries is highly reminiscent of that adopted in Japan, whose approach was so effectively summarised in the 1950s by Japan's Vice-Minister Ojimi, of the Ministry of International Trade and Industry (MITI):

The MITI decided to establish in Japan industries which require intensive employment of capital and technology, industries that in consideration of comparative cost of production should be the most inappropriate for Japan, industries such as steel, oil-refining, petro-chemicals, automobiles, aircraft, industrial machinery of all kinds, and electronics, including electronic computers. From a short-run, static viewpoint, encouragement of such industries would seem to conflict with economic rationalism. But from a long range viewpoint these are precisely the industries where income elasticity of demand is high, technological progress is rapid, and labour productivity rises fast. It was clear that without these industries it would be difficult to employ a population of 100 million and raise their standard of living to that of Europe and America.38

The similarity between the policy orientations of Japan, Korea and Taiwan is strongly emphasised by James Abegglen:

This "Gang of Four" is one more evidence [sic] of Japan's revolutionary impact. . . . Japan serves as a model . . . [it] demonstrated that a resource-poor Asian country could, by proper mobilization of its economy, move very rapidly to high levels of output and income. . . . [It] is also a basic source of training for the leaders of many of these countries. . . . The NICs use government even more explicitly than does Japan in economic planning and guidance. One would have to say that all except Hong Kong have a more centrally directed pattern of economic growth than Japan, although they would tend to see themselves as basically market, rather than planned, economies.39

The empirical evidence for this view is now very strong, as numerous detailed, empirical studies of decision-making processes and structures in these countries have shown.

In manufacturing industry, the interventionist and nationalist approach of these countries has been evident both in their
procedures and in their results. Thus, a recent detailed study of Korea's petrochemical sector concluded:

"Remaining on hand" describes adequately the presence of the Korean Government throughout the process of adopting technology, but misses the other characteristic that it has displayed, namely determination. The government has always been on the spot, intervening whenever this seemed to be in the public interest.

As our research has shown, the Korean Government has persisted in planning, in setting policy, in negotiating, in organising, in overseeing and in intervening, at every stage during the adoption of foreign technologies.10

A more general study of the acquisition of technology by Korean industry describes the "nationalist" features of that process in the following terms:

Korea's export-led industrialization has overwhelmingly and in fundamental respects been directed and controlled by nationals. Although foreign resources have continued to make substantial contributions since the early 1960s, the transactions involved have typically been at arm's length. Thus ... the inflows have overwhelmingly been in the form of debt, not equity ... technology has been acquired from abroad largely through means other than DFI [direct foreign investment]. ... Korea's strategy to gain industrial competence has thus relied heavily on indigenous effort through various forms of learning by doing. ... [Moreover,] that Korea was following, whether explicitly or implicitly, a consistent though evolving strategy having the elements stressed here is clearly indicated in various writings by Dr. Hyung Sup Choi, a key figure in Korean science and technology policy.

... the experience of the Korean automobile industry is instructive. Unlike [other developing countries.] Korea has started to export complete automobiles produced by wholly domestic firms with no involvement by the large [multinational corporations]. Korea's approach undoubtedly ... entails problems ... not encountered under international subcontracting. ... But in the long run, having an independent sector under wholly Korean management may well pay off, just as the same approach continues to earn high rewards for the Japanese.51

In Taiwan, the nationalism of the industrial policy process is equally pronounced, although here the main policy instruments have been direct state investment and a highly discretionary system of quantitative import controls known as the "referral system" and implemented through the Industrial
Development Board, whose 250 professionals did not, until 1982, include a single economist:

The Taiwanese Government has imparted a directional thrust to the economy by means of trade controls, fiscal incentives, some credit incentives and disincentives, controls over direct foreign investment, and state-owned enterprises in key sectors. [Indeed,] the whole of the public sector (government and public enterprise) is substantially bigger than in such putatively more “socialist” countries as India and Tanzania. . . . Individual public enterprises are typically amongst the largest firms in their respective sectors. In 1980, the six biggest industrial public enterprises had sales equal to the 50 biggest private industrial concerns.12

Meanwhile, the “referral system” means that those who wish to import a commodity frequently obtain permission to do so only on condition that they enter into an agreement with local suppliers to purchase these same products from them after some specified period of time and at internationally competitive levels of price and quality. On this basis, the future local supplier can gear up for such production with the prospect of an assured market, though he/she must meet the stringent condition of achieving international competitiveness.43

Another area where the nationalism of these economies is both pronounced and significant is that of capital and credit markets. Until recently, these markets were almost entirely controlled by the state in both countries, while discretionary controls over credit were widely used to direct investment flows into priority areas as defined by the respective governments. For Korea it has been shown that

the principal mechanisms of discretionary command are . . . the tax audit and the allocation of subsidised credit. Until 1980 the South Korean banking system had been virtually entirely state controlled, and even today . . . government influence over the allocation of credit remains strong . . . combined with Korean firms' very high dependence on borrowing for investment [this] gives the government enormous leverage over individual firms, and especially over the big firms. . . . [Moreover,] as Jones and Sakong show [in their 1980 work], it is not just that if firms do not enter priority fields they do not do what the government requires they may have credit for other purposes cut off.

Hyundai, one of Korea's largest companies, decided to abandon a plan to go in for ship-building when it became clear, in the early 1970s, that no international finance could be found. President
Park's initial angry reaction... was a thinly veiled threat of the form—"If you only want to do what's easy, then you'll get no more help from us"; followed by an impassioned patriotic plea for Hyundai to contribute to the national interest, as good "Koreans." Almost certainly the threat of withdrawal of credit for a range of projects was an important factor in making Hyundai persevere. The company is now one of the world's biggest shipbuilders.

In Taiwan, "the government has used credit to a lesser extent than one might suppose from government ownership of the bank," but it is nevertheless true that

to help steer resources to priority sectors the government has established a variety of special funds for specific purposes. . . . [Moreover,] what is unusual about Taiwan's fiscal incentives is not their content [but] the degree of selection between products... in heavy electrical machinery, for example, six types of product are identified as eligible for a reduction in business income tax... one of which is transformers—but not all transformers, only those of 154 kV class or above. . . . As technology frontiers within Taiwan have been pushed outwards, the definition of products eligible... has been made more stringent... to keep the incentives pushing on the frontiers.

Finally, in agriculture, the level of intervention has been generally even higher than in manufacturing industry. Indeed, even when Ian Little articulated his extreme neo-classical view of the "Gang of Four," he specifically excepted Taiwanese agriculture from the claim that "planning and the public sector, have not... played key roles" in these economies.

The evidence that has been collected from Korean agriculture and from other key sectors of both countries suggests that Professor Little should have to allow for rather more "exceptions" when expressing this "opinion." In fact, the evidence on agricultural policy in both of these economies is summarised as follows at the end of a detailed empirical study:

The high degree of state intervention in the agricultural economy has been well documented. This is especially true of Taiwan where... in the early stages of Taiwan's rapid post-war growth, the state extracted from agriculture a large volume of material resources... to support industrialisation [via] obligatory rice deliveries... at low prices; monopoly control over fertilizer supply, sugar cane processing and foreign trade in the major agricultural commodities; and a quasi monopoly of the foodgrain trade. [Moreover,]
monopoly state control of foreign trade in food grains and of agricultural input supply, and widespread official coercion (in the 1970s) have been documented for Korea (Aqua 1974; Ban et al. 1980; Brandt 1977; Reed 1979; Wade 1982, 1983a). This evidence is now widely acknowledged, occasionally even by the defenders of the new orthodoxy (for example, when Lal accepts that there were "some dirigiste spots" in Korea's trade policy). This paper will conclude with a brief survey of the neo-classical response to the challenge contained in this evidence.

The Neo-Classical Response The neo-classical response to this challenge effectively consists of four arguments: the claim that the critique is merely knocking down a "straw man"; the contention that there may be a lot of state involvement in these countries, but that there is less than elsewhere in the developing world; the charge that there is no evidence to support the notion that import substitution (IS) policies might produce better results; and, finally, the rather revealing counter-assertion that the NICs might have grown even faster without such high levels of state intervention. None of these replies is adequate or sustainable, however.

1. Straw Men or Moving Targets? The "straw man" argument is particularly popular. Its proponents insist that the EP strategy should not "be identified with laissez-faire." Thus Lal chastises Sen:

Instances of government intervention in Korea [are cited] as a supposed counter to Little's proposition. But this is mistakenly to identify the argument for free trade with laissez-faire [and this] leads him into the totally spurious argument that, since the Korean government is interventionist, the Korean success story provides no empirical validation of the case for free-trade policies in the Third World.

Lal's argument is both illogical and disingenuous. It is illogical since it is patently vacuous to say that "just because Korea did manage its trade, its success does not cease to constitute empirical evidence to support the case for free trade." Lal might have argued that he was only referring to
"intervention" in areas other than trade had he not explicitly referred to intervention "such as import controls and export incentives." As it is, his objection is far from convincing.

Lal's response is also disingenuous in that his constant disavowal of laissez-faire has a rather hollow ring in view of the fact that he repeatedly argues that in almost every conceivable set of circumstances, even the imperfect market will produce the best outcome that is realistically attainable. What he fails to understand is that Sen's argument, like the one presented in this paper, is not addressed to those who argue for pure laissez-faire, but is primarily addressed to those, like Lal, who endlessly assert that the NIC experience supports the general conclusion that all developing countries would benefit greatly if they liberalised their trade, adopted flexible exchange rates, reduced the level of government involvement in the economy, and allowed prices to determine resource allocation. The point is that such conclusions cannot legitimately be derived from the experience of the NICs, any more than they can be derived from the general empirical evidence regarding the impact of the IMF's adjustment policies. Indeed, the NICs strongly draw attention to the potential importance of strategic intervention and national control in a developing economy.

2. The Relativity of Intervention

The second reply claims that the level of intervention in the NICs may be substantial, but that it is nevertheless less than that found elsewhere. The evidence summarised in this paper is not compatible with such an argument, so long as one accepts that state intervention is not equally significant in all parts of the economy and that, analytically, the greatest significance should be attached to intervention in capital and credit markets, in trade, in sectoral allocation and in the acquisition of national technological capabilities.

Thus it is true that the NIC governments have been relatively non-interventionist in various areas of social and economic life, especially in the provision of transfer payments aimed at improving social welfare. But it is important to remember that although the "trickle down" thesis is rightly discredited as a generalised phenomenon, it can potentially operate effectively if and when a society is able to maintain a
sufficient degree of control of its economy and uses that power to stimulate a process of accumulation that allows it to achieve a full employment growth path, while at the same time directing resources into areas such as small-holder agriculture (whose increased prosperity will push up the supply price of labour). Countries like the “super-NICs,” which have used extensive state intervention in the economy to achieve such an outcome, do thereby reduce the need for state intervention in other areas.

This argument does not, incidentally, imply that welfare is not a contentious issue in the NICs. Nevertheless, there is no doubt that income distribution in these societies has been remarkably favourable by comparison with other developing countries and that their populations are today in a far better position than those in countries that have pursued less nationally coherent, market-oriented strategies. Even so, there remain many problems and some worrisome trends in this regard, some of which are finding expression in the explosive political developments now occurring in Korea. While these are important issues, they will not be explored further in this paper.

3. Import Substitution May Still Be No Better Than Export Promotion

This is the line taken at some length by Bhagwati’s recent defence of the EP strategy. After considering various objections that have been raised against the EP strategy, Bhagwati concludes by stating: “I fail to find compelling reasons for thinking that the orthodoxy among economists should revert to the IS strategy.”

Obviously, if the shift from IS to EP is primarily a matter of timing, then it makes no sense to pose the central issue in terms of either IS or EP; nor does it make sense to conclude,
as Bhagwati does, that there are no compelling reasons why the orthodoxy "should revert to the IS strategy."

Under these conditions, analysis should address the much more difficult problem of defining the appropriate circumstances under which a partial shift to an EP strategy may be advisable—and of determining the type of IS strategy that will facilitate that shift. Such a perspective would draw attention to the highly "nationalist" character of the IS strategies that preceded the gradual and cautious liberalisation of the most dynamic and resilient NICs. It would focus, among other things, on the high degree of state control of national capital markets; on the extreme caution and selectivity in dealing with direct foreign investment; and on the mechanisms that ensured a rapid and effective transfer of technology. Moreover, it would not be surprising for such an approach to find that the latest "miracle" economies should be those of India and China, whose relative success in weathering the current economic storm is surely linked to the fact that they built rather more secure and nationally based economic foundations in previous decades.

Bhagwati gives four other reasons why he wishes to cling to the rather vacuous notion that "IS strategies are inferior" even under the economic conditions of the 1980s. These also take on a rather different meaning when viewed from the perspective of this paper. The four reasons are: that even in the recession the East Asian NICs have continued to be relatively successful, while other NICs have not fared worse than average; that even if some NICs are now incurring losses, these must be set against their earlier gains; that "in the end most . . . debts will prove to be simply not repayable"; and that the present protectionist threat may not actually materialise. Let us consider these points from the perspective of this paper.

The fact that the East Asian NICs have continued to be relatively more successful would now draw particular attention to the "special" features that set these NICs apart, even from the other NICs—namely their particularly active concern with retaining national control over their industry, their technology and their capital markets. Meanwhile, the claim that the other NICs have not fared relatively worse than the IS countries, would have to be more systematically examined. It would also
have to contend with the charge that both the success of some NICs and the profligacy of the "unsuccessful" NICs have helped to drag down other weaker economies, many of which had been far more cautious in their earlier borrowing. The NICs and the heavy borrowers have done this by saturating available markets, driving down the relative prices of developing country exports, and then commandeering what little international liquidity remained when their debts became unpayable and capital flows to the developing world all but came to a halt.

The claim that any present and future costs of EP strategies must be weighed against past benefits is certainly valid, but such an exercise does not yield a self-evident answer. Indeed, insofar as the boundless optimism that characterised this approach to development policy has contributed to the present debt crisis, it may have helped to create conditions that are today undermining the social and political cohesion of many developing countries. In the longer run, this may prove an utterly disastrous development with incalculable long-term costs.

Bhagwati's third argument accepts a possible link between debt and the orthodox policies, but then dismisses the point with the rather lame and almost flippant remark that "those debts are unlikely to prove repayable." While that may be so, it should be evident by now that these debts will be written off only after a protracted effort to enforce their repayment, at almost any cost. This has already exacted a heavy economic, social and political toll in large parts of the developing world, and in some it now threatens a devastating social, economic and political collapse. Under these circumstances, Bhagwati's treatment of this point is not exactly helpful and must strike some as offensive.

Bhagwati's treatment of the protectionist threat is equally unconvincing. He argues that "the revival of export pessimism may be premature"; that, even if demand does not increase rapidly, "this does not mean that developing countries, one by one, will necessarily face less than perfectly elastic demand curves"; and that the increased pressures on international markets "may drive Western leadership into redoubling efforts to keep its doors open and to open other peoples' doors."52

With regard to "export pessimism": this is surely a legitimate concern in view of the recent sharp reduction in the growth
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of trade. Moreover, it is important to understand that under such conditions of sluggish aggregate growth, the continuing export "success" of the big debtor NICs presents a direct and serious threat to the remaining developing countries. Under these circumstances, Bhagwati should really ask whether there are grounds for returning to the export optimism of the recent past. Moreover, it is not easy to see how he could avoid answering no to that question.

Bhagwati's claim that individual countries may face "perfectly elastic demand curves," even when there is an aggregate constraint, is another rather extraordinary response to the disastrous squeeze in which so many primary producers now find themselves (largely because their creditors are forcing them all simultaneously to expand their exports at almost any cost). One wonders whether, with a continuing fall in prices, there would be any point at which Bhagwati would stop advising policy-makers to behave as if they were confronting a perfectly elastic demand curve. Surely this argument reflects the hopeless confusion that is created when people mistake a symbolic, static model for the real world. Obviously, in the real world, any responsible decision-maker must take decisions on the basis of price projections that take into account the likely behaviour of all producers in the market.

Finally, Bhagwati's hope that a deepening international crisis might induce the industrial countries to "open their markets" is equally difficult to take seriously in the absence of any historical or empirical evidence to support the plausibility of such a claim. This possibility would arise only if the power of international capital has now reached the point where it is able to suppress political opposition in the industrial countries to the point where it could enforce liberalisation even under increasingly difficult economic circumstances. At that point, we would all discover that, under these conditions, Lal's dictum that the orthodox policies require "courageous, ruthless and probably undemocratic governments" for their effective implementation applied equally well to the industrial countries.

Of course, here too such policies would be imposed amidst protestations that they were in everyone's long-term interest, however painful they might be in the short run. Unfortunately, for labour this painful "short run" would likely last rather a long time—as long as labour remained in surplus at a global
level. In the meantime, wages would be subject to a powerful downward pressure that would tend towards the creation of Third World conditions in the industrial countries. Though some groups, occupations, nations (like the NICs!) and industries would escape this fate by managing to separate their "labour market" from the global market, this would not alter the direction or the intensity of the pressure itself. The logic of this situation was recently captured effectively by a U.S. business executive commenting on the fact that U.S. workers are no longer benefitting from productivity increases and have recently seen their wages brought into line with those in some European countries. His comment:

Until we get real wage levels down much closer to those of the Brazils and the Koreas we cannot pass along productivity gains to wages and still be competitive.\textsuperscript{53}

4. The NICs Might Have Grown Even Faster Without Intervention

We have already encountered this argument. In effect, it simply returns the debate to the \textit{status quo ante}, leaving protagonists to confront each other with conflicting and unreconcilable theoretical assertions. The significance of the NIC debate lay, after all, in the fact that it allegedly provided empirical evidence to allow one to choose between competing theoretical assertions. Thus, when the NICs were initially presented as market-driven economies, their success was widely hailed as demonstrating the practical superiority of a market-oriented approach to development. However, once more detailed research began to reveal the most successful East Asian NICs as relatively statist and interventionist economies, many observers lost their enthusiasm for drawing policy conclusions from the experience of these countries. Even many of those who accepted the new evidence nevertheless refused to accept the inference that these countries' "nationalism" might also hold lessons for the development policy debate. Instead, they reverted to the purely theoretical assertion that the East Asian NICs "might have" grown even faster in the absence of their statist and "nationalist" policies. Not only did this abandon the "empirical evidence"; it also created the unfortunate impression that some people were prepared to accept the empirical evidence only so long as it confirmed their theoretical preconceptions.
This "last-ditch defence" of the orthodoxy has even been attempted by neo-classical economists who take the view that the East Asian evidence flatly contradicts their theoretical expectations. Professor Hill, of Australia's National University, has recently mounted just such a defence even though he accepts a very strong version of the evidence regarding the statist nature of the NICs:

Since East Asia has industrialised so rapidly, and not, apparently, according to the orthodox prescriptions, has economics got it all wrong? Do we need a new theory of development, in place of the predominant neo-classical theory?

The superficially attractive answer, based on the recent record, is yes. In Asean, for example, there appears to be a strong direct relationship between size of government and economic growth. Singapore has the largest government sector, measured by government expenditure (including state owned instrumentalities) and the best performance since the 1960s. Conversely, the Philippines has the smallest government sector and the worst performance.54

Nevertheless, Hill finds the neo-classical approach to be confirmed—partly on the quite illogical grounds that in both Japan and Korea there have been numerous instances of state intervention that were not successful; and partly because he asserts, presumably on theoretical grounds, "that industry [in these economies] has grown rapidly as much in spite of as because of high-level government intervention and direction."55

This may be so, of course, but it is no more than a statement of faith. Moreover, for those who do not share Professor Hill's apparently unbounded faith in "the market," it remains true that the experience of the NICs provides considerable support for the hypothesis that extensive and effective state intervention is a critically important feature of successful economic development in the latter half of the twentieth century.

Conclusion Under these circumstances it is important to study the experience of the NICs further in order to refine our understanding of the optimal relationship between national policies in industry, agriculture, technology and trade; national political and social conditions; and the conditions prevailing in the international market. For the moment, I would suggest that the NICs can remind us of the vital importance of national
cohesion, relative internal stability and the ability to formulate and pursue clear national objectives. They also remind us that the sustainability of such policies will have to take into account the economy's links with the outside world, taking care not to let major imbalances develop on that front. This latter observation is, however, the less interesting and the less important of the two, except insofar as the links with the outside world and the pressures emanating from that world tend to undermine the very conditions necessary for that domestic cohesion.

Whether such "national cohesion" can only be secured on the basis of a culturally homogeneous and relatively repressive state is a possibility that must be openly confronted, though it goes beyond the scope of this paper. There are certainly grounds for believing that this may be so, but the issue is neither simple nor unambiguous. In the political arena there are no clear and permanent boundaries separating that which is possible from that which is utopian. Ultimately, economic circumstances, analytical insight and political struggle will combine to define the limits of possibility in every individual case. They will determine the extent to which political participation and genuine social consensus can be made compatible with the need for a cohesive nationalist policy in an unstable and divided world—just as they will determine the degree of social and political control that must and can be exercised over the process of accumulation so as to allow it to be managed and controlled without sacrificing its dynamism or its power to generate desirable technical change.

Notes


4. Ibid., pp. 91, 93.
7. Lal, The Poverty of Development Economics, pp. 27-8. (See n. 2 above.)
11. IMF, World Economic Outlook. (See n. 8 above.)
13. See n. 2 above.
14. World Bank, Toward Sustained Development, p. 5. (See n. 10 above.)
15. Ibid., p. 44.
18. World Bank, Toward Sustained Development, p. 44.
19. The sad story of the Jamaican economy is a dramatic case in point. In a period of six years from 1981, its debt-service ratio rose from 19 to 72 per cent under the impetus of heavy borrowing undertaken under the supply side illusion that the removal of some constraints from the market would produce a massive supply response and a rapid rise in exports. The simple truth is that it did not; nor was this hope ever very realistic, given the circumstances.
21. World Bank, World Development Report 1985, p. 46. (See n. 16 above.)
23. Ibid., p. 32.
24. Ibid., p. 46.
28. Fransman, "Explaining the Success," p. 53. (See n. 27 above.)


41. Westphal, Korean Industrial Competence, pp. 67-8. (See n. 29 above.)

42. Wade, “Dirigisme Taiwan Style,” p. 69. (See n. 36 above.)

43. Wade, “Guiding the Market” (see n. 30 above); and idem, “Dirigisme Taiwan Style.”


45. Wade, “Dirigisme Taiwan Style,” p. 68.


48. Bhagwati, “Rethinking Trade Strategy,” p. 93. (See n. 3 above.)


51. Ibid., p. 95.

52. Ibid., pp. 98-9.


55. Ibid., p. 135.