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Achieving development success: Strategies and lessons from the developing world

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WIDER Working Paper No. 2013/027

Achieving development success

Strategies and lessons from the developing world

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March 2013

Abstract

This paper provides a synthesis of successful strategies and implied lessons for development success, employing at least six themes on in-depth case studies of a large number of developing countries around the world. The coverage includes East Asia and the Pacific (South Korea, Malaysia, Thailand, and Vietnam), the Emerging Asian Giants (China and India), Sub-Saharan Africa (Botswana, Ghana, Mauritius, and South Africa), Latin America and the Caribbean (Brazil, Chile, Costa Rica, and the Dominican Republic), and the Middle East and North Africa (Bahrain, Oman, Tunisia, and the United Arab Emirates), along with the respective regional syntheses. Although countries' experiences are not necessarily replicable, the recurrent themes across countries and regions provide the appropriate connectedness for fostering a truly global perspective on development strategies and lessons from the developing world.

Keywords: development success, strategies and lessons, developing world

JEL classification: N10, O50, P52

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1 Introduction

Certain countries are cited relatively often as exemplifying examples of development ‘success’, that is, a set of favourable development outcomes. They are believed to exhibit policies and institutions that could be adapted to less successful countries in the developing world. As such, they might constitute ‘role models’ of development. Role models need not have been successful across every dimension (growth, poverty reduction, democratization, etc.), nor are they required to be bereft of periods of failure and crisis. Indeed, their ability to overcome adversity and to move successfully forward constitutes a critical element of their success.

This paper presents a synthesis of the development strategies and lessons based on a global sample of country cases from the developing world, emanating from the following book: A. K. Fosu (ed.), *Achieving Development Success: Strategies and Lessons from the Developing World*, Oxford: Oxford University Press (2013). Each case seeks to delineate the root causes of success: initial conditions, local and international factors shaping the strategy, relative contributions by domestic and external agents to the development process, as well as the prognosis of challenges for the future. Useful lessons from such strategies are also drawn.

While other works have presented cases of successful development strategies, they tend to be region-specific or constitute a relatively small number of cases.¹ The current study takes a more thorough and comprehensive perspective involving a large number of country studies. It presents a global frame of reference based on a spanning set of countries with respect to *region*—all the major territories of the developing world are represented—and *development level*—countries from very early stages of development such as Ghana to a much more advanced developing country like South Korea are covered.

The study reveals much diversity in development strategies offered by the various select countries: for example, the ‘disinterested government’ political economy of China; the democratically supported, high service sector development approach of India; the ‘Washington Consensus-based’ reforms of Ghana and China; the diversification strategies of the United Arab Emirates (UAE), Bahrain and Oman; the dynamic orthodox-heterodox strategy of Malaysia and Vietnam; the effective natural resource management of Botswana, Oman, Bahrain, and the UAE; the social sector emphasis of Costa Rica and Tunisia; the democratic political system of managing diversity in India; and so forth.

¹ Rodrik (2003), which covers a global sample of thirteen country cases, appears to be a study closest in concept to the present one. Yet, that study focuses on institutions, while the current coverage is broader, including several dimensions contributing to success, of which the role of institutions is an integral part. Besides, unlike that study and several other comparative studies that are primarily on growth (for a most recent relevant study see Spence et al. 2008, which deals with inclusive growth but covers only 13 success countries), the current book defines success more broadly to include human development. A study that undertakes an inter-disciplinary approach is Lal and Myint (1998), which is a synthesis based on mainly pairs of countries. In addition to that study being considerably older, it lacks the broader coverage of the present study, particularly in concept, as the latter does not pair up countries per se but instead provides development strategies and lessons across the developing world that could be applicable to any countries considered to exhibit the proximate conditions.

The book uniquely presents a synthesis of the lessons for each regional set of case studies based on recurrent themes, as well as provides an overall synthesis. It takes a fresh approach, with various cases challenging existing schools of thought. For instance, though ‘state activism’ is usually credited with the successful record of development of South Korea, the present contribution emphasizes the ‘capability-based view’, a microeconomic approach that transcends the reigning paradigm of state interventionism. Similarly, ‘disinterested government’, rather than state activism or international opening-up, is hypothesized currently as a more fundamental factor behind China’s success. Meanwhile, the democratically forged management of diversity, rather than high-skilled service sector per se, is emphasized as underlying India’s growth success. Furthermore, the study attempts to ensure a balanced view based on the evidence presented by the cases, irrespective of what appears to be the current school of thought. For example, despite the general belief that the ‘Washington Consensus’ has been a failure, it is credited here as an important basis for the reforms that led to the success observed in several of the countries represented herein. At the same time, the study also acknowledges and discusses the important role of heterodox policies in the development success in many of the case countries.

Two main lessons emerge from the country cases:

- 1 The respective development strategies are often ‘environment-specific’ in time and space, so that countries’ experiences are not necessarily replicable.
- 2 However, there *are* sufficient commonalities across countries to engender useful lessons for other, less successful, countries that share similar characteristics—currently or historically.

The coverage is divided into five parts: East Asia and the Pacific (EAP): Korea, Malaysia, Thailand, and Vietnam; the Emerging Asian Giants: China and India; Sub-Saharan Africa (SSA): Botswana, Ghana, Mauritius, and South Africa; Latin America and the Caribbean (LAC): Brazil, Chile, Costa Rica, and Dominican Republic; and Middle East and North Africa (MENA): Bahrain, Oman, Tunisia, and UAE. The current format is designed to facilitate the collation of the cases, epitomizing possible regional idiosyncrasies. Each regional group is then followed by a synthesis, which typically delineates both commonalities and differences across countries.

2 Synthesis of strategies and lessons

To enhance the global nature of the book’s coverage, an overall synthesis of the development strategies and lessons is presented below according to the following themes: orthodox vs. heterodox policies; the importance of capability; primary exports, diversification and financing; managing diversity; the role of institutions and governance; and human development (HD).

2.1 Orthodox vs. heterodox policies

Both conventional and heterodox policies appear to have been employed at different times in the various countries. Nearly all case countries engaged in some form of restrictive policies, usually in the form of import substitution strategies, and then switched to more

orthodox policies, typically in the 1980s or later. These countries, furthermore, usually exhibit improved economic performance following the switch. Successful heterodox policies leading to economic diversification are often associated with EAP countries, though less so for Thailand (Khan 2013), but also with Mauritius in Africa (Subramanian 2013). Countries such as Brazil and Chile in Latin America seem to have benefitted from these policies as well (de Mello 2013; Solimano 2013). The heterodox strategies were particularly unsuccessful in African countries (Fosu and O’Connell 2006; Ndulu 2008a, 2008b), though, as illustrated by the Ghana case (Fosu 2013). The difference between success and non-success strategies appears to be the ability of the former to successfully employ restrictions for productive capability development without succumbing to the potential downside of growth-inhibiting rent-seeking.

It is often argued that China’s economic rise did not occur until it adopted liberalized policies beginning about 1979. Prior to liberalization, however, China had indeed employed substantial restrictions (via dirigiste policies) to allocate resources toward developing its capacity for enhancing the country’s ability to subsequently compete in the global market. Similar observations could be made about many of the other success case countries.²

In the case of Brazil, the application of heterodoxy seems to have generated considerable growth initially, but then the resulting macroeconomic bottlenecks derailed the progress. As de Mello (2013) states, ‘A period of rapid expansion from the mid-1960s to the mid-1970s was based essentially on import substitution underpinned by inward-oriented policies’. However, macroeconomic imbalances in most of the 1980s and early 1990s, reflected by ‘chronically high inflation and sub-par growth,’ led the country to shift gears and undertake structural reforms (ibid.). These reforms are credited with the subsequent considerably improved growth performance. As de Mello further writes, ‘The macroeconomic adjustments since the mid-1990s, anchored in structural reform to liberalize the economy, have laid the groundwork for putting the economy on a sustained growth trajectory’ (ibid.).

Similarly, growth during the period of heterodox policies produced steady increases in Chile’s per capita GDP. However, ‘in the late 1960s the prevailing economic model on import substitution was showing signs of exhaustion, reflected in moderate growth, fiscal and external imbalances, chronic inflation, and persistent inequality’ (Solimano 2013). Growth then accelerated in the last two decades. According to Solimano (2013):

The Chilean growth story of this period reflects the favorable effect of macroeconomic, social and political stability, a strong reliance in markets—the ‘neo-liberal component’—along with a more consolidated private sector with an increased capacity to mobilize savings and undertake large scale projects.

Furthermore, it took more than a decade for the growth acceleration to occur following the economic reforms, and ‘the harvesting of growth really took place in the democratic period’ (Solimano 2013). Thus, the oft-referenced success of the Chile model of neo-liberal policies must be nuanced by the reality that social and political stability, as well as a

² It may be argued that these countries succeeded in spite of the restrictions; however, such an argument would miss the dynamically sequential nature of the development strategy (see, e.g., Fosu 2001).

democratic framework, were important complementary elements. Malaysia's governments were particularly strategic in their application of orthodox and heterodox policies in response to changing domestic and international conditions. Following independence in 1957, the Malaysian government pursued generally laissez faire policies 'with limited government intervention, some import-substituting industrialization, agricultural diversification, rural development, and ethnic affirmative action efforts' (Jomo and Wee 2013). However, the decline of the price of rubber in the 1960s, which was the mainstay of the Malaysian economy at the time, spurred the government's efforts to intensify its diversification efforts. Meanwhile, the post-election race riots of May 1969 led to a period of increasing government intervention and public sector expansion, in order to accommodate inter-ethnic redistribution and rural development to reduce poverty. The subsequent substantial increases in Malaysia's petroleum revenues in the mid-1970s endowed the government with the financial means to greatly expand its support for export-oriented industrialization, generating considerable employment, especially for women. Further expansion of government spending, particularly in support of heavy industry, coupled with a substantial decline in the revenues from petroleum in the early 1980s, led the government to liberalize the economy, cutting spending, and moving away from direct government investment in favour of support for the private sector. There was again a rise in the level of government intervention following the 1997–98 financial crisis, in order to particularly regulate the financial sector (ibid.).

Certainly, not all the heterodox policies pursued by Malaysia, as strategic as they were, could be viewed as successes. As Jomo and Wee (2013) write:

This is not to suggest that all policy interventions have been developmental or even intended to promote economic development. And some of those meant to be developmental have been poorly conceived, or badly implemented, or abused by politically influential business interests, or otherwise doomed inappropriate. Others, e.g. instances of privatization in Malaysia, were ideologically driven, but also captured for self-aggrandizement by the politically well-connected.

Furthermore, the various government projects were not always successful. For example, 'Mahathir's car, steel, and multimedia software initiatives appear to have been less than successful' (ibid.). Nevertheless, there have been enough successes to project Malaysia as one of the most successful developing countries, with its per capita income (PPP-adjusted) rising from less than 20 per cent of that of the USA in 1981 to more than 30 per cent today.³ And, in the view of Jomo and Wee (2013), government strategic interventions were 'crucial to Malaysia's developmental success'.

In the case of Ghana, in contrast, heterodoxy was a disaster. Restrictions in the controlled economy gave rise to rent-seeking opportunities that greatly undermined economic incentives, resulting in negative per capita growth, such that the country's 'per capita income was less than its value at the time of independence' (Fosu 2013). Subsequent

³ Computed by author using data from World Bank (2010).

reforms, based essentially on the Washington Consensus,⁴ however, appear to have done the trick. Ghana's economic fortunes very much turned around, with the country experiencing continuous growth and considerable improvements in HD (ibid.).

As orthodoxy, the Washington Consensus certainly enjoys a bad reputation for having imposed conditionalities that presumably decimated many economies in the developing world.⁵ While such criticisms may have certain merits,⁶ it is also likely that despite its defects, the consensus engendered critically needed reforms that helped turn certain economies around. To begin with, it seems accurate to conclude that in practically all cases presented in the present volume, the Bretton Woods-led reforms, presumably based on the Washington Consensus, improved growth and also certain measures of development. In the case of China, for example, Yao (2013) clearly states: 'If there are success cases of the Washington Consensus, China must be counted as one of them'. Similarly, Fosu (2013) writes for the Ghana case: 'The main lesson here seems to be that market liberalization based on the Washington Consensus, supported by deepened democratization, can be effective in resuscitating moribund economies'.

Certainly, countries seldom, if ever, implemented all the dictates of the consensus. For example, despite his argument that there was a strong case for the Washington Consensus underlying China's economic success, Yao (2013) clarifies:

It is also admittedly true that China has not unconditionally followed the advice of international donors or other governments; it opened to the world, but on its own terms and at its own pace. The aim of China's transition, however, was clear: to establish a market economy.

In the case of Costa Rica, Trejos (2013) also states, in alluding to the country's high economic success following market reforms after the 1980–82 financial crisis: 'Costa Rica implemented, in its own creative way, some of the reforms proposed by the international conventional wisdom of the time while refusing to undertake others'.

As Santos-Paulino (2013) puts it after reviewing the China and India cases, 'a key lesson ... is the adoption of a pragmatic approach to economic reforms'. The main global lesson here, then, is that market reforms, usually initiated as part of the international conventional wisdom at the time (the Washington Consensus), tended to result in increased growth and development in most of the case studies. Nonetheless, the nature of the reforms actually

⁴ By the Washington Consensus here, it is meant the original formulation by Williamson (1990), which 'comprises the following key features: fiscal discipline; trade liberalization; liberalization of (inward) foreign direct investment; privatization; strong protection of property rights; reordering of public expenditure priorities toward public goods (e.g., health and education); liberalized interest rates; tax reform involving broad tax base and moderate marginal rates; and deregulation to ease barriers for firms' entry and exit of sectors' (Fosu 2013). Note that this definition is also adopted in Yao (2013).

⁵ Much of the criticism is based on the 'strait-jacket' nature of the Washington Consensus that did not allow for country-characteristic differences and that it led to deindustrialization (for the criticisms in the case of African countries see for instance Mkandawire and Soludo 1999 and Sender 1999). However, as shown in the Ghana case, for instance, deindustrialization often preceded the reforms promulgated by the Washington Consensus (Fosu 2013).

⁶ Of course, the strait-jacket nature of the Washington Consensus was problematic, as it tended to ignore the idiosyncratic characteristics of countries, likely raising the risk of institutional or political instability.

undertaken seemed to have made a difference, and so did the capability of countries to take advantage of market forces following such reforms, a subject that I take on next.

2.2 The importance of capability

Whether or not a heterodox approach is adopted, the ability of a given country to compete successfully, especially in the current globalized environment, is to build capability. That would require that countries invest especially in infrastructure (physical, institutional or human, etc.). However, the possibility of private capture of the returns from public investment, especially in relatively mobile human capital, may often result in a sub-optimal public allocation (Fosu 2004). That is, the potential for emigration in the case of public human capital investment reduces the expected *social* return. In a number of developing countries, unfortunately, many individuals educated with public funds emigrate for greener pastures. Whether or not such 'brain drain' is transformed to 'brain gain' eventually, it seems appropriate to wonder at what cost and how can such social capital loss be minimized, to begin with? An appropriate solution to the second query may rely on strategically providing the complementary business environment that increases human capital's derived demand, with greater priority accorded the demand side (Fosu 2004).

Lee (2013) argues that Korea's development success was attributable in great part to the government's role in strengthening the capabilities of firms. Cognizant of the need to prevent potential 'government failure' (for state-owned enterprises), however, Lee also recommends that the strategy should be coupled with outward orientation that could 'curb the potential for rent-seeking' (ibid.: 18). There is a potentially important lesson here. It is well-recognized in the literature that import-substitution strategies failed in many developing countries, especially in Africa, in great part because such strategies created rent-seeking activities, with the resultant inefficiencies and eventual collapses of the protected firms. Outward-orientation would, thus, provide the discipline for firms to compete as the rent is whittled away by competitive forces.

The derivable lesson, then, is not necessarily that the government should target certain industries, as Korea seems to have done, but rather strengthen the business environment generally. Public provision of such physical and institutional infrastructures would induce productive private capital, which would be the complementary physical capital required to reduce the risk of (publically produced) human capital. That is, the strategy would serve to reduce the expected social capital loss by raising the likelihood of educated labour absorption through the increasing derived demand for labour (Fosu 2004). Clearly, human capital development is an essential integral part of any successful development strategy. It is crucial, nevertheless, that the complementary business environment required to retain that capital also be created. Hence, the role of the immobile form of infrastructure is likely to be fundamental (ibid.).

Several of the country cases also illustrate the crucial nature of infrastructure as an avenue for enhancing development capabilities. In the case of Malaysia, the country was already endowed with a well-developed infrastructure during the colonial period, 'while post-colonial infrastructure developments have continued to support economic development' (Jomo and Wee 2013). In particular, export-oriented industrialization was supported by 'the

provision of infrastructure and other indirect subsidies as well as labour and training policies' (ibid.).

Extensive infrastructure networks are credited with having also contributed substantially to Costa Rica's development following market reforms. Trejos (2013) writes:

In even the smallest village in almost all the national territory there is a reasonable road connecting to the key highways,⁷ electricity service, phone service, and potable water. There are schools and small clinics disseminated throughout the country. These networks have existed for a long time, and are built from the bottom-up, in the sense that what makes them special is not the quality or size of the central arteries (the main highway, the key port, the big campus), but rather the amount, connectivity and density of the many capillaries. Basic services are therefore disseminated across the country, rather than concentrated in the main cities.

By improving both the business environment and labour productivity, infrastructure development was a crucial component of Costa Rica's development strategy. These improvements were a major attraction for particularly foreign direct investment (FDI), which played such a major role in the country's industrial diversification and technological upgrading (Trejos 2013).

The external environment

The external environment remains crucial for countries' ability to develop the capability for capitalizing on market forces. The WTO rules in large part define the policy space for that development. The case studies clearly show that government has an active role in developing the requisite capability, whether in infrastructure or in technological adoption and updating. It also takes time for countries to gear up to the challenge. As the case studies show, the leverage of government often entailed the used subsidies, tariffs, and other restrictive measures to prepare countries for the challenge. For example, China had succeeded in developing much of its capability involving many of such measures before acceding to the WTO in 2001. On the one hand, being a member of the WTO has major potential benefits with respect to receiving non-discriminatory trade arrangements, inter alia. This can be particularly beneficial for small and poor countries bereft of the clout for favourable bargaining.

Unfortunately, on the other hand, WTO rules currently restrict countries from the use of certain measures to advance their industrialization, thanks in great part to the trade-related investment measures and trade-related intellectual properties. The former limits government action in protecting its industries while the latter constrains the use of external technology. Finding ways to relieve the constraint for the low-income and least developed countries should help provide a more level playing field for these countries.⁸

⁷ 'For instance, Costa Rica has more miles of paved road per square mile of territory than any other country in Latin America' (ibid.).

⁸ Although WTO also provided implementation time windows for low-income and least developed countries, these windows are long closed for many. There is also the anti-dumping provision of the WTO to protect

In sum, capability development for a developing country is critically important, whether heterodox or orthodox policies are pursued. The former would require much more active government participation in the economy and, hence, a very capable government, if economic efficiency and effectiveness are to be achieved. But even under orthodoxy, infrastructural development as well as interfacing with external agents would require a capable government as well, that is, if the developing country is to be able to capitalize on market forces. As effective public service delivery is an essential element of 'developmental governance', the capacity development of the public sector would appear to be *sine qua non*.

2.3 Primary exports, diversification, and financing

Primary exports have not been historically viewed as a primary engine of growth, especially given the Prebisch-Singer hypothesis that such exports tend to exhibit declining terms of trade (TOT). Furthermore, even if TOT improved and led to substantial revenues from natural resources, the 'Dutch' disease or 'resource curse' could derail developmental efforts. Special measures would, therefore, be required to minimize the risks of these syndromes.

Moreover, diversification away from primary production is usually viewed as an important strategy for sustained growth and development. Many of the case countries have indeed succeeded in substantially diversifying their economies: e.g., China, Korea, Malaysia, Thailand and Vietnam: EAP; Costa Rica and the Dominican Republic: LAC; Bahrain and Tunisia: MENA; and South Africa and Mauritius: SSA. Furthermore two strategies, not necessarily mutually exclusive, were often employed for the diversification: attracting FDI and/or using domestic savings for financing.

Foreign direct investment

Case countries particularly relying primarily on FDI to achieve significant export diversification included: Bahrain, Oman, the Dominican Republic, Costa Rica, Tunisia, Malaysia, Mauritius, and Vietnam. Of these, the Dominican Republic and Mauritius (and to some extent Vietnam) were particularly adept at the use of export processing zones. In both cases, the countries succeeded in shielding the export zones from the inefficiencies of the non-export sector (Pozo et al. 2013; Subramanian 2013). For the Dominican Republic, Pozo et al. (2013) write:

Given their location, isolation and vintage, tourism and FTZs [free trade zones] did not depend on overworked and depreciated infrastructure and they were less subject to economic distortions and to opaque institutions. These protections from domestic political inefficiencies and infrastructure inadequacies seemed to greatly encourage foreign investment in these special economic zones.

countries. Unfortunately, it would be too costly for poor developing countries to take advantage of this provision.

Similarly, analysing the Mauritius case, Subramanian (2013) argues that the most important policy leading to the success of the export processing zones (EPZs) was likely that ‘the labour market of the export sector was effectively segmented from the rest of the economy (and in particular the import competing sector)’. The labour market in the EPZ was quite flexible; employers had greater ability to, for instance, discharge. Such flexibility would reduce the location risk for potential firms and, thus, constitute an important incentive for attracting FDI.

Despite its export liberalization policies since the early 1996, Vietnam’s ‘effective protection (that is, protection on value added) in manufacturing remained high’ (Thoburn 2013). The failure to liberalize imports was intended to protect the country’s import-substituting manufacturing sector. However, the segmented EPZ was effectively used to counter this anti-export policy by exempting or reducing duties on imported manufactured inputs used in the export zones.

Costa Rica presents a particularly compelling case of the positive role of FDI in growing and diversifying the country’s economy, as well as of the important set of policies attracting FDI.⁹ As Trejos (2013) writes:

Much of the growth in exports, especially in manufacturing, hi-tech goods and services, takes place through foreign firms that choose Costa Rica as their location to produce; foreign direct investment has been key, and expanded very quickly ...

Moreover, ‘the driver of foreign investment is the fact that Costa Rica is a stable country (politically and macroeconomically), with a sufficiently competitive business climate and, in particular, superb labour productivity’ (Trejos 2013). In addition, the special tax incentives and the FTZs are credited in great part with the success in attracting FDI. An especially interesting policy strategy additionally pursued by Costa Rica was the establishment of a *private non-profit institution* for the ‘purpose of facilitating the foreign investment process...’ (ibid.). Employing such an agent in this regard is particularly noteworthy, as it stands in stark contrast with the oft-failed policies in many developing countries where government agencies are assigned this role.

In the case of Vietnam, Thoburn (2013) similarly emphasizes the following as the key factors for attracting FDI: ‘stable macroeconomic environment, high quality and low cost of labour, and low levels of crime’.

External aid

Official development assistance (ODA) may help finance reforms, at least initially, if they are to be successful. This is because the initial stages of reforms are usually fraught with fiscal difficulties, and there is a tendency for coalitions already enjoying government subsidies to resist reforms. In Ghana, for instance, government revenues were so paltry that

⁹ In addition to geographical cultural proximity factors, policy-driven variables would appear to influence FDI. These include variables underpinning macroeconomic and political stability (Asiedu 2002; Schneider and Frey 1985).

ODA was required to carry out the reforms, including the provision of social benefits ‘intended to soften the adverse implications of decontrol and removal of subsidies’ Fosu (2013).

Vietnam is also documented to have received a substantial amount of external aid, with the country as ‘one of the world’s largest recipients of overseas development assistance, second only to Iraq and Afghanistan’ (Thoburn 2013). A significant amount of this assistance is believed to have been, inter alia, channelled into improving the flow of information about the Vietnamese economy (ibid.). Such information flow likely helped to enhance the attraction of FDI to Vietnam. Even Korea is often cited as having received significant ODA from the OECD countries following the Korean war, in order to help build physical infrastructure.

Domestic resource mobilization

In the final analysis, though, countries must rely on domestic resource mobilization to finance their development process, as Korea for instance did (Lee 2013). Similarly, Thailand depended heavily on domestic savings in its growth and development. Warr (2013) persuasively shows that the main contributor of growth in Thailand during 1981–2002 was physical investment. In turn, investment was financed primarily from Thai domestic savings, with FDI and ODA accounting for only 5 per cent of total investment (ibid.). Furthermore, Thailand’s economic stability fostered by its relatively open and conservative macroeconomic policies contributed to the country’s high domestic savings.

Following independence, most governments in the developing world found themselves having to rely on trade taxes as the main source for public financing. Unfortunately, in many cases, these countries ended up overtaxing exports, leading to diminished growth and development (Bates 1981; Rodrik 1998). Malaysia presents a useful exception, however. The country’s export taxes (on tin and rubber, for instance) were kept relatively low, continuing the tradition under British colonial power. Such a policy might help explain why the country was able to continue its export leadership in these commodities while diversifying toward higher level export products.

To be fair, most developing country governments did not have much choice at the time of independence, as they lacked the tax base and had to resort to export taxes to finance infrastructural capital, which was typically paltry under colonial rule. The only issue, then, is the degree of taxation on their (primary) exports. The lesson here, then, is that it might have been better, in certain countries, to set a lower tax rate to encourage higher production, and to have a less ambitious but sustainable development programme.

Natural resource economies

Especially in the light of meagre domestic savings or limited sources for effective taxation in developing countries, it is imperative that natural resource revenues be prudently managed to finance diversification efforts. Several of the case studies presented in the present volume provide good illustrations of this strategy. In Malaysia, for example, petroleum revenues provided a source of financing for the country’s development quest. Jomo and Wee (2013) provide an interesting account in this regard:

In the mid-1970s, petroleum production off the East Coast of Peninsular Malaysia began, and the government pushed through the 1974 Petroleum Development Act to ensure that the federal government—instead of the states—would capture the lion’s share of oil revenues. Petroleum revenue has played a crucial role in the country’s development since; they have been used to bail out government-owned enterprises, and to finance prestige projects.

The issue of property rights between the federal government and the states was, thus, settled in Malaysia, with the former capturing the lion’s share for national projects (ibid.). To at least forestall conflict, the interests of resource-rich localities must, of course, be seriously accommodated. Nonetheless, the federalization or centralization of the revenues from natural resources is important, for they provide the means for undertaking nationwide projects as an integral part of building a nation-state. The Malaysian government spent the petroleum revenues not only for industrialization, but also for buying inter-ethnic peace.

As well, other countries like UAE, Oman, Bahrain, and Botswana have succeeded in using their natural resource revenues for successful development. For example, ‘good management of oil income...helped UAE to be the hub for international finance and to achieve the status of being the trade and tourism capital of the [MENA] region’ Drine (2013).

Oman, the only Arab country included among the 13 success stories selected by the Commission on Growth and Development (see Spence et al. 2008), is an exemplary case (Looney 2013). ‘Central to Oman’s development strategy was the paradoxical role of oil. Petroleum was to be invested wisely for the benefit of future generations’ (Looney 2013). This meant that while maximizing the revenues from oil, Oman would dynamically also reduce its oil dependence by developing alternative sectors. Interestingly, the strategy for meeting the former objective was, contrary to the typical practice in other Gulf countries, not to nationalize the oil sector but to maintain links with the multinational petroleum firms. Such a strategy meant that the firms would in turn provide about 50 per cent of the required capital for expanding the sector (ibid.).

Similarly, ‘Bahrain has achieved a level of economic diversification into non-oil petroleum related activities that is the envy of its region’s planners’ (Looney 2013). To achieve such diversification, the country employed its oil revenues early on to educate its people and build physical infrastructure, especially in communications and transportation, as well as to creating an educated, indigenous workforce. Such investments paid off, with the country becoming home to many multinational firms and a regional financial hub (Looney 2013). Furthermore, Bahrain has been operating an innovative diversification tax strategy, whereby most companies are not subject to corporate tax, but that ‘a 46 per cent corporate tax rate is levied on oil companies’ (Looney 2013). Such a strategy would, thus, skew incentives in favour of non-oil companies, in support of diversification efforts.

To optimize inter-temporal allocation of resources, furthermore, several of the natural resource economies have set up reserve funds, e.g., Botswana, Oman and the UAE (Abu Dhabi). In the case of the UAE, for instance: ‘Large portions of oil revenue were invested in sovereign wealth funds which now generate significant profits, while the balance of the

funds was used to spur domestic investments in tourism and industry' (Nyarko 2013). Perhaps more importantly, these funds provide insurance for the notoriously high volatility exhibited by oil prices.

Nor is price volatility limited to oil. Taking advantage of the rise of copper prices between 2003 and 2007, Chile increased its fiscal surplus, which reached 8 per cent of GDP in 2007 (Cardoso 2013). Applying its savings in diversified financial assets as part of its counter-cyclical policies, Chile appears to have attacked the underlying fragility of Latin American economies: the propensity to get into recurrent balance of payments crises, following reversals of terms of trade' (ibid.). As other developing non-Latin American resource economies, oil and non-oil alike, are also vulnerable to the vicissitudes of TOT, the Chilean strategy seems advisable globally. The only real issue in this regard, though, is the optimal level of such surpluses, given the need for many developing countries to invest in their economies as well.

2.4 Managing diversity

Diversity, particularly in the form of ethno-linguistic fractionalization, is often blamed as a basis for poor economic performance in Africa, as it tends to lead to bad economic policies (e.g., Easterly and Levine 1997). If so, then managing diversity, in order to minimize the risk of conflict in particular, may be crucial for growth and development. Paradoxically, both China and India appear to have succeeded so far in this regard, but by employing different strategies. Apparently, on the one hand, China's success in creating peace and security among its diverse groups rested in large part on the use of fiat. Yet, this strategy has been accompanied by other less familiar policies: many ethnic minorities in 'autonomous regions' have been excluded from certain restrictions, such as the one-child-per-family policy. As Yao (2013) argues, however, the leadership was able to appropriately evince 'disinterested' form of government (Yao 2013), which is believed to have engendered developmental policies, including the ability to mitigate 'favouritism' across groups.

In the case of India, on the other hand, managing diversity via inclusive multiparty democracy appears to have succeeded in providing the requisite peace for development (Singh 2013). Interestingly, he argues:

To some extent, the heterogeneity of India, and the lack of any single axis of social domination made it easier to sustain the institutions created from 1947 onward: in this regard, the contrast with Pakistan is perhaps telling ... The final lesson from the Indian experience is that carefully designed political institutions that can manage competing interests effectively are an achievable goal, as well as a supportive backdrop for development.

Furthermore, the potential problem of multiple vetoes due to heterogeneity in India (Bardhan 1984) has been mitigated by the 'greater federalism and economic decentralization—also to some extent the accidental by-products of political fragmentation' (Singh 2013).

Appropriately managed, diversity can thus serve as a catalyst for adopting favourable developmental policies. In the case of Mauritius, for example, Subramanian (2013) observes:

Diversity had three important benefits: it was a repository of communities (or diasporas) that turned out to have important linkages with the rest of the world, creating positive externalities for the country; it forced the need for economic balance that explains the preservation of the cash cow, namely the sugar sector; and third, it forced the need for participatory political institutions that were important in maintaining stability, law and order, rule of law, and mediating conflict.

In certain cases, managing diversity entails ensuring greater equity in investments across regions, which are often ethnically or religiously concentrated. One of the goals of Oman's initial development plan was 'to distribute national investments among geographical regions with a view to spreading prosperity and progress to all regions of the Sultanate, reducing differentials in the standard of living between the regions, and assigning a special priority to the least developed areas (Looney 2013). This policy must have contributed to the relatively high political stability enjoyed by Oman.

Similarly Bahrain, another economically successful Arab country, has employed an apparently effective but a different strategy toward managing its much more diverse population than Oman's. According to Looney (2013), while 'Oman appears to have concentrated on providing a higher quality of education to a smaller proportion of the school age population ... Bahrain has focussed on educating a high number of students in the relevant age groups'. With the country's population divided largely along sectarian lines, such a strategy seems appropriate, since its relative inclusiveness should mitigate the potential adverse effects of diversity. Furthermore, 'by focusing on broad-based participation, Bahrain appears well placed to continue its heavy industrialization, as well as standard banking and financial services' (ibid.).

In the case of Malaysia, special redistributive programmes were required for diversity management. As Jomo and Wee (2013) put it:

Affirmative action programmes (for Bumiputera indigenes, especially Malays) from the early 1950s, which increased after independence and especially from the mid-1960s, had included preferential access to educational opportunities, business licences, as well as employment and promotion, especially in the public sector with the Malayanization of the civil service after independence. Greater Malay political hegemony after the events of May 1969 significantly enhanced such measures. Government intervention in the economy grew, and the number of state-owned enterprises increased during the 1970s, ostensibly for the primary purpose of NEP-type [new economic policy] redistribution.

Hence, active government action was employed to ensure that there would be political peace. Of course, such policies would likely create inefficiencies in the Malaysian economy, as to be expected when resource allocation is guided by factors other than market

forces. Nonetheless, such efforts bought the necessary peace required for the long-term growth and development.

In sum, the key issue appears to be how to harness the potential positive elements of diversity, while ensuring that potential centrifugal forces do not tear the country asunder. As Robinson (2013) for instance argues, one must give special attention to building a nation-state in the midst of diversity. This is a particularly potent lesson for development. In several African countries, for instance, development processes were eventually derailed by political instability, in large part because diversity was not properly managed: e.g., Liberia, Sierra Leone, and Côte d'Ivoire.

2.5 The role of institutions and governance

It is by now well-accepted in the literature that institutions are fundamental for growth and development (see, e.g., Rodrik, Subramanian, and Trebbi 2004). Practically all the country cases demonstrate this view, as appropriate institutional arrangements were usually required for sustaining growth and development and for achieving development success. Hence, I present here only a sample of cases where institutions and governance played a particularly noteworthy role in reversing the fortunes of the respective countries.

South Africa is a case in point. While the country operated a relatively efficient market system, its exclusion of a large segment of the population from the economy meant that the system was inter-temporally unstable. The country averted potential disaster in great part due to its institutional quality that effectively transformed a highly socially unstable system to a relatively stable one (Lundahl and Peterson 2012). As Naude (2013) writes:

South Africa, scarred by the racist social engineering of its apartheid regime, and which during the 1980s saw declining growth and escalating conflict threatening to boil over into full-scale civil war, seems to have averted catastrophe. In 1994, through peaceful elections described as 'miraculous', the country has turned over a new leaf, adopting a progressive constitution, reverting back to more robust growth, and entrenching its democracy.

Another success story based on strong institutions is Mauritius, which was condemned to fail economically following independence by two Nobel Prize winners, James Meade and V. S. Naipaul (Subramanian 2013). Instead, Mauritius has indeed prospered, thanks in great part to the quality of the country's institutions. As Subramanian (2013) writes:

To some considerable extent, strong domestic institutions have contributed substantially to Mauritian success, and are, a good candidate for underlying explanations of the Mauritian miracle. Compared with many developing countries, Mauritius has since independence been a democracy and developed strong participatory institutions.

Much is often made of the fact that Mauritius has benefitted from the preferential access of its sugar to the European Union and its textiles to the European and US markets, which produced substantial rents, as well as from the use of EPZs. Yet, many other developing countries, especially in Africa, which also enjoyed such benefits and experimented with

EPZs failed to prosper. The explanation for such a paradox is apparently the relatively high institutional quality in Mauritius (Subramanian 2013). While the other countries heavily taxed its exports and also failed to manage the resulting problems of rent-seeking, inefficiency, and corruption, Mauritius succeeded in accomplishing that, thanks to its strong institutions (ibid.).

Botswana has been a shining example of the critical role of institutions. Despite being a ‘land-locked, ecologically marginal country,’ Botswana has managed to achieve rapid economic growth, political stability, as well as free and fair democratic elections (Robinson 2013). The country ‘benefited from a long process of state and institution formation ... This was crucial for developing checks and balances on politicians and dispute resolution and creating good governance’ (ibid.). The lesson here to other developing countries, and African countries in particular, then is to ‘focus on the structure of state institutions and how they can be altered to form a national state’ (Robinson 2013). Unfortunately, while many developing countries might have attempted to attain such a ‘national state’, the emphasis was often on the establishment of an unusually strong central government, bereft of the appropriate checks and balances. Sooner or later the political system would be transformed to patrimonial or neo-patrimonial governance, which was unaccountable to the interest of the citizenry. Required, therefore, would be measures that could minimize the risk of such a transformation.

2.6 Human development

HD—defined broadly here to include not only education and health but also economic and political freedom, à la Amartya Sen, is the ultimate goal of economic growth. Yet, as argued persuasively by Ranis, Stewart, and Ramirez (2000: 213), for instance, ‘economic growth itself will not be sustained unless preceded or accompanied by improvements in HD’. For example, high institutional quality, which I discuss above as fundamental for development, presupposes a minimum level of literacy, which in turn requires significant educational investment. In addition health, as well as education, is an important determinant of labour productivity. The various forms of equity, including political freedom and female empowerment, should also contribute to long-term growth and development.

Several case studies in the present book demonstrate the importance of HD in the successful development strategies pursued by the respective countries. In nearly all the case countries, human capital investment is stressed. HD is broader than human capital, however.

The development success of Tunisia has historically rested in large part on HD. It is often observed that much of the country’s success can be attributed to its ability to successfully deepen the economic diversification process in a period of structural adjustments since the mid-1980s (Bali moune-Lutz 2013). Yet, a more fundamental explanation behind Tunisia’s success is likely to be that it invested heavily in HD from the start. As Bali moune-Lutz (2013) elaborates:

The secular and modernist leadership in independent Tunisia gave the country an early start on some important reforms. Social modernization

played a crucial role in Tunisia's development. In the late 1950s, Tunisia implemented the most progressive reforms of female status and women's rights in the Arab and Islamic world (perhaps with the exception of Turkey) and began focusing on female education, reproductive health, and population control. In the early 1960s, Tunisia created a family planning agency (Office National de Planning Familial) and limited social security benefits to a maximum of three children per family, which eliminated an important incentive to have a large family. These policies faced sharp criticism from most countries in the Islamic and Arab world. The policies of neutralization and co-optation of other interest groups, allowed the leadership of the ruling party to implement these social policies early on and without major internal political or social confrontation.

The above social reforms seem to have paid handsome dividends for Tunisia. In particular, they have hastened the demographic transition, substantially reducing the fertility rate sufficiently and mitigating the adverse implications of child dependency for growth and development. These reforms, coupled with overall emphasis on human capital, helped to improve the productivity of the labour force generally, an important attraction for FDI.

Analyzing policies leading to 'Costa Rica's achievements over the last quarter of a century,' Trejos (2013) writes:

The first set of policies involves the strong investments and unusual decisions that Costa Rica made during the twentieth century regarding democracy, peace, education, healthcare and the environment, and ... [which] explain the high levels of human development, institutional development, and labour productivity, that the country today enjoys.

Thus, it seems fair to ascribe a significant part of the sustained growth and development in Costa Rica to HD investment. The positive outcomes from the Costa Rican HD investment suggest that the emphasis by donors on the use of savings from debt write-offs for the highly-indebted poor countries may indeed be in the right direction, that is, in support of sustaining growth and development. However, this HD investment must also be balanced by other infrastructural investments, which can be critical for initiating growth, to begin with.

The Costa Rican HD is admirably quite broad, including the environment, which is at present a major global concern. Internalizing the environment in development strategies is advisable. In particular, certain developing countries may actually enjoy the advantage of being able to source from the new environmentally friendly technologies that could provide a competitive edge over the existing but outmoded ones.

Another important attribute inherent in the Costa Rican case, which seems missing from that of Tunisia, is political freedom as a part and parcel of the HD package. As apparent in many of the other success countries, economic freedom, but not necessary political freedom, has been an important integral part of their respective strategies. Preservation of peace seems to be particularly critical for achieving long-term growth and development, however. In turn, some form of democracy that provides significant political freedom

appears to be essential for *long-term* political stability. As in the other success developing economies, Tunisia for example had for years maintained political stability, a crucial attribute in attracting the FDI required for the country's successful development strategy. That stability, however, rested on 'co-optation and neutralization of major internal interest groups' (Baliamoune-Lutz 2013). Yet, as the recent Arab spring has amply demonstrated, rule by fiat has its limits in preserving stability into the long-term. Drine (2013) aptly states it:

The lack of political reforms may, however, challenge the gains made over several decades, with the recent events in Bahrain, Oman, and Tunisia suggesting the sustainability of development processes in these countries remains dependent on political reforms.

A more general conclusion, then, emerges from the above account. Greater democratic dispensation embodying political freedom seems to be a necessary framework for *long-term* growth and development, whether or not countries succeed in the use of authoritarian means to achieve successful development in the short- to medium-term. Countries would do well to heed this important development lesson.

3 Conclusion

The current study presents a synthesis of the strategies and lessons based on comprehensive case studies of development successes spanning the developing world. The syntheses of the studies for the various regions are particularly insightful, as they tend to take into account regional idiosyncratic factors. Yet, the recurrent themes across countries and regions provide the appropriate connectedness for engendering a truly global perspective for development strategies and lessons.

The ultimate objective of countries should be the continual improvements in the HD of their citizens. Successful development strategies in meeting the above objective vary across time and space; however, there are also commonalities across regions. Both orthodox and heterodox policies have proved successful at different points in time, depending on a country's circumstances. In general, however, achieving HD requires 'inclusive' economic growth, which in turn presupposes a relatively equitable distribution of capabilities among individuals for effective participation in the growth process. Such a broad view of HD would include various forms of freedom, that is, if HD is to be sustained into the longer term (Sen 1999). The extent to which the various successes identified in the study will endure into the longer term, then, will depend on the ability of the countries to eventually achieve this broader HD perspective.

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