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Overview

What can the less well-off developing countries learn from the "successes" of other developing countries? This Policy Brief highlights successful development strategies and lessons from in-depth case studies of select countries from the developing world. The coverage includes East Asia and the Pacific, the emerging Asian giants, sub-Saharan Africa, Latin America and the Caribbean, and the Middle East and North Africa, along with respective regional syntheses. Although countries' experiences are not necessarily replicable, the recurrent themes across countries and regions provide the appropriate connectedness for a comprehensive global perspective on development strategies and lessons.

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Achieving Development Success: Strategies and Lessons from the Developing World

CERTAIN COUNTRIES ARE CITED RELATIVELY OFTEN as examples of development success. These countries exhibit policies and institutions that could be adapted for less successful countries in the developing world, thus constituting "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 Policy Brief highlights development strategies and lessons from a global sample of country cases of the developing world: East Asia and the Pacific, the emerging Asian giants, sub-Saharan Africa, Latin America and the Caribbean, and the Middle East and North Africa.

It reflects the diversity in development strategies: the "disinterested-government" political economy of China; the "Washington Consensus-based" reforms of China and Ghana; diversification strategies of Bahrain, Oman and the United Arab Emirates (UAE); the dynamic orthodox-heterodox strategy of Malaysia and Vietnam; the effective natural resource management of Bahrain, Botswana, Oman and the UAE; the social sector emphasis of Costa Rica and Tunisia; the democratic political system of managing diversity in India; and so forth. The approach challenges many existing schools of thought.

The findings are summarized under the following six themes: orthodox versus heterodox policies; the importance of capability; primary exports, diversification and financing; managing diversity; the role of institutions and governance; and human development.

Orthodox versus Heterodox Policies

Both conventional and heterodox policies have been employed at different times in various country cases, virtually all of which engaged in some form of restrictive policies – import substitution (IS) strategies – and then switched to more orthodox policies. Successful heterodox policies leading to economic diversification are often associated with countries in East Asia and the Pacific. Other countries, such as Brazil and Chile, have also benefited from these policies. However, heterodox strategies were particularly unsuccessful in African countries, as illustrated by the Ghana case, with Mauritius as an exception.

The difference between "success" and "non-success" strategies is often the ability to employ restrictions successfully to develop productive capability without succumbing to the potential downside of growth-inhibiting rent-seeking. China for instance used various IS restrictions to develop capability prior to its opening up beginning around 1979, with strong growth under liberalization.

The switch to orthodoxy was usually necessitated by the development of macroeconomic bottlenecks that tended to derail the initial growth generated by heterodox policies. For Brazil, IS drove the rapid expansion from the mid-1960s to the mid-1970s; however, macroeconomic imbalances in most of the 1980s and early 1990s, reflected by chronically high inflation and sub-par growth, led to the implementation of structural reforms, which improved growth subsequently.

In Ghana's case, 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. Subsequent reforms, based on the Washington Consensus (WC), however, appear to have turned around Ghana's economic fortunes, with the country experiencing continuous growth and considerable improvements in human development.

As orthodoxy, WC enjoys a bad reputation.[1] Notwithstanding this,[2] WC engendered much-needed reforms that helped turn certain economies around. In practically all the cases WC-based reforms improved growth and measures of development.

Countries seldom, if ever, implemented all the dictates of WC. It has been argued that China "has not unconditionally followed the advice of international donors or other governments".[3] The main global lesson here is that market-friendly reforms improved growth in practically all case countries. Nonetheless, countries' capability to capitalize on market forces, much of it developed under heterodox policies, apparently mattered.

public allocation. Individuals educated with public funds often emigrate for greener pastures. Whether or not such "brain drain" is transformed to "brain circulation" eventually, the social capital loss must be minimized. One solution entails strategically providing the complementary business environment that increases the demand for the educated.[4]

IS policies failed in many developing countries primarily because such policies created rent-seeking activities, resulting in inefficiencies and eventual collapse of the protected firms. Since many of the IS strategies are no longer feasible under WTO rules, strengthening the business environment generally, especially infrastructure provision, has now become critical.

Extensive infrastructure networks – road connectivity, electricity service, telephony, potable water, etc. – to improve the business environment and labour productivity substantially enhanced Costa Rica's development following market reforms. These improvements attracted foreign direct investment (FDI), which played a huge role in the country's industrial diversification and technological upgrading.

"The ability of a country to compete successfully requires capability"

Similarly, heterodox policies produced steady increases in Chile's per capita gross domestic product. However, in the late 1960s the prevailing IS economic model was showing signs of exhaustion. Growth then accelerated following structural adjustment, though it really took place in the democratic period.

The Importance of Capability

Whether or not a heterodox approach is adopted, the ability of a country to compete successfully requires capability, particularly infrastructure: physical, institutional and human. However, the possibility of private capture of the returns from public investment in human capital may lead to sub-optimal

The external environment

The external environment remains crucial for countries' ability to capitalize on market forces, with the WTO rules shaping the policy space. The country cases show that government has had an important role in developing the requisite capability. Governmental leverage often entailed the use of subsidies, tariffs and other restrictive measures to prepare countries for the challenge. For example, China had succeeded in developing much of its capability before acceding to the WTO in 2001.

WTO membership has major benefits associated with non-discriminatory trade arrangements, especially for countries with little bargaining power. WTO rules, however, currently restrict countries from employing certain measures to advance their industrialization. The trade-related investment measures (TRIMs) limit government action in nurturing domestic industries, while the trade-related intellectual properties (TRIPs) constrain the use of external technology. Relieving the limitations for low-income and least-developed countries could provide a more level playing field for these countries.[5]

In sum, capability development for a developing country is critically important, whether heterodox or orthodox policies are pursued. Those who advocate for heterodoxy must ensure that government has the capability for such a demanding role.

Primary Exports, Diversification and Financing

Primary exports have historically not been viewed as an engine of growth, 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. Diversification away from primary exports is therefore considered an important strategy for sustained growth and development. Most of the case countries have indeed succeeded in diversifying their economies. Furthermore, two strategies were often employed for the diversification: attracting FDI and/or using domestic savings for financing.

Foreign direct investment

Case countries relying mainly on FDI to achieve significant export diversification included Bahrain, Costa Rica, the Dominican Republic, Malaysia, Mauritius, Oman, Tunisia and Vietnam. The Dominican Republic and Mauritius represent examples of countries that have effectively used export processing zones (EPZ), by shielding them from the inefficiencies of the non-export sector.

Despite its export liberalization policies since early 1996, Vietnam's effective protection (that is, protection on value added) in manufacturing remained high. 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. A key strategy for attracting FDI to Vietnam has included a stable macroeconomic environment, high quality and low cost of labour, and low levels of crime.

For Costa Rica, FDI has been a key to its diversification into high-end exports and growth. Factors attracting FDI include the fact that Costa Rica is a stable country with a sufficiently competitive business climate and, in particular, superb labour productivity. Other factors include special tax incentives and the free trade zones. Especially noteworthy was the establishment of a private non-profit institution for facilitating the process of attracting foreign investment. This strategy contrasts with the oft-failed policies in many developing countries

About the Author

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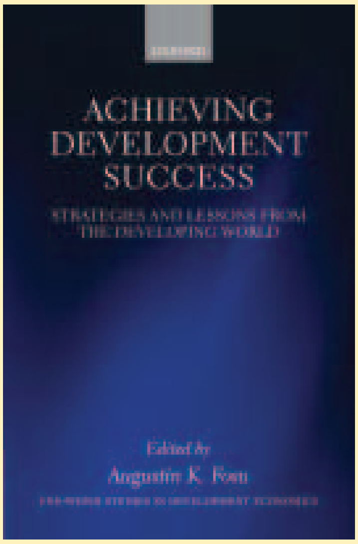

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where government agencies are assigned this role.

External aid

Official development assistance (ODA) may help finance reforms. The initial stages of reforms are usually fraught with fiscal difficulties, and coalitions already enjoying government subsidies tend to resist reforms. In Ghana, government revenues were so paltry that ODA was instrumental in carrying out the reforms, including the provision of social benefits intended to soften the adverse implications of decontrol and removal of subsidies.

Vietnam was actually one of the world's largest recipients of ODA with a significant amount of this assistance channelled into improving the flow of information about the Vietnamese economy for attracting FDI. Even the Republic of Korea is often cited as having received significant ODA from countries of the Organisation for Economic Co-operation and Development (OECD) for building physical infrastructure.

Hence, external aid can facilitate development success, by mitigating the social costs associated with market-friendly reforms and contributing to laying the groundwork for attracting business, including FDI.

Domestic resource mobilization

In the final analysis, countries must rely on domestic resource mobilization to finance their development. Thailand financed physical investment, the main contributor to its 1981–2002 growth, from its domestic savings, with FDI and ODA together accounting for only 5 per cent of total investment. 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 lacked the tax base and had to rely on trade taxes as the main source for public financing, especially for infrastructural capital, which was often paltry under colonial rule. Unfortunately, many of these countries ended up overtaxing exports, leading to diminished growth and development.[6,7] Countries might have been better off in the long run if they had set a lower export tax rate to support a less ambitious but sustainable development program.

Natural resource economies

Given meagre domestic savings and limited sources for effective taxation, natural-resource revenues need prudent management to finance diversification efforts. Several case studies provide good illustrations of this strategy. In Malaysia, petroleum revenues provided a source of financing for the country's development, including the centralization of petroleum revenues to be used in support of industrialization and for buying inter-ethnic peace.

Other countries – Bahrain, Botswana, Oman and the UAE – have also successfully employed their natural resource revenues for successful development. Oman, the only Arab country included among the 13 success stories selected by the Commission on Growth and Development,[8] is an exemplary case, investing wisely for the benefit of future generations. Contrary to the typical practice in other Gulf countries, Oman refrained from nationalizing the oil sector. Instead it maintained links with multinational petroleum firms, which provided about 50 per cent of the required capital for further investment.

Bahrain employed oil revenues early on to educate its people and build physical infrastructure, especially in transportation and communications. It has paid off, with the country becoming home to many multinational firms and a regional financial hub. Furthermore, Bahrain has been operating an innovative diversification tax strategy, whereby most non-oil companies are not subject to corporate tax.

To optimize inter-temporal allocation of resources, several of the natural-resource case countries have set up reserve funds, for example Botswana,

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Oman and the UAE (Abu Dhabi). 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 gross domestic product in 2007. Applying its savings in diversified financial assets as part of counter-cyclical policies it appears to have attacked the underlying fragility of Latin American economies: the propensity to get into recurrent balance of payments crises, following TOT reversals. Given the vulnerability of resource economies to the vicissitudes of TOT, the Chilean strategy seems advisable globally, though the optimal level of reserves should depend on countries' respective circumstances.

Managing Diversity

Diversity is often blamed for relatively poor economic performance in Africa, as it tends to encourage bad policies.[9] Thus managing diversity appears crucial. Paradoxically, both China and India have succeeded so far in diversity management by employing different strategies. On the one hand, China's success rested in large part on the use of fiat. An overall strategy has involved a "disinterested" form of government, which has engendered developmental policies, including the ability to mitigate favouritism across groups. In India, multiparty democracy has been the main mechanism for managing diversity. Indeed, the heterogeneity of India, and the lack of any single axis of social domination, made it easier to sustain institutions.

> "Diversity can serve as a catalyst for adopting favourable developmental policies"

The key issue appears to be how to harness the latently positive elements of diversity while attenuating centrifugal forces that could tear the country apart. Appropriately managed, diversity can serve as a catalyst for adopting favourable developmental policies within the context of a nation-state.

The Role of Institutions and Governance

Institutions are fundamental for growth and development.[10] Practically all the country cases in our research project demonstrate this view.

While South Africa operated a relatively efficient market system, it disenfranchised the large majority of the population via apartheid. The country subsequently averted potential disaster largely because its institutional quality effectively transformed a highly socially unstable system to a relatively stable one following the 1994 democratic elections.

Mauritius was condemned to fail economically following independence by two Nobel Prize winners: James Meade and V. S. Naipaul. Instead, Mauritius has prospered, thanks largely to the quality of the country's democratic and participatory institutions. Similarly, Botswana has managed to achieve rapid economic growth, political stability as well as free and fair democratic elections, having benefited from a long process of state and institution formation crucial for developing checks and balances on politicians and dispute resolution and creating good governance.

The overall lesson here is to focus on the structure of state institutions and on how they can be altered to form a national state. Unfortunately, the emphasis has often been on the establishment of an unusually strong central government that eventually results in patrimonial, unaccountable governance. Required are measures that can minimize the risk of such a transformation – appropriate checks and balances.

Human Development

Human development (HD) – defined broadly here to include not only education and health but also economic and political freedom – is the ultimate goal of economic growth. But economic growth itself will not be sustained without improvements in HD.[11]

> "Human development is the ultimate goal of economic growth"

Several of the country cases demonstrate the importance of HD in their successful development strategies. HD is broader than human capital, however.

A fundamental explanation behind Tunisia's success is its heavy investment in HD, especially progressive reforms involving women. The reforms helped to improve the productivity of the labour force generally – an important attraction for FDI. Similarly, Costa Rica's sustained growth and development is ascribed to its HD investment, which is admirably broad, including the environment, currently a major global concern. Internalizing the environment in development strategies is advisable. Indeed, developing countries could leapfrog by sourcing from advanced environmentally-friendly technologies.

Another important attribute inherent in the Costa Rican case, which seems missing from Tunisia's, is political freedom as an integral part of HD. Economic freedom, but not necessarily political freedom, has been an important "success" strategy. Preservation of peace seems to be particularly critical, however, for achieving long-term growth and development. Furthermore, a framework that preserves political freedom appears essential for long-term political stability.

Thus, greater democratic dispensation embodying political freedom seems to be necessary 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.

Concluding Remarks

While the research takes into account country and regional idiosyncratic factors, the recurrent themes provide the appropriate connectedness for engendering a global perspective for development strategies and lessons from the developing world. Two main lessons emerge. First, the respective development strategies are often "environment-specific" in time and space, so that countries' experiences are not necessarily replicable. Second, there *are* sufficient commonalities across countries to engender useful lessons for other, less successful countries that share similar characteristics, currently or historically.

This Policy Brief is based on *Achieving Development Success: Strategies and Lessons from the Developing World* edited by Augustin K. Fosu (Oxford University Press, 2013). The book in turn emanates from the UNU-WIDER project "Country Role Models for Development Success", directed by Augustin K. Fosu.

Notes

1. Much of the criticism is based on the straightjacket nature of WC and on possible deindustrialization. As the Ghana case shows, however, deindustrialization often preceded the reforms promulgated by WC.
2. The straightjacket nature of WC was problematic, as it tended to ignore the idiosyncratic characteristics of countries, which could actually lead to institutional or political instability.
3. Y. Yao (2013) "The Disinterested Government: An Interpretation of China's Economic Success in the Reform Era", in A. K. Fosu (ed.) *Achieving Development Success*, Oxford: Oxford University Press.
4. A. K. Fosu (2004) "The Social Impact of Globalization: The Scope for National Policies", in M. Vivarelli and E. Lee (eds) *Understanding Globalization, Employment and Poverty Reduction*, New York: Palgrave Macmillan.
5. 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 countries. Unfortunately, it would be too costly for poor developing countries to take advantage of this provision.
6. R. H. Bates (1981) *Markets and States in Tropical Africa*, Berkeley: University of California Press.
7. D. Rodrik (1998) "Trade Policy and Economic Performance in Sub-Saharan Africa", NBER Working Paper 6562.
8. See M. Spence et al. (2008) "The Growth Report: Strategies for Sustained Growth and Inclusive Development", Washington, DC: World Bank, Commission on Growth and Development.
9. W. Easterly and R. Levine (1997) "Africa's Growth Tragedy: Policies and Ethnic Divisions", Quarterly Journal of Economics, CXII: 1203–1250.
10. D. Rodrik, A. Subramanian and F. Trebbi (2004) "Institutions Rule: The Primacy of Institutions over Geography and Integration in Economic Development", Journal of Economic Growth 9(2):131–165.
11. G. Ranis, F. Stewart and A. Ramirez (2000) "Economic Growth and Human Development", World Development 28(2):213.

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UNU World Institute for Development Economics Research (UNU-WIDER) is a research and training centre of the United Nations University. UNU-WIDER was established by the United Nations University (UNU) as its first research and training centre and started work in Helsinki, Finland, in 1985. The Institute undertakes applied research and policy analysis on structural changes affecting the developing and transitional economies, provides a forum for the advocacy of policies leading to robust, equitable and environmentally sustainable growth, and promotes capacity strengthening and training in the field of economic and social policy-making. Work is carried out by staff researchers and visiting scholars in Helsinki and through networks of collaborating scholars and institutions around the world.

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Achieving Development Success: Strategies and Lessons from the Developing World

Comprehensive set of development strategies and lessons from the developing world, with recurrent themes providing the connectedness for a truly global perspective.

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