

## The 'success' stories of Newly Industrialized Countries: Can they offer a model for other developing countries?

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### Introduction

The 'success' of Newly Industrializing Countries (NICs) of the East Asia has often been argued as a model for other developing countries to replicate for development. However, a closer understanding of this extreme economic growth of NICs suggests that a variety of factors contributed many Asian countries including the NICs to achieve that economic 'success'. A proper understanding of the dynamics and conditions of those economic successes is of importance before we replicate this model for other developing countries. It is important to remember that the dominant discourse of development has been explained and criticized in different theoretical lenses. And, I acknowledge the merits of different perspectives and aspects in understanding the 'third world' development in a more complex fashion. However, in this article, I only tried to provide a critical look into the economic aspects of present-day development practices in developing countries mostly derived from the neo-classical school of thoughts and championed by some giant international institutions. Thus, in this article, I first present different schools of thoughts that explain the NIC's success and then provide the limitations of such 'success' stories. In the second section, I provide a comparison between the NIC's strategies to the various macro economic reforms like stabilization programs and structural adjustment programs (SAPs) implemented by many international institutions. And finally, in reference to African countries, I discuss some widely-discussed issues of development in order to argue whether NICs can truly offer as a model for development for other developing countries.

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### **Defining the NICs**

The term NIC has three different senses. However, there is no consensus among the experts what constitutes a NIC. Firstly, NIC was invented to baptize the Latin American countries that had chosen the import substitution strategies for their own miracle. Secondly, to many of the experts, the term NIC is applied to those countries such as Malaysia, Indonesia and Thailand who have emerged in the scale of industrial ladder with the changes in the global division of labor. In the third sense, widely used by the World Bank and IMF, NICs are defined based on some statistical criteria. These include the per capita income, saving ratios, levels of manufacturing and a physical quality (Mittelman and Pasha;1997). There are three basic schools of thoughts which tend to explain the NIC 'miracle'. And these are; neo-classical, cultural, and statist schools of thoughts.

### **Neo- classical School of Thought**

This school of thought argues that the outward economic orientations as the key of the NIC phenomenon. Based on the comparative advantage theory, all the NICs developed the ability to produce cheap manufactures, thereby facilitate the optimal response presented by the international economy. According to the neo- classical theorists, Asian economics were market- based and subject to less regulations than are their counterparts elsewhere. Despite state intervention, the countries policies on trade and exchange rate were mostly determined by the market forces. Private initiatives are encouraged, and state is generally predisposed towards market solutions. An outward industrialization strategy allowed the NICs to exploit the world economy and get a greater share on the manufactured goods and moved in the industrial ladder with the changes in the pattern of world production.

### **Culturalist School of Thought**

This school of thought argues culture as a key factor that separates NICs from other countries. The scholars of this school argue that Confucian values of temperance, individual sacrifice for the national and collective interests, social harmony, an emphasis on order and the subordination of the individual to the collectivity, a work ethic and obedience to authority give the Asian NICs a comparative edge (Mittelman and Pasha;1997). According to Kahn, a member of

Confucian culture will be hard working, responsible, skillful, and their emphasis on fairness and equality embedded both in the family as well as institutional/organizational basis. Kahn also argue that as opposed to the Protestant ethic, the modern Confucian ethic is superbly designed to create and foster loyalty, dedication, responsibility and commitment and to intensify identification with organizations and institutions which gave those countries a potentials of higher growth rates than other countries (Seligson & Passe-Smith; 1993).

#### **Statist School of Thought**

This school of thought consists of both neo-classical and cultural explanations and emphasis the contribution of development centered state. In the case of NICs, some authors argue that market did operate in those countries, but under the constraints and guidance of state elite. The technocratic state elite of those countries determined the direction of economic policies and did not hesitate to employ subsidies, preferential access to credit, investment incentives, cheap loans and other market- violating administrative measures to achieve their target they set. Government of NICs maintains a balance between the ISI and export orientation at the early age of industrialization. The state played a vital role to integrate different sectors especially agricultural and industrial sectors into the national economy. By doing that, the NICs also maximize the level of efficiency in distribution of resources between rural and urban sectors (Mittelman & Pasha; 1997). State also played an important role in land reforms to promote labor- intensive industrialization, redistributed land and raise the crop prices, investment on infrastructure and education, establishment of EPZs, applied financial and fiscal instruments to induce economic growth in specific directions etc. (Mittleman and Pasha; 1997).

#### **Limitations of these Schools of thoughts**

All these three different schools of thoughts have some merits in explaining the 'success' of the NICs. However, each school of thought also have some major flaws which needs to be analyzed to have a comprehensive understanding of the 'success' stories in specific time and space. For example, both the neo-classical and statist explanations did not adequately address other important historical factors such as- a very special connections of those countries to US and Japan.

The cold war policies of US gave NICs a favorable condition to exploit international economy. In the early 1960's, US long term strategic interest in East Asia, its political and economic hegemony, and also as a defender of the world from the communism gave NICs the conditions of economic growth (Bello and Rosenfield;1990). The post Vietnam War also served as an engine of prosperity for Korea and Taiwan. The historical and colonial relations of NICs to Japan and Britain also gave the conditions such as well- developed physical and educational infrastructure to adjust with their designed goals. The extreme economic dependence of NICs on Japan also played important role in NICs especially in Korean export and business. The Japan connection with those countries was both as an assets and liability for those countries.

Neo-classical school of thoughts paid much attention to the domestic market forces which accelerate economic growth through export-oriented industrial strategies. The overemphasis of domestic market forces ignores the other important external factors. In fact, NICs went through the process of 'command capitalism' under the oppressive and authoritative state. Repression of worker's right such as wages and consumptions were held down and labor rights were repressed. However, I think, to a certain extent the participation of NICs into the international economy did help those countries economy to be major players in the international economy in that particular time.

The cultural explanations for NICs seems little vague to me. The concept of culture in that explanation is defined in a less complex fashion, in isolation from other important variables of everyday human life. In fact, reduction of the East Asian economic success to Confucian ethos mainly hinders the other important causes of the success. Culture is not static or homogenous. Moreover, there has always been a blend of Confucianism, Buddhism, and Christianity among the people in East Asia. All NICs should not be viewed as static and ahistorical. Each country should be analyzed from its own historical context and their specific relations to the outside world. However, while ideology plays an important role to mobilize social relations of production for national interest but the role of state is also very important in formation of those ideologies in place.

By the end of the 1980's, it becomes evident that NICs internal and external environment has been transformed. The protectionist threat from the outside specially from the US, restrictive quotas, Voluntary Export Restraints (VERs) on NIC products force the NICs to look for the new markets. NICs were developed in a radically different world economy and the model of NICs cannot be replicated in the 1980's since the world economy changed significantly. NICs internal environment also worsened along with the external factors. NICs face the crisis of agriculture since agricultural sector was subordinated by the export-oriented industrialization. Like agriculture, environment also a prime victim of NICs. The crisis also touched the legitimacy of authoritarian political system. The labor repression created the working class alienated from the collective bargaining process (Bello & Rosenfield; 1990). The democratic participation in the decision of economic policy becomes more significant in a strategy of economic development.

The NIC phenomena raise some important questions for many development thinkers. Do the NICs offer a model of development for other countries? Do they really represent an expanding force in the global political economy?

#### **Comparison between NIC strategies and the macro economic policies of development**

Prescription by International developing institutions like World Bank and IMF to the developing countries is based on some faulty assumptions. Their model of development grounded in theories of free trade and comparative advantage. It seemed that they view growth as equivalent to development. In early eighties, those giant institutions adopted many economic policies such as stabilization programs and the structural adjustment policies for the developing countries. However, this is important to ask whether it is possible for the third world economies to achieve economic growth like other NICs through various macro economic reforms pioneered by the international players of development.

For the discussion of the macro economic reforms, it is important to distinguish stabilization programs from the structural adjustment programs (SAP). Both the programs overlap in many third world

countries especially in African countries because of the mutual cooperation of the two giant financial institutions. However, these two programs vary in terms of their nature and philosophy. Stabilization strategy is designed for short- term economic solutions by curbing high inflation rates and curtailing budget deficit. On the other hand, SAP is designed to restructure the productive capacities in order to increase efficiency and help to restore growth in medium and long term. In SAP, export- oriented economy and participation into the global economy are viewed as the most possible way out of the present crisis. The key elements of adjustment programs include: Elimination of subsidies and price control, reductions of trade and exchange control, reform fiscal policies, reform the financial sectors, privatization of state owned firms, sectoral reforms of agriculture, industry education etc, reduction of the role of the state in the economy as well as the service sectors like education health and social security.

In comparison with the NICs strategy to SAPs, some significant and intimate areas of convergence and divergence are evident. In both the macro economic policies, converging areas are; a high value on the integration of the national economy into the global market economy, export- oriented industrialization, privatization, and dominance of the market forces in the economy and the important roles of the state in the economy. More specifically, similarities are also found in the functions of state in the national economy. In both cases, state becomes very repressive and insensitive to the labor rights and wages. The destruction of environment and domestic economic base (In African cases, agriculture and mines) are also converging areas for these two macro economic strategies. However, difference at the role of state in the national economy is also evident in two economic strategies. In the case of NICs, state played its role as a guardian and modified market forces according to the direction it sets. On the other hand, in SAPs state becomes a facilitator to ensure participation of the national economy according to the needs of the international economic order. The sovereignty of state in many African countries literally surrendered to the global market forces. Many 'destitute' African countries have no choice but to adjust the SAPs of the IMF and World Bank to survive.

Sometimes it is argued that global political economy is a zero sum game. The economic growth of NICs was possible in expense of other

economics of the world. Thus, it is not possible for every country to get the benefit of world economy in a specific time. The NICs exploited certain structural advantage of world economy especially the cheap labor was a chief asset that provided NICs export with their competitive edge. However, structural squeeze of the economy still poses a threat to the strategy of the high-speed export-oriented industrialization of the developing countries.

In this present-day global reality, the more integration for the third world economies into the global economy like NICs in 60's seems unrealistic. Increasing reliance on hostile world environment may put the developing countries further trouble because of their less power in the decision-making process of international economic orders. Some scholars argue that developing country should diversify trading partners and products on the basis of regional cooperation and also development plans should also come from the each country's specific internal economic logic.

#### **Macro economic reforms and the issues of development in African countries**

Since the early 1980's, African nations have been implementing many macro economic reforms under the directions and supervision of World Bank and IMF. In rhetoric, the idea was to shape those country's economy in response to the world economy so that they can ensure economic growth like the NICs in East Asia and can repay their huge debt to many multi and bilateral institutions. In reality, these macro economic reforms mainly ensure the 'unexplored' market of the transnational corporations and facilitate the process of globalization, through liberalization, deregulation, and reducing the role of the state in national development. In Africa, SAPs are basically addressing the symptoms of the present socioeconomic crisis in Africa. These programs failed to address the need for the improved social and technological structure of the country.

In order for more even distribution of income, developing countries especially African countries need at least to start, extensive land reforms, progressive taxation policies, and guarantees of worker rights. Each nation should come up with individual development strategy driven by country's internal economic logic. Raising productivity

depends on upgrading infrastructure. African nations should upgrade their infrastructure which should include roads, irrigation, credit institutions and marketing channels, and other social infrastructure through health, education and nutrition programs. World Bank and IMF could play a vital role by providing loans and technical supports in upgrading their infrastructures. In fact, in many respect, upgrading social infrastructure like health and education is one of the most important conditions in present day African countries. In African countries, industrialization with strong link with agriculture is also very important. However, this agriculture link industrialization should not be confused with the ISI policies. Agriculture linked industrialization should focus on exporting products offering higher value added. In this phase of highly integrated and interdependent economic world, developing countries need to revitalize regional integration institutions. They need to diversify their trading partners and the products and they also need to restructure the trade and financial linkage to development that is driven by the internal economic logic. It is important to remember that domestic need should shape the pattern of trade not the vice-versa (Broad & Cavanagh; 1988). State has the most important task to determine the vision, mission and development agendas for the country. A proper homework by the government is highly important to negotiate with other international players of development at policy level.

In the case of African nations, in order to market- oriented economic reforms to become pro- poor, actions need to be taken at international, regional and national level. At international level, cancellation of debt for the heavily-indebted poor countries, instituting human right condition for future money lending, establishment of international mechanism to retrieve money stolen by the corrupt leaders, reform of the international economic, financial and trade system are needed. At the regional level, stronger coordination in many aspects of economic development such as regional trade based on local comparative advantage as opposed to global. At national level, renewal of democratic forms of government, creating a climate for the economic growth, ensuring food security and support for the informal sectors. In the case of some post- conflict nations, special actions should also be taken by establishing peace with justice (Cheru;1999). It is also important to remember that people especially poor people should be the focus of any development effort. Thus, we should not adjust people to economic needs rather economy should be adjusted to people's needs.



It is believed that SAPs needs important modifications in its visions and practice towards the development of the African nations. As argued by Cheru (1999) that "High growth of gross national product (GNP) or the reduction of inflation economic does not lead to development unless it is accompanied by changes in the distribution of income and enabling larger portion of the population to realize their cultural, social and economic rights". Unfortunately, the present macro economic reforms under SAPs equated growth with development. Offering a standard of living consistent to human dignity is secondary concerns to many development planners to be met through growth (Broad & Cavanag; 1988). Market- oriented macro economic reforms cannot be the solution for the development. Of course, economic growth is necessary but that has to be linked with human development. However, greater dependence of the third world economies on an increasing hostile world economy needs to be challenged. Thus, third world countries need to come up with their own development initiatives.

These development initiatives should also try to mobilize the enthusiasm and creativity of people and grass root organizations in the process of development (Cheru; 1999). Therefore, any alternative framework to the SAPs should have some basic features. This should be a broad framework, not a standard program which is applicable to any African countries irrespective of their historical, cultural, social and ethnic differences. The alternative framework should also be viable and relevant with a close ties with the day- to- day live realities of the people. An alternative framework should be operational and should also involve all the people at all levels.

In many African countries the unstable political situations, lack of democratic government and lack of good governance are viewed as major causes that hinder the economic development. A transparent, accountable and democratic government is important in development process. However, transparency, accountability and democracy are important conditions both at national as well as international level including the institutions like IMF and World Bank. In this phase of globalization, good governance at global level is also necessary to ensure transparency and accountability at every level.

### **Conclusion**

It is evident that the NICs cannot offer a pragmatic model for the present-day developing countries. Historically, NICs took certain

benefit from the structure of global political economy for their economic 'success'. However, in the changed context of global political and economic order in 1980's, it was not possible for many developing countries to achieve that economic success as many of the international institutions envisioned. The macro economic reforms in many developing countries across Africa, Asia and Latin America could not significantly achieve the economic successes like those of the NICs. On the other hand, by implementing those macro economic reforms-developing countries are increasingly relying upon the hostile global market forces which in many ways become an obstacle for the economic development of those countries. Each of the developing countries should come up with new development strategies that can truly uphold the overall development goals of each country. State as a key player in development can always play a significant role in this process. In recent times, for many of the developing countries, the weak governance, lack of transparency and accountability has been the important issues in the discourse of development. However, good governance, transparency and accountability should also be ensured at global level. To this end, southern developing countries need to enjoy more power in the decision making of global economic policies.

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