The Government's Role in Economic Development and an Alternative Proposal to Achieve Rapid Growth in Developing Countries

Po-Han (Dave) Lin

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Professor Volha Charnysh

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ABSTRACT

The paper aims to assess the role of government in economic development through the implementation of industrial policies and market interventions. I argue that policies that focus on paced market liberalization in selective industries and attract foreign direct investment to build capacities are most conducive to economic development. I support my view by analyzing historical cases in East Asia, Latin America, Russia, and elsewhere. My conclusions challenge the neoliberal consensus that government regulation slows down economic growth.

Introduction

The major functions of a modern government include foreign diplomacy, military defense, administration of justice, and promotion of economic development. Among all, the role of government in economic development is arguably the most important aspect of its functionalities given its immediate impacts on civilian lives. When the governments fail at this function, their very stability is endangered as seen in the recent protests in France and Venezuela. As a result, enacting policies that lead to sustainable economic growth is of great importance for policymakers and have been a popular target of investigation in political science research.

The paper seeks to better understand the state role in economy through implementations of industrial policies and market interventions, and to establish the effects of different policies on development outcomes. I propose that selective government regulation is better suited for achieving rapid economic growths, in particular for developing countries, than full market liberalization advocated by some scholars and policymakers.

The paper discusses several cases in detail to identify the key factors that result in high economic growth and common mistakes that lead to poor performance. The generalized patterns and specific policies are also utilized to validate my hypothesis for economic development. The case of Asian tigers supports the view of planned market economy and selective intervention, whereas the failure in Latin American countries and post-Soviet Russia demonstrate some flaws in the neoliberal premise and underpin the perspective of paced and limited liberalization that allows capacity building. The contrast between two countries on the Korean peninsula further illustrates the crucial role of government in economic development and how complete control of economy could lead to market failure.

In the following sections, I first review the existing theories about the relationship between government and the market, then hypothesize and propose a set of guidelines that incorporate the spirit of neoliberal views and interventionist perspectives and correct the flaws in both approaches. Selected case studies are later conducted to support the hypothesis. Finally, I conclude by discussing policy implications of my findings.

Literature Review

Since the rise of sovereign states in the 17th century and the commencement of modern economic theories in the 18th century, the role of government in economic development has long been of interest to economists and philosophers. Various theories were proposed under specific historical background, whereas one common goal is to maximize the overall productivity within a nation and to improve the quality of living.

The publication of *The Wealth of Nations* by Adam Smith is seen by many as the first systematic study investigating the relationship of labors, markets, and trade (1776). The ideas presented later developed into classical economics, which views market economy as a self-regulating system governed by the law of supply and demand. Classical economists advocate for the freedom of markets and emphasize the role of states in providing common good at the same time (Blaug 1987). The mainstream school of thought was replaced by Keynesian economics after the Great Depression. Keynesian economists saw the insufficiency of market economies, especially during recessions, and argued for a managed market economy where the role of government intervention during recession and depression should not be neglected (Keynes 1936; Dimand 1988; Hansen 1953).

Neoliberalism, on the other hand, was established by Friedrich Hayek and Milton Friedman at the University of Chicago and gradually gained popularity in the 20th century. Different from liberalism as a political ideology, neoliberalism expands on the liberal concept, supporting *laissez-faire* economics and opposing any type of government intervention in the economy (Hayek 1944; Friedman 2002; Springer 2016). Advocacy of free trade, corporate privatization, and deregulation dominate this school of thought. The Washington Consensus, a set of 10 neoliberal reform guidelines that was encouraged by the International Monetary Fund (IMF) and the World Bank, guided and influenced economic developments in developing countries in the last century and can be perceived as a product under this atmosphere.

According to the neoliberal view, a policy reform that immediately and fully liberalizes the market is considered the panacea for economic development. However, this perspective is not supported by other economists and political scientists and exceptions exist (Buschman 2012). As a contrast, interventionism is the economic perspective favoring government intervention in the economy to correct market failures and promote the general welfare of people (Mises 1998; Karagiannis 2001). This view is supported by some modern liberals and social democrats who see state economic interventions as an important means of eliminating income inequality and promoting social stability. Lall posed an alternative argument that in order to achieve rapid economic development, “some degree of liberalization is desirable … full liberalization of the economy is not necessary and can sometimes be harmful if done too rapidly and without adequate strategies to build capabilities (2008)."

My Hypothesis & Research Methodology

Similar to the interventionists' and Lall's perspective, I argue that in addition to the social welfare aspect, limited government intervention through industrial policies, in particular the ones that lead to gradual market liberalization and selective promotion of certain industries, are the ideal strategies for achieving substantial economic growth in developing country.

In order to support this argument, I analyze economic policy of countries in different regions of the world. I use the development of Asian tigers from the 1960s to 1990s, sometimes referred to as "the Asian miracle," to support the view that planned market economy and selective interventions can result in rapid economic growth. In particular, I selected Singapore and Taiwan as typical cases, summarizing different aspects of their industrial policies and categorizing similar factors that result in their economic performances. I also use cases from Latin America and post-Soviet Russia, both of which implemented drastic neoliberal reforms and ended with poor economic performance, to demonstrate flaws in neoliberalism and support the argument of paced liberalization. Latin America and Russia have little in common with regards to political system, cultural influence, economic structure, and industrialization level. The most-different cases selection collectively strengthens the hypothesis by eliminating concerns that the failure might be a result of factors other than the neoliberal reform. To illustrate the crucial role of government in economic development, I compare different paths North and South Korea went through post-Korean War. The two countries on the Korean peninsula are ideal for such comparison because of their identical starting point after the Korean Armistice Agreement. The set of cases selected and the purposes they serve are summarized in Table 1.

In this paper, gross domestic product per capita adjusted for inflation (GDP per capita in current USD) is utilized as the main measure for economic development; GDP growth per capita is used as the indicator of economic growth rate and hence the success of economic policies. Economic data from 1960 to 2017 are collected from the World Bank national accounts data, the Organisation for Economic Co-operation and Development (OECD) database, the International Monetary Fund (IMF) database, and the United Nations Statistics Division (UNSD) website.

Table 1. Summarization of the set of selected cases

Case	Specific Countries	Case Selection Method	Purposes
The Asian Tigers	Singapore	Typical cases	Supports the view that planned market economy and selective interventions can result in rapid economic growth
	Taiwan		
Latin America	Chile	Most-different cases	Demonstrates flaws in neoliberalism and support the argument of paced liberalization
	Bolivia		
Post-Soviet Russia	Russia		
North Korea vs. South Korea	North Korea	Most-similar cases	Illustrates the crucial role of government in economic development Shows how complete control of economy could lead to market failure
	South Korea		

The Asian tigers

The development roadmap of the Asian tigers supports my argument that a guided market economy with government interventions in areas with comparative advantages is not only feasible but also effective.

Singapore, Hong Kong, South Korea, and Taiwan are commonly referred to as the four Asian Tigers given their rapid industrialization from the 1960s to 1980s. These regions experienced extraordinary growth (>8% in annual GDP growth) for decades, progressing from poor-struck states to highly developed economies (Figure 1). Among them, Singapore was a former British colony, Hong Kong was under direct British control, and South Korea and Taiwan were ruled by Imperial Japan prior to WWII. All of these areas are part of the East Asian cultural sphere and are historically influenced by Chinese culture. Instead of a complete liberalization and retraction of all governmental interventions, these regions selectively liberalized several aspects of the market and implemented policies to encourage the development of certain industries.

The Asian Tiger model showed the feasibility of rapid industrialization with government planning. Singapore attracted multi-national corporations and international investments with a highly efficient government, clear regulations, and financial incentives. Hong Kong was the region with the highest degree of liberalization and arguably the nearest to the neoliberal ideal given its openness to foreign investments under the British government, developing export-oriented light manufacturing and acting as a port to enter China. South Korea and Taiwan showed strong preferences for promoting indigenous enterprises and for deepening local technological capabilities. The former focused on building heavy industry and selectively foster chaebols, large private conglomerates; the latter focused on fostering large amounts of small and medium-sized enterprises (SMEs) supported by a variety of R&D collaboration.

The case of Hong Kong was rather special among the tigers due to its British colonial government and the vast advantage of connecting China with the West. It could not be seen as a conventional developing country (or region) given its status of British colony since 1841. The direct British control facilitated continuous investment from the Western countries. By the time of 1950s, it was already an established trading hub with high economic freedom, showing characteristics of a developed economy. The policies implemented in South Korea, on the other hand, can be seen as a combination of the Singapore experience and the Taiwan experience. As a result, we shall focus on the cases of Singapore and Taiwan in the remainder of the section.

The economic reforms in both Singapore and Taiwan started in the early to mid-1960s in response to the disadvantageous environment. At the time, Singapore was expelled from the so-called Malaysian federation and strive to survive as a city-state with scarce resources; the U.S. government decided to stop providing long-term financial assistance to Taiwan and the government needed to come up with alternative strategies to prevent a catastrophic downturn.

Both countries initiated the reform with infrastructure setup. The Economic Development Board (EDB) in Singapore was established in 1968 and serves as a central agency to develop and execute the economic reform. The Jurong Town Corporation and the Development Bank of Singapore were set up subsequently in 1970, with the former responsible for developing and expanding industrial estates and the latter aiming at financing industrial activities. In Taiwan, the 19-point program was drafted in 1960 and intended “to encourage saving and investment, to reduce expenditure and to promote exports.” The Statute for the Encouragement of Investment (SEI) was passed by the legislation in the same year to reduce tax burden, facilitate acquisition of plant sites, and simplify investment licensing procedures.

The Singapore model was characterized by strong government interventions and the focus on foreign direct investments. It featured a interventionist government with planning that went well beyond the World Bank’s “market-friendly” approach (Huff 1995) and was on the whole “very intrusive in both the economy and the society” (Krause 1988). The intervention was concentrated in several areas, including the labor market, taxation and fiscal incentives, direct foreign investment, and state-owned enterprises (Huff 1995). The multinational corporations and their direct investments contributed substantially to Singapore’s economy, all of which was reflected in the high investment ratios and rapid capital accumulation compared to other Asian tigers. Between the 1980s and 1990s, Singapore was the largest recipient of direct foreign investment to developing countries, accounting for around 13% of such funding (United Nations, 1992). Leaders of Singapore found control over key domestic markets and institutions the most effective way to respond to opportunities in the world economy (Goh 1989), and the model demonstrates a positive role in economic development which extensive government intervention in selected sectors of the economy can play.

The economic reform in Taiwan was led by two economists, K.Y. Yin and his successor K.T. Lee, both of whom are strong promoters of "guided market economy." Major initiatives were established during their terms, including the formulation of investment program and the provision of low-interest loans; the establishment of industrial zones, export-processing zones, and the science-based industrial park; the Ten Major Development Projects, the Twelve New Development Projects, and the Fourteen Key Projects in the 1970s and 1980s (Li 1995). The Taiwanese government also adapted various supplementary fiscal, financial, foreign-exchange, and trade-promotion measures to quicken the pace of industrialization (Li 1995). By first promoting exports in labor-intensive light industry and later the capital-intensive technology sector, the staged development allowed Taiwan to accumulate capital through foreign investments and build expertise via original equipment manufacturing (OEM).

An element of pragmatism and the flexibility for policy adjustments were shared between these two countries. According to Hall, "the most important reason why government interventionism succeeded in Singapore was because of pragmatism - the test of what works - rather than a rigid ideological commitment to a free market or to state direction (1995)." Similarly, K.T. Li mentioned in his book that he believes "whether or not Taiwan's policy experience can be transferred to other developing economies depends very much on whether their cultures can allow pragmatism to overcome ideology" and "what can almost be called a rejection of ideology lies at the heart of a healthy pragmatism that has guided policymakers in Taiwan and has supported a social consensus for growth and economic liberalization (1995)."

The political continuity also contributed to the success of Singapore and Taiwan. The People's Action Party (PAP) in Singapore dominated the politics and the dictatorship under the Kuomintang (KMT) in Taiwan prevented dissidents from voicing their opinions or establishing an opposition party. The lack of challengers politically in turn allowed the governments to focus on long-term policy planning rather than the next election, and the political continuity ensures that a policy can be carried through once it is enacted. The aforementioned situations give rise to arguments that strong state capacity is a prerequisite for successful economic reform. However, as I will discuss in the case of Latin American countries, strong state capacity is by no means a guarantee for such success.

Moreover, the heavy involvement of technocrats in economic planning characterized both experiences. The unique elite-dominated political structure in Singapore and the experts in the EDB and its associated government agencies ensured the autonomy and efficiency of the government; professionals and scholars in engineering and economics that followed the KMT's retreat from China to Taiwan guaranteed the quality of industrial policies and assisted in the execution. The dominance of such technocrats in policy planning and execution increases the likelihood of success in economic reforms, and this subtle difference between the Asian tigers and other developing countries may have substantial influences in the final result.

As a whole, the Asian tiger models support the argument that a guided/planned market economy and selective interventions in key areas can advance economic growth. Although not identical, the policies in establishing infrastructure, attracting foreign direct investments, and promoting industries identified with relative advantages are highly similar. Furthermore, both experiences in Singapore and Taiwan shared common factors including pragmatism, flexibility for adjustments, high political continuity and state capacity, and the heavy involvement of technocrats.

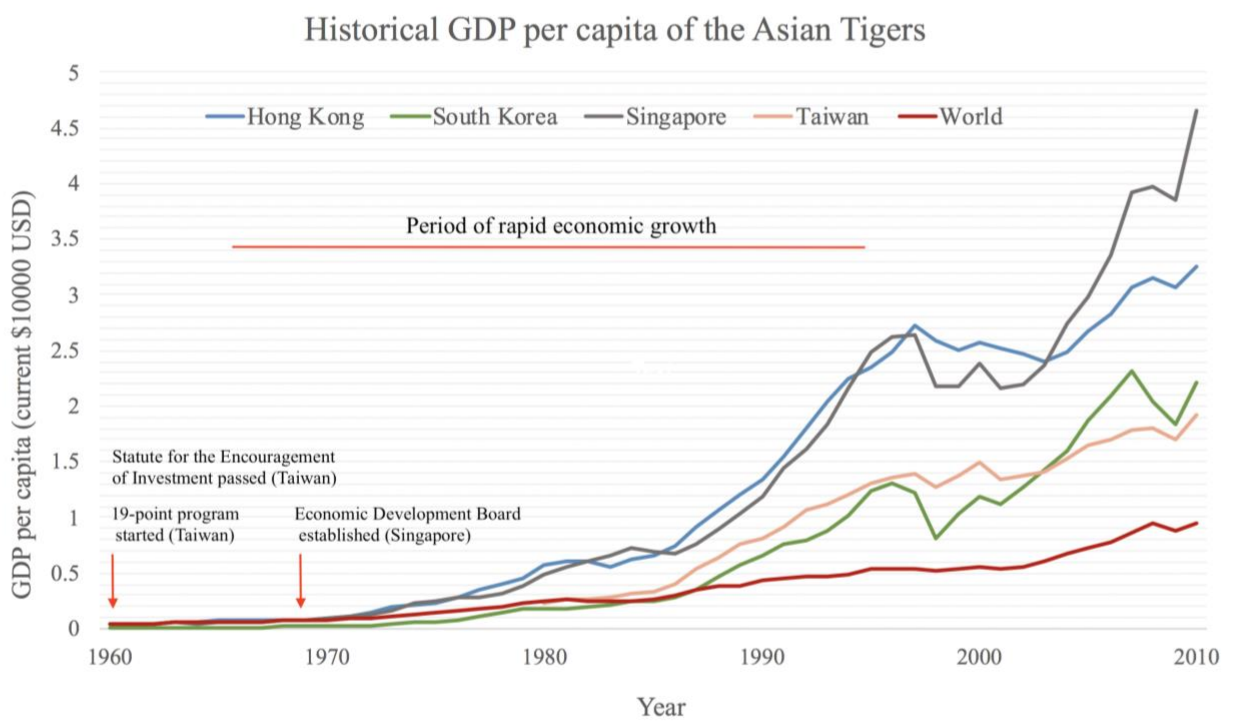

Figure 1. GDP per capita of the Asian tigers from 1960 to 2010. (Source: The world Bank, IMF)

Table 2. Industrial policy objectives of the Asian tigers (adapted from International handbook on industrial policy)

	Deepening industrial structure	Raising local content	FDI strategy	Raising technological effort	Promotion of large local enterprises
Hong Kong	-	-	Passive open door	Technology support for SMEs	-
Singapore	Very strong push into specialized high-skill/ tech industry, without protection	None, but subcontracting promotion now started for SMEs	Aggressive targeting & screening of TNCs, direction into high value-added activities	None for local firms, but TNCs target to increase R&D	None, but some public sector enterprises enter targeted areas
Taiwan	Strong push into capital, skill and technology-intensive industry	Strong pressures for raising local content and subcontracting	Screening FDI, entry discouraged where local firms strong. Local technology diffusion pushed	Strong technology support for local R&D & upgrading by SMEs. Government orchestrated high-tech development	Sporadic: to enter heavy industry, mainly by public sector
Korea	Strong push into capital, skill and technology-intensive industry, especially heavy intermediates and capital	Stringent local content rules, creating support industries, protection of local suppliers, subcontracting promotion	FDI kept out unless necessary for technology access or exports, joint ventures and licensing encouraged	Ambitious local R&D in advanced industry, heavy investment in technology infrastructure. Strategic technologies targets	Sustained drive to create giant private conglomerates to internalize markets, lead heavy industry, create export brands

Note: SMEs refers to small and medium-sized enterprises, FDI to foreign direct investment, TNCs to multinational corporations, R&D to research and development.

Latin America & Post-Soviet Russia

The cases in Latin American countries and post-Soviet Russia demonstrate imperfections in neoliberal premises, support against laissez-faire economy or dramatic liberalization, and show how naïve implementation of neoliberalism can lead to catastrophic outcomes.

The economic development in Latin America is closely intertwined with its political structure. Populism rose in Latin America since the Great Depression in 1929 and last until the end of the 1960s (Mudde 2017). In various countries, politicians took power by emphasizing "the people," appealing to Americanism ideology (i.e. Americanismo), and denouncing interference from imperialist powers. Under such political atmosphere, the populist regimes established import substitution industrialization (ISI) policies to promote inward-oriented economic growth through protection such as tariffs, quotas, and subsidies for domestic industry (Green 1999). The ISI policies brought temporary economic growth throughout Latin America. However, by the end of 1960s, most countries in the region suffered from hyperinflation and demanded a new political-economic structure.

The rise of bureaucratic authoritarian responded to the demand and signaled an incipient breakdown of the populist political order under ISI (Perreault 2005). The resulting regimes embraced *laissez-faire* economic systems and framed it as a necessary and inevitable successor to the ISI policies, which "fundamentally restructured political-economic institutions to remake their countries along neoliberal lines (Becker 2019)." The implementation of these neoliberal reforms, which the critics subsequently termed "savage capitalism," was often radical and done without thorough consideration. Some examples include Augusto Pinochet in Chile, Víctor Paz Estenssoro in Bolivia, Fernando Henrique Cardoso in Brazil, and the Peronists in Argentina. The shared outcome of these neoliberal reforms included steep declines in the economy, aggravated consequences during the following recession, and widened income inequality due to capital concentration (Figure 2). Among these countries, Chile and Bolivia are two illustrative examples of such path, and therefore I will focus the discussion on these two countries in the following paragraphs.

Soon after the Chilean coup d'état that overthrew the democratically elected socialist government, General Augusto Pinochet came to power and started the economic reform in Chile in 1975. Milton Friedman and Arnold Harberger, the founders and magnates of neoliberalism, were invited to hold a series of meetings with Pinochet and other members of the regime (García 1983). On top of the meetings, Pinochet appointed the "Chicago boys" to the most important economic positions including Minister of Finance, Minister of Economy, and President of the Central Bank of Chile. The Chicago boys were a group of economists who studied or identified with the neoliberal economic theories then taught at the University of Chicago under Friedman and Harberger. They collectively constructed "*El Ladrillo*" (i.e. The Brick), a neoliberal plan aiming to recover the Chilean economy that was used as the guideline for the reform.

The economic restructure in Bolivia initiated in 1985 when the new President Víctor Paz Estenssoro was elected. Antecedently, the country was ruled by a series of coups and caretaker governments. The political instability led to hyperinflation and accumulated international debt, which Estenssoro played on to gain and sustain support for his neoliberal reform (Arze 2004). The Supreme Decree 21060 was promulgated in order to solve the crisis, including measures such as ending price controls and eliminating subsidies to the public sector, cutting two thirds of the employees of the state oil and tin companies, reducing the tariff to 20% uniformly, allowing pesos to float, and stopping the payment of foreign debt for several years.

Privatization of corporations played a crucial role in both economic reforms; however, it had only a limited impact on inflation but caused a severe recession (Gracia 1983). Chile decided to sell 437 of its 507 State enterprises (Garcia 1983) and Bolivia established the rule of "capitalization" where investors acquire 50% share of public enterprises and get management control. This resulted in a drastic change in the power balance between the state and the capitalist class. The public sector investment sharply decreased; the loss of income owing to the privatization of public enterprises and the high financing costs associated with these reforms left the government in permanent insolvency. The majority of economic surplus was transferred into the hands of foreign investors who also encroached on the indigenous economy through accelerated expropriation.

Market liberalization, namely the elimination of commercial barriers, hurt the indigenous economy as opposed to attracting foreign investments as claimed by the neoliberalists. The tariff in Chile reduced from an average rate of 94% at the end of 1973 to a fixed, uniform rate of 10% by 1977 (Garcia 1983); the tariff in Bolivia was set to 20% under Decree 21060. The programs eliminated the previous policies protecting national industries and canceled the subsidies. As a result, domestic products were unable to compete with cheaper imports. In Bolivia, the value of agricultural imports multiplied tenfold from 1982 to 2001 during the course of the reform (Arze 2004). At the same time, virtually no foreign investment came into the region, not to mention the savings, technology, and access to international markets associated with the investment.

The situation in the labor market was not any better. Market liberalization along with high interest rates caused bankruptcies amongst small and medium-sized enterprises, which in turn contributed to the concentration of capital and the subsequent dramatic income inequality. Additionally, import penetration led to unemployment in agriculture and manufacturing industry. The regime of "free hiring and firing" resulted in massive and routine use of dismissal to reduce labor cost (Arze 2004). The labors did not get the fair share of their contribution either. In Chile, the share of labor wages in industrial value added declined from 15.8% in 1970 to 9.6% in 1979 (Garcia 1983).

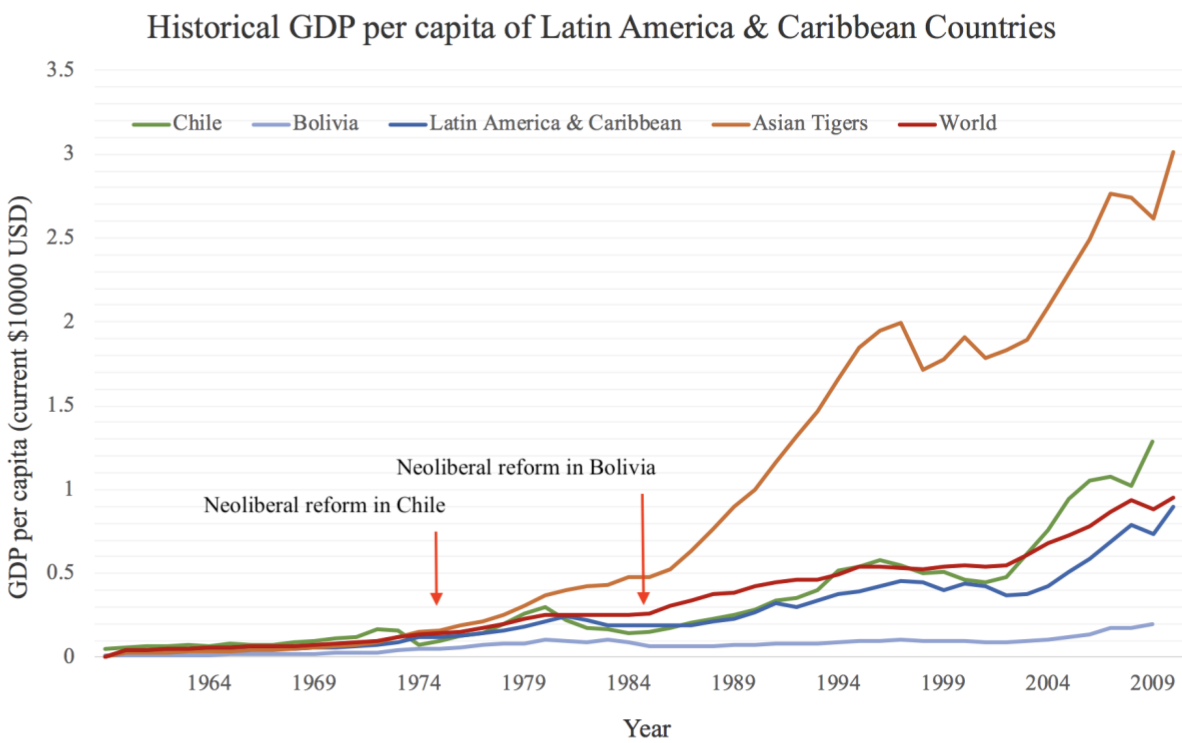

Figure 2. GDP per capita of Latin America and Caribbean countries from 1960 to 2010. (Source: The world Bank, IMF)

Across Pacific Ocean, Russia went through the similar path in economic reform and the disastrous economic performance forced the government officials to abandon neoliberal policies. The collapse of the Soviet Union in 1991 marked the end of the state socialism era and led to an ideological vacuum that attracted ideas about the superiority of markets and liberal democracy emanating from the West (Rutland 2013). Days after signing the Belovezha Accords, Russian President Yeltsin ordered immediate liberalization of foreign trade, prices, and currency. The policies collectively contributed to the economic devastation from 1991 to 1997 and a subsequent financial crisis in 1998, both forced the poor-struck state to reconsider the economic policies.

Western-trained neoliberal economists provided the blueprint for constructing capitalism amidst the ruins of state socialism (UNDP 1999; Hamm 2012). Among all, the mass privatization program in Russia proceeded with unforeseen large scale and remarkable speed. Russian politicians borrowed the experience from Czech Republic and distributed 10,000-ruble privatization vouchers to the entire population. These vouchers could then be used to bid for shares in state enterprises or invest in voucher funds that could buy up larger stakes in the newly privatized properties (Hansen 1997). Unfortunately, this process was dominated by insiders and selected groups of individuals, leaving the Russian economy in the hands of a narrow circle of oligarchs (Rutland 2013). In addition, the rapid liberalization generated supply shocks in structurally distorted industries that had received subsidies and protection under socialism (Popov 2007). Rapidly eliminating subsidies and deregulating prices left firms in these sectors with insufficient time to restructure, thus driving them out of business or into the barter economy (Hamm 2012).

The Russian neoliberal reform resulted in a price explosion with a 1,600% inflation rate by the end of 1992 (Rutland 2013). Between 1990 and 1996, per capita income in Russia and most of the former Soviet Union fell by over 30% (Rosefielde 2001), a scale comparable to the Great Depression. Many of Yeltsin's initial supporters criticized his leadership and Vice President denounced the reforms as "economic genocide." Objectively, the mass privatization scheme achieved the goal to rapidly shifting economic assets from state ownership into private hands; however, most critics agree that it caused harm to the economic performance as well as other aspects. Hamm concluded that "mass privatization programs negatively affected economic growth, state capacity, and property rights protection (2012)" and that "… those factors which predisposed countries to implement mass privatization would have been associated with higher GDP if mass privatization had not been implemented." Aligned with my arguments of gradual liberalization, Popov also claimed that "slower liberalization would have limited this [economic] decline, thus mitigating the severity of the economic downturn (2007)."

From the above discussion, it becomes clear that dogmatic compliance with the market-based economic prescriptions outlined in Washington Consensus is unrealistic. Furthermore, the sudden release of government control, sometimes referred to as "shock therapy," can lead to unexpected results. Similar conclusions are found in literature in where economists demonstrated that higher levels of liberalization and more radical processes of liberalization are associated with substantial costs in the form of depressed growth rates, greater volatility, and higher levels of inequality and poverty (Huber & Solt 2004).

North Korea vs. South Korea

Through the last two sections, I have established the merits of selected interventions and the imperfections of *laissez-faire* economic systems (i.e. the lack of economic interventions whatsoever). On the other extreme, the complete control of the market processes often leads to staggering economic performance if not continued recession. The striking difference in quality of living between North Korea (Democratic People's Republic of Korea, DPRK) and South Korea (Republic of Korea, ROK) provides a clear example demonstrating the developmental role of government.

The division of the Korean peninsula was an unfortunate product of the escalating Cold War antagonism post world war II, and it was not until 1948 when two separate political entities were established on either side of the 38^{th} parallel. North Korea was backed by the Soviet Union and other communist countries whereas South Korea was supported by the United States and its allies. The difference in political ideals in turn shaped the economic policies, which were largely exogenously determined, in the coming decades. Under Soviet tutelage, North Korea followed Stalinism and established a totalitarianism government where the entirety of economy was tightly controlled. The economic policies were instituted to reflect the values of the communist regime rather than based on popular demand or economic situation. Aligning with the United States, South Korea embraced market economy, albeit it did not adopt unfettered liberalism. To be more specific, it pursued a relatively democratic path politically and maintained a certain degree of market freedom economically where private businesses were encouraged. The contrast in these two formerly-united countries is ideal for comparison because of the homogeneity in all aspects prior to the separation.

The economy of North Korea is a centrally planned command system where the role of market allocation scheme is limited (Frank 2017). Central People's Committee, the highest political authority in North Korea, decides on the general economic policy objectives; the State Planning Committee and its affiliated regional committees then translate the broad goals into specific development plans and quantitative targets for each industrial sector and enterprise. The mechanism reached short-term success immediately after the Korean War when the entire country was in desperate need of restoration, and indeed its GDP per capita was slightly higher than its counterpart in the first decade after the split partially due to the smaller population (Figure 3). Nonetheless, fundamental problems gradually surfaced and the economy slowed down before reaching a complete stop. The success of such centralized economic plan is highly dependent on the quality and detail of information received, the establishment of realistic targets, the coordination among different sectors, and the correct implementation of the plan. The target-based reward system results in statistical overreporting and in turn overestimation of economic potential and poor product quality. Additionally, lack of coordination in planning as well as production competition among sectors and regions cause imbalances and disrupt input-output relationships.

On the other hand, South Korea adapted similar industrial policies as other Asian tigers in the 1970s and successfully became one of the fastest growing economies in East Asia. Within half century, the country advances from having a GDP per capita lower than sub-Saharan countries to being the 11^{th} largest economy globally and part of G-20 (Chun 2010). The South Korean government selectively focused on heavy industries such as steel/armament production and automobile/shipbuilding industry in the 1980s, then shifted the focus to capital- and knowledge-intensive technology sector in the 1990s after accumulating enough capital and capacity. Most recently, the country has turned to tourism and entertainment industry, successfully creating a Korean Wave (i.e. Hallyu) worldwide.

Unlimited government control could lead to serious problems as seen in the case North Korea. The state-oriented planning system can easily be dictated by a handful of people and are often utilized to serve personal interests or political purposes. The top-down control of economy limits its flexibility in adjusting to new environments, and the potential of positive competition among individuals is not utilized. As of 2014, GDP per capita in North Korea is $1,800, around 6% of South Korea, which has a GDP per capita of $27,811 (Figure 3). The striking 18-fold difference created in several decades is alarming and indicative of the fundamental defects in a non-liberalized market system with government intervention on all levels.

If the level of market regulation can be conceptualized into a spectrum, neoliberalism and communism are the opposite extremes and my argument of limited government intervention is the sweet spot in between. Depending on the particular situation of economy and the state of development, the appropriate level of state regulation will vary. It is therefore essential to be pragmatic and maintain flexibility for adjustments, as highlighted by policymakers in Singapore and Taiwan, both on the level of intervention and the industrial sectors to intervene.

Figure 3. GDP per capita of South Korea and North Korea from 1960 to 2010. (Source: The world Bank, IMF, UN)

Conclusion & Discussion

Based on the studies, I conclude that selective market liberalization with proper interventions that allows skill building, as opposed to the neoliberal measures or other schemes, seem to be more suited for developing countries who seek to accomplish high industrial growth. Neoliberalism can serve as a benchmark for economic development with ideal assumptions, but should not be implemented in the exact terms. This is mainly because the neoliberal premises can be unrealistic in implementation and radical reforms in the economic structure are often accompanied by adverse effects that make the situations worse. In addition, the non-competitive components in markets, the difficulties in policy implementation, and the realistic adoption rate during the transition stage were not considered in the theory.

It is notable that the paper is not proposing an ultimate solution to the economic developments in developing countries, but rather an alternative hypothesis that works better than neoliberalism, the mainstream of thoughts in the last century pushed by international organizations including the World Bank and IMF through guidelines such as the Washington Consensus. The efficacy of my arguments can be influenced by other factors not directly related to governmental policies, and some scope conditions are required to ensure a successful result. These prerequisites include but not limited to good intentions from the policymakers, an efficient government not inclined to particular interest groups, and a relatively stable political atmosphere with no malicious economic disturbances externally, most of which can be found in the Asian tiger example. As the global economy continues to evolve over time, there is also possibility that my hypothesis will need to be revised accordingly.

I attribute the failures of neoliberal reforms to the polices themselves. However, other scholars have different opinions. Some neoliberal advocates argue that strong state capacity is a prerequisite for the successful implementation of neoliberal reform, and it is the lack of state capacity rather than the reform per se resulting in poor economic performances. Nevertheless, it is concluded that privatization, one key element of the neoliberal premises, can further weaken the capacity when implemented (Hamm 2012), contradicting the arguments themselves. In fact, given the case of Latin American countries discussed above, even a strong authoritarian regime with centralized power was not sufficient to carry out such drastic privatization.

Others economists argue that proper institution is an essential element for neoliberal reform. As Milton Friedman put it when reflecting on post-communist Russia, “It turns out that the rule of law is probably more basic than privatization. Privatization is meaningless if you don’t have the rule of law. What does it mean to privatize if you do not have security of property, if you can’t use your property as you want to?” (Friedman 2002). This argument is in part linked to state capacity since proper institution can only be executed with adequate state capacity. This reveals some limitation on the neoliberal beliefs and supports my "gradual liberalization" arguments rather than "immediate liberalization" as proposed by the neoliberals. The reason is that institution setup takes time, often involving legal changes, public education, and sometimes political restructure. It is rarely the case that developing countries have proper institutions required at the time of reform, and thus the applicability of these theories is limited.

The typical case selection of the Asian tigers provided *ex post facto* support to my arguments leading to better economic performance. However, it is hard to completely rule out other factors that might contribute to the success on top of selected intervention and gradual liberalization policies. A further discussion on other cases that has different situations for other factors, similar to the concept of most-different case selection, can help consolidate the hypothesis. In fact, it is likely the case that all factors have a relative influence and the final result can be considered as a weighted average of these influences; however, the industrial policies have a heavy impact on the outcome. Quantitative analysis with regression of multiple countries or meta-analysis may be beneficial. On top of the spatial analysis of North Korea, and South Korea, the case of Myanmar is also worth investigating. The country recently went through an economic reform with policies reminiscing the policies implemented by the Asian tigers and the results seem promising.

To summarize, the policy of limited government intervention includes two aspects: gradual market liberalization and selective promotion in key industries. The former prevents a sudden shock in economy and utilizes the competitive nature in market economy; the latter allows capital accumulation and capacity building which are beneficial for future developments. My hypothesis supports Lall's, some interventionalists', and gradualists' perspectives on promoting economic development in developing countries. These key factors and generalized principles could be beneficial for economic developments.

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