OXFORD

Diverse Development Paths and Structural Transformation in the Escape from Poverty

EDITED BY
Martin Andersson
& Tobias Axelsson

Diverse Development Paths and Structural Transformation in the Escape from Poverty

Diverse Development Paths and Structural Transformation in the Escape from Poverty

Edited by
Martin Andersson and Tobias Axelsson

OXFORD
UNIVERSITY PRESS

OXFORD
UNIVERSITY PRESS

Great Clarendon Street, Oxford, OX2 6DP,
United Kingdom

Oxford University Press is a department of the University of Oxford.
It furthers the University's objective of excellence in research, scholarship,
and education by publishing worldwide. Oxford is a registered trade mark of
Oxford University Press in the UK and in certain other countries

© the various contributors 2016

The moral rights of the authors have been asserted

First Edition published in 2016

Impression: 1

All rights reserved. No part of this publication may be reproduced, stored in
a retrieval system, or transmitted, in any form or by any means, without the
prior permission in writing of Oxford University Press, or as expressly permitted
by law, by licence or under terms agreed with the appropriate reprographics
rights organization. Enquiries concerning reproduction outside the scope of the
above should be sent to the Rights Department, Oxford University Press, at the
address above

You must not circulate this work in any other form
and you must impose this same condition on any acquirer

Published in the United States of America by Oxford University Press
198 Madison Avenue, New York, NY 10016, United States of America

British Library Cataloguing in Publication Data

Data available

Library of Congress Control Number: 2015955610

ISBN 978–0–19–873740–7

Printed in Great Britain by
Clays Ltd, St Ives plc

Links to third party websites are provided by Oxford in good faith and
for information only. Oxford disclaims any responsibility for the materials
contained in any third party website referenced in this work.

Preface and Acknowledgements

We had two objectives when we started to sketch the outline of this volume. First, to gather world-leading scholars with interests in long-term economic dynamics in the borderland between Economic History and Development Economics to reflect upon the development gap in the world economy and the prospects for less advantaged economies to move ahead. We asked the contributors to discuss approaches to and patterns of economic development of today in a longer-term perspective. What are the lessons learned, to be discovered, or perhaps, rediscovered? We proposed to the authors to freely revisit analytical concepts such as advantages and disadvantages of backwardness, acts of substitution, the role of initial conditions, social capabilities etc. in process-oriented perspectives in the tradition of Gerschenkron, Hirschman, Abramovitz, to name a few. We thought, and still think, that this fills a significant gap in the current development discussion.

A second objective was to honour Professor Christer Gunnarsson who has devoted his academic career, in both teaching and research, to discussing these very issues. We are both, as former students and current colleagues, indebted to his urging and effort to focus on social change, to be relevant to current affairs, to let the research questions guide the choice of methods and always to keep a sound scepticism towards the fads in the field. With Christer being a big fan of the Gerschenkronian approach—at least until asked to contribute with a chapter using such a perspective to this volume—we thought a fitting dedication would be to ask scholars with similar inclinations to delve into the very questions he himself has grappled with. It is our hope that this book will inspire thinking about experiences of and possibilities for catching up in the developing world, in a cohesive way and without being in thrall to pre-set universal models.

To complete a project like this is impossible without the devotion of the contributors. Our deepest thanks go to all of you for all the work you have put into this volume.[1] We also thank our colleagues in the 'development group' at

[1] In January 2016, as this book went through its final stages, Lennart Schön sadly passed away. With his structural-analytical approach he made a profound intellectual impression in Lund and beyond. With humble sharpness and depth he was a source of inspiration to many of us.

the department of Economic History, Lund University, for stimulating and constructive discussions. Special thanks go to Montserrat López Jerez. Cristián Arturo Ducoing Ruiz deserves a special mention.

At Oxford University Press, we would like to thank Adam Swallow, who right from the start believed in our proposal, and Aimee Wright, for their guidance and assistance. Without financial support we could not have carried out this project. We would like to thank The Swedish Research Council, The Crafoord Foundation, Rektor Nils Stjernquists forskningsfond, and Per Westlings Minnesfond.

Martin is grateful to Teresia Rindefjäll and Tobias to Sarah Hill. Thank you for always being there for us, providing encouragement, invaluable comments, and suggestions along the way.

Martin and Tobias
Lund 28 January 2016

Table of Contents

List of Figures

List of Tables

Notes on Contributors

Lee Alston is the Ostrom Chair, professor of economics and law, and director of the Ostrom Workshop at Indiana University. He is a Research Associate at the NBER. Alston is past president of the International Society for the New Institutional Economics, and president of the Economic History Association. He is the author of eight books and more than 70 scholarly articles. His research interests include: the roles of institutions, beliefs, and contracts in shaping economic and political outcomes in the United States and Latin America. Issues examined include the role of the US South in shaping the welfare system in the 1960s; titles and land conflict in the Amazon; and the governance and use of natural resources, historically and today. Alston has held faculty positions at Williams College, the University of Illinois, and the University of Colorado and visiting positions at the University of Washington, UC-Davis, Australian National University, University of Paris-Sorbonne, Stockholm School of Economics, and Princeton University.

Martin Andersson researches and publishes on the reasons behind the success and failure of development from a variety of geographical contexts. He has published on East Asia, Southeast Asia, Latin America, Africa, and Sweden. His research interests include agricultural development and the relation between economic growth, poverty reduction, and distribution of income in the developing world. He has been the editor of one book on the lessons from the economic transformation in Pacific Asia and written two others. He has worked as a consultant for the World Bank, been a Marie Curie post-doc at EUI in Florence, been a visiting scholar at UC Berkeley and is currently Associate Professor in Economic History at Lund University.

Gareth Austin specializes in African and comparative economic history. His publications include *Labour, Land and Capital in Ghana: From Slavery to Free Labour in Asante, 1807–1956* (2005) and *Labour-Intensive Industrialization in Global History* (edited with K. Sugihara, 2013). After teaching at a *harambee* school in Kenya, he did his BA at Cambridge and PhD at Birmingham. His past employers include the University of Ghana and the London School of Economics. He currently teaches at the Graduate Institute of International and Development Studies, Geneva. In 2016 he will take up the professorship of economic history in the history faculty at Cambridge.

Tobias Axelsson is assistant professor at the Department of economic history, Lund University. He has his BA in Indonesian studies also from Lund University. He researches and publishes on agricultural transformation processes and the colonial origins of inequality. He has been a guest researcher at ISEAS in Singapore and a guest research fellow at the International Institute for Asian Studies, Leiden. Axelsson is a cofounder of the Bachelor programme in development studies at Lund University.

Luis Bértola is a PhD in Economic History (University of Gothenburg), Professor at Universidad de la República, Uruguay, where he teaches on the Master and Doctoral Programme in Economic History. His research is mainly focussed on comparative long-run development in Latin America, with special interest in structural change, income distribution, and institutions. He has taught postgraduate courses in several universities and been advisor for several international organizations such as ECLAC, ILO, IADB.

OUP has published his *The Economic Development of Latin America since Independence*, written together with José Antonio Ocampo.

Anne Booth was Professor of Economics (with reference to Asia) in the School of Oriental and African Studies, University of London between 1991 and 2013. She is now a Professor Emerita at the University of London. She grew up in New Zealand and holds degrees from Victoria University of Wellington and the Australian National University in Canberra. Between 1976 and 1991, she held research and teaching positions in Singapore and Australia.

She has published extensively on the modern economic history of Southeast Asia, and has also published a comparative study of the economic legacy of colonialism in East and Southeast Asia. A book on the economic development of Indonesia will be published by Cambridge University Press next year.

She has recently been awarded a Lee Kong Chian NUS-Stanford Distinguished Fellowship on Contemporary Southeast Asia, and will spend several months in 2015/16 at Stanford University and at the National University of Singapore.

Christer Gunnarsson, PhD, Chair of Economic History, and Professor of International Economics with a focus on Asia, at Lund School of Economics and Management, Lund University. His research is focussed on the economic history of developing regions, including the impact of colonialism on institutions and long-run economic growth. Gunnarsson has led research and done his own extensive research on industrialization in East and Southeast Asia. His publications include Tillväxt, Stagnation, Kaos (*Growth, Stagnation, Chaos*, with Mauricio Rojas and Martin Andersson), *Capacity Building, Institutional Crisis and the Issue of Recurrent Cost, and Development and Structural Change in Asia-Pacific* (with Martin Andersson). Gunnarsson has done extensive consultancy work for development agencies such as the World Bank, the Swedish International Development Cooperation Agency, and for the Ministry of Foreign Affairs.

Justin Yifu Lin is professor and honorary dean, National School of Development at Peking University. He was the Senior Vice President and Chief Economist of the World Bank, 2008–2012. Before this, Mr. Lin served for fifteen years as Founding Director of the China Centre for Economic Research at Peking University. He is the author of twenty-three books including *Against the Consensus: Reflections on the Great Recession*; *The Quest for Prosperity: How Developing Economies Can Take Off*; *Demystifying the Chinese Economy*; and *New Structural Economics: A Framework for Rethinking Development and Policy*. He is a Corresponding Fellow of the British Academy and a Fellow of the Academy of Sciences for the Developing World.

Bernardo Mueller has been a lecturer at the University of Brasília since 1995. He received his undergraduate degree in economics at the University of Brasília in 1987, his Masters at the University of Illinois at Champaign-Urbana in 1993 and his PhD at the University of Illinois at Champaign Urbana in 1994. From 2015 to 2016 he is a visiting scholar at the Ostrom Workshop at Indiana University. He has been an associate editor at *Environment and Development Economics* and at the *Journal of Economic Behavior and Organization*. His areas of interest are Political Economy, Economic Development, Institutional Analysis, and Complex Adaptive Systems. Major publications include political economy of land reform in Brazil, political institutions in Brazil, Executive-Legislative relations, political economy of regulation. A book on the development of Brazil will be published in 2016.

Yusi Ouyang joined the University of Tulsa as an assistant professor of economics after receiving her PhD in Applied Economics from Cornell University in 2013. She has researched minority welfare in China during her doctoral study and published in *World Development*. She remains interested in the welfare of the disadvantaged groups in China and the Chinese economy in general, but has also extended her research into the study of economic development in sub-Saharan Africa. Before earning her PhD, Yusi received a Master's degree in economics and management science and a Master's degree in British Studies from Humboldt University in Berlin.

Lennart Schön was professor at the Department of Economic History, Lund University, between 1992 and 2016. His research focussed on long term economic growth and the role of structural and technological change, long cycles and crisis in a Swedish, European, and international context over the last two centuries. He also constructed detailed Historical National Accounts back to the sixteenth century and was a member of the international Advisory Board of the Maddison Project. Schön has also been trustee and president of the European Historical Economics Society.

Erik Thorbecke is the H.E. Babcock Professor of Economics and Food Economics Emeritus and former Director of the Program on Comparative Economic Development at Cornell University. He is presently a Graduate School Professor. His past positions include chairman of the Department of Economics at Cornell, a professorship at Iowa State University, and associate assistant administrator for program policy at the Agency for International Development. He has made contributions in the areas of economic and agricultural development, the measurement and analysis of poverty and malnutrition, the Social Accounting Matrix and general equilibrium modeling, and international economic policy.

The Foster-Greer-Thorbecke poverty measure (Econometrica, 1984) has been adopted as the standard poverty measure by the World Bank and practically all UN agencies and is used almost universally by researchers doing empirical work on poverty. In recent years he has co-directed a large scale research project on 'The Impact of Globalization on the World's Poor' under the auspices of the United Nations University's World Institute for Development Economics Research; continued his research on multidimensional poverty; and undertaken research on inclusive growth in Africa and Asia.

He is the author or co-author of more than twenty five books and over one hundred and fifty articles.

C. Peter Timmer is an authority on agricultural development, food security, and the world rice economy who has published scores of papers and books on these topics. He has served as a professor at Stanford, Cornell, three faculties at Harvard, and the University of California, San Diego, where he was also the dean of the Graduate School of International Relations and Pacific Studies. Timmer is now the Cabot Professor of Development Studies, emeritus, at Harvard University.

A core advisor on the World Bank's World Development Report 2008: *Agriculture for Development*, Timmer is a non-resident fellow at the Center for Global Development.

Timmer's research and advisory work focuses on three main themes: lessons from the historical experience of structural transformation in Europe and Asia for the role of agriculture in currently developing countries; the impact of modern food supply chains on smallholder farmers and poor consumers; and approaches to stabilizing rice prices in Asia with minimum spillover to the world market and to producers and consumers in Africa and Latin America.

Part 1

Structural Transformation and Catching up

1

Diversity of Development Paths and Structural Transformation in Historical Perspective—an Introduction

Martin Andersson and Tobias Axelsson

1.1 Development Thinking and Catching up Experiences

What poor countries should do to escape relative economic backwardness and catch up with the rich is unquestionably subject to one of the most intense and long-standing debates in the social sciences. Since the birth of Development Economics after World War II it has forwarded a wealth of contesting ideas and solutions. Developing countries both in the past and today are often told that certain necessary prerequisites need to be in place and that without, for instance, initial entrepreneurial skills, good governance structures and tropical disease control they will not be able to make it. If we are to look back at the history of development policies, the ever-increasing list of alleged necessary prerequisites is intimidating and not seldom reflecting the whim of the time. Support for mono-causal and universal recipes for success are derived from fundamental theoretical assumptions of the importance of free and open markets or, alternatively, an asserted necessity to delink from them. Others are empirical generalizations of one or a few successful cases, found in the history literature, ranging from emphasizing good institutions (typically well-defined individual property rights), supreme cultural attributes (for instance Protestant ethics) or favourable geography (for example possession of coal).

The discussion about prospects for economic development among low-income countries is further complicated by the fact that the study of development has both positive and normative ambitions difficult or even impossible to separate from each other. The positive objective to explain the process of economic development, the principal task of the economic historian, is made more relevant if it conforms with the second objective, a primary concern of the development economist, to propose to the policy maker an agenda for change. Unfortunately the desire to find the silver bullet to kill the beast of economic backwardness is sometimes too strong, which to a certain extent explains why universal templates and mono-causal narratives characterize the development discussion. However, this aspiration tends to violate the dynamic and complex nature of social change and sometimes obscures the possibilities to see the variety of the mechanisms at play (Hirschman 1958; Gerschenkron 1962 and 1968; Adelman and Morris 1997; Pritchett 1997; Kenny and Williams 2001).

The objective of this volume is to elaborate on the recognition that the development process is not uniform over time and space while highlighting that sustained catching up is dependent to a large degree on the extent to which structural changes are activated. Two of the currently most influential approaches in the discussion of how and why development fails or succeeds tend to neglect either the diverse nature of development or the importance of structural transformation. On the one hand, the highly influential writings of Acemoglu et al. (2001; 2002; 2012) stressing the persistence of fundamental institutions for long-term development possibilities, have put focus on the origins of growth to explain why some countries have succeeded while most have not. Although this has stimulated the rise of a large body of literature in Economic History on historical determinants of growth, the basic causality given by the model's appreciation of the role of fundamental institutions in history has not given due attention to the variation and diversity found in development experiences. This is a procrustean approach that has led to what Austin (2008) calls a *compression of history*. On the other hand, in Development Economics, development dynamics are to an increasing extent derived from Randomized Controlled Trials (RCT) that have been geared towards the question of 'what works' without necessarily having to use a priori theoretical propositions or possibly intangible historical lessons (Banerjee and Duflo 2011). It is an attempt, in many ways commendable, to find hard evidence of measures and policies to be implemented to attack the development problem at hand. Although the RCT-method has been questioned on the account that it is unable to produce knowledge with greater accuracy than traditional estimation techniques (see Deaton 2009), another major concern is that by focussing on the impacts of rather well-specified policies, it does not inform us about structural changes or the more fundamental sources of development. As Ravallion (2012) has complained, the method of RCT does not allow the bigger questions to be addressed and therefore the method runs the risk of deciding the question rather than the other way around. In neither of the two approaches are empirical patterns of historical processes an important part of the analysis of how opportunities for catching up might evolve.

The use of core concepts also varies in the broad literature on economic development. In order to discuss, assess and ultimately explain the diverse processes of economic development and to approach an understanding of how relatively backward economies might catch up, there needs to be a general agreement of concepts. Economic development should therefore be regarded as the long-term process of sustained and widely shared increase in income per capita in which substantial parts of the economy and society undergo marked and rapid structural and institutional changes, even in periods of strong population growth. Catching up is the process whereby which a less economically developed country approaches the level of general standards of living and efficiency in the productive structure and organization of the more economically developed ones. For historical appreciations of economic development, however, the measure available is sometimes only average income per capita, then constituting a proxy. It is within these conceptual frames the following discussion is situated.

Since the dawn of the first industrial revolution tendencies of falling behind have clearly been stronger than processes of catching up indicated by a widening of the income gap between poor and rich countries, for a long time dividing the world between the West and the Rest. If we rely on the classic estimates by Angus Maddison (2003), the GDP per capita in Africa in the early nineteenth century was about one third of the level in Western Europe and less than one tenth by the turn of the millennium. At the same time, even if the distance between the top and the bottom nations in the global income hierarchy has increased, the divergence is not clear-cut. While some countries relatively well-to-do at the beginning of the twentieth century, such as Argentina, Chile, and Uruguay in the Southern Cone of Latin America, fell behind during the course of the century, other initially poorer countries have been taking steps up the income ladder, strongly suggesting that the development process is neither linear nor pre-determined. The average GDP per capita in Africa and Asia was almost on a par at the beginning of the twentieth century but by the end of the century countries in East and Southeast Asia were already advancing and had escaped the league of poor nations, while growth in South Asia and Latin America was stagnant and had collapsed in most parts of sub-Saharan Africa. A description of the developing world as being characterized by *growth* (East Asia), *stagnation* (Latin America) and *chaos* (Africa) seemed highly relevant at the end of the twentieth century (Gunnarsson et al. 2008; see also Nayyar 2013). Although most developing countries have failed to achieve sustained economic growth over the past half century and that many have encountered recurrent and long-lasting crises, the global income distribution as regards differences of average national per capita income between countries has changed dramatically, especially since the mid 1980s. Some developing nations, most notably the four East Asian 'tigers' South Korea, Singapore, Taiwan and Hong Kong, have already developed and become high-income countries, while others are moving either out of the ranks of the poorest low-income countries into middle-income status or are on the verge of graduating from middle-income to high-income status (for instance Malaysia, Chile). A new global middle class is now made up of people residing outside the industrialized North.

Hence, during the first decade of the new millennium we have seen increased growth in the global South that makes it relevant to ask whether we are in the midst of a game-changer. The recent growth experience of a substantial number of emerging economies in the developing world appears to defy commonly held views of, and explanations for, the state of play in the global economy. The world can no longer be seen as divided between the West and the Rest and the Rest is not to the same extent marked by stagnation and chaos. More than a billion people have escaped extreme poverty in the last quarter of a century and income growth has on average been fast in low and middle-income countries while slowing down across many high-income countries. Therefore, considering the last couple of decades in a historical perspective the growth across the developing world is clearly impressive and we find many examples of low-income countries growing faster than the world average. The reasons behind the growth performance across the developing world over the last decades might be many; for example, the increasing role of China as a locomotive of growth and the related increase in the flow of investments and trade within the South, which has taken advantage of better international prices and increased demand for commodities. Also signs of improved governance and management of macro-economic fundamentals are recognized as important factors. One question is of course whether these conditions are sufficient prerequisites for developing countries to speed up structural change and continue to move ahead. As potential signs of catching up are emerging, the challenge for research is to measure and assess to what extent, and where, catching up might be sustained. Although growth is recurrent in the developing world, it should be remembered that the sustainability of the growth process remains uncertain and that the process of growth might not translate into economic development as defined above. The 'bottom billion' of people living under a dollar a day still remains but is now to be found in countries where the average income has increased quite dramatically, suggesting that growth is not always inclusive. After half a century of attempted development models and occasional growth spurts, it is only in countries in East Asia where improvement of development indicators been sustained over at least twenty-five years. In any case, gloomy predictions about the future of the poorest countries of the world have given way to more optimistic scenarios. Now the poorest countries are no longer seen as doomed to eternal poverty. Some even argue that by 2035, there will be almost no poor countries left in the world (Gates and Gates 2014). This could quite possibly be too rosy a prediction, but it does none the less emphasize the need to reorient our thinking towards finding new ways to approach and assess different trajectories from a longer time perspective with regard to the capability for sustained catch-up.

One of the key themes of this volume is that this capability is closely connected to the extent to which growth is accompanied with structural changes in the relative weight and productivity of the sectors of the economy and possibilities to be gainfully employed in higher productivity activities. Due regard should then be paid to the particular initial conditions, for instance in terms of balance of factor endowments and distribution of assets and opportunities, that exist in individual countries at the beginning of such transformation affecting the direction of the development pathway. Over the last half century, however, the most influential development paradigms have been promoting universal templates.

1.2 One-eyed Paradigms of Catching up

In many ways, almost the entire body of the development literature, particularly in the writings of the immediate post-World War II, is directly related to the question of how economically backward countries might catch up. One of the most influential paradigms, connected to the thinking of Raul Prebisch and Hans Singer, making its mark for a broad cross-section of the developing world, in particular in Latin America but also in Africa and Asia, is the structuralist perspective. It suggested that long-term deteriorating terms of trade for primary goods production, in large part caused by specialization in lower value-added goods subject to destabilizing price volatilities, was causing the technological gap between rich and poor to grow. It argued for the necessity for economically backward and primary export-dependent countries to speed up the process of industrialization by nurturing and diversifying domestic industry towards capital goods and consumer durables. The consequent policy prescription for catch-up, captured by the import-substitution industrialization (ISI), was built on state-induced nurturing of infant industries, by imposing import tariffs and quotas, as well as multiple exchange rates and other protective measures. Even if the strategy was relatively successful in generating both growth of production and industrial employment, by the 1980s the process could be characterized as 'growth without development' and as such it turned out to be a model of temporary rather than sustained catch-up in most parts of the developing world. In Latin America deficits caused by weak development of competitive industries ultimately led to inflationary pressure and popular unrest. The lack of autonomous state capacity and inclusive democratic procedures and traditions was surely important for this strategy to turn economically inefficient and politically repressive. Both as a mode of explanation and as a development strategy, the ISI-model can be characterized as a universal prescription, as indeed can the radical neo-liberal strategy emphasizing openness, privatization and deregulation that followed. Both failed to take into account differences in initial conditions and were unable to address some of the structural heterogeneities that constituted part of the reason why Latin America had fallen behind in the first place. For instance, inter-sectoral duality between agriculture and industry and substantial inequality of personal income and wealth limited the development of domestic market dynamics and internationally competitive industries.

The literature on *ex-post* successful catching up of the developing countries has naturally been confined to lessons from development experiences in Asia. It may well be argued that the transformation of East and Southeast Asia has forced some previously influential hypotheses of development and underdevelopment to step back. Explanations that stressed cultural traits specific to East Asia as particularly harmful for economic progress (for instance Fairbank 1982), only to be forwarded later as explanations to account for the contrary (for instance Fei 1986), has in all likelihood lost analytical credibility. Similarly, the dependency paradigm (Frank 1969; Amin 1990), which predicted a practical impossibility for poor countries to develop unless they delinked from the global market forces, became perhaps even more damaged when it became apparent that countries in East Asia both grew at an unprecedented rate and were closely connected to the market demand of the Western world. Instead, assessments of the Asian miracle have created a tug of war between market friendly and state interventionist standpoints. Interpretations of the 'miracle' have formed a battlefield between two conventional schools of thought; between advocates of openness and free market in line with the so-called Washington Consensus on the one hand and believers in the necessity and advantage of government intervention on the other.

To explain the rise of East Asia, reference was routinely made to factors such as openness to the global economy, macroeconomic stability, high saving and investment rates and reliance on market allocation (World Bank 1983; Growth Commission 2008). The standard policy recommendations for technological catch-up consisted of dismantling quantitative restrictions on imports, the reduction of import tariffs and their dispersion, making the currency convertible to current account transactions, elimination of bureaucratic red tape and the establishment of the rule of law. Basically, recipes for success were commonly oriented towards 'getting prices right'. At the same time, the East Asian miracle story also complies well with the statist standpoint nicely captured by the title of Robert Wade's study on Taiwan 'Governing the Market' (1990; see also Amsden 1989, and Chang 2002). In a similar vein, Rodrik (1994) has suggested that an investment boom of the 1960s is the core explanation behind the East Asian miracle. This was launched by a successful co-ordination of investment decisions by the state and facilitated through a combination of a well-educated population and relative equality of income. Although initially met with strong resistance, this perspective has become integrated with neo-classical economics and no longer constitutes a red rag to a bull even among the major development organizations such as the World Bank. As such, the task for policy makers is 'getting interventions right'.

Without doubt, in reference to East Asia, both interpretations still carry substantial weight and might even be possible to combine and synthesize further, but since both explanations have their focus on policy instruments the driving forces are referred to in terms of leadership and governance; i.e. agency. As such they are less concerned with inner dynamics or more deeply rooted causes of growth stemming from initial conditions and structural changes (Andersson and Gunnarsson 2003). Consequently, the returns from attempts to forge workable and transferable development policies from the success stories of East Asia seem to have been surprisingly low. Therefore, understanding and exploring a possible replication of the strategies, policies and mechanisms that have allowed East Asian economies to catch up with the most advanced economies still remains a major challenge for research and policy. The question of which lessons one may draw from historical cases or how much a latecomer is able to imitate forerunners is subject to constant discussion also beyond stressing policy instruments. A perspective that accommodates both the diverse dynamics given by historical and structural conditions as well as an analysis of what policy choices with a coherent logic that might promote change under certain circumstances could be a potentially rewarding research agenda. Although the tide of the times seems to be running in the other direction, as suggested by the predominance of approaches stressing institutional persistence or randomized controlled trials, the seeds of such an agenda are firmly rooted in other strands of the literature on catching up.

1.3 The Case for Structural Transformation and Diversity in the Development Process

An early hypothesis of catching up, coined by Akamatsu as the theory of the 'flying geese' (Akamatsu 1962), argues from the viewpoint of more secular and structural conditions that backward economies under certain conditions may have particular advantages to progress. In this theory—restricted to intra-Asian catch-up—spillovers and the division of labour predict the sequential development pattern of emulation of many Asian countries following, and catching up with, the 'lead goose', Japan. Non-market, or non-economic, institutions were part of the dynamics, since massive application of technological innovations requires a learning process for making efficient use of available technology. This, in turn, required the formation of strong financial, educational and legal systems. It was suggested that following the footsteps of such sequencing is a step-by-step recipe for growth.

In the catching-up literature there are also approaches challenging the idea that outright imitation à la 'flying geese' is possible by arguing that the nature of catching-up processes to a large extent depend on contextual conditions and that the lessons from success-cases should not be seen as standard recipes to be imitated for best result. Rather the general mechanisms and processes of change might be better understood if sufficient attention is given to differences in endowments and other initial conditions. When Abramovitz (1986) revisited the question of the potential advantage of backwardness—the so-called convergence thesis, suggesting that the growth rates of productivity tend to be inversely related to the initial levels of productivity—he suggested that making full use of technological advances made elsewhere is determined by the 'social capability' of the developing country (see also Ohkawa and Rosovsky 1973). He proposed that 'social capability is what separates less developed countries from advanced countries today and which, in the past, separated the late-comers among the countries that are now industrialized from the early entrants into what Kuznets called "modern economic growth". The upshot is that a country's potential for growth is strong not when it is backward in all respects but rather when it is technologically backward but socially advanced.' (Abramovitz 1990:3). This concept, vague as it is, might include the components of educational levels, the quality of institutions, state capacity and social unity.

For Abramovitz, the less social capability a developing country was endowed with, the more inhibited was the potential to catch up. In the language of Alexander Gerschenkron, one could argue that it corresponds with the *degree of backwardness*. But in Gerschenkron's approach the focus is not on what the successful and less developed countries had in common respectively, but rather to understand the options available to overcome backwardness. Particularly in the field of Economic History, Gerschenkron became highly influential for the study of European patterns of industrialization and his work came to inspire entire research agendas (see for instance Sylla and Toniolo 1991). Gerschenkron sketched an analytical framework influenced by patterns of industrialization in Europe that allows for a deeper study of the structural changes in both the production process and institutional arrangements. In addition, it highlights the increased market exchange and sectoral shifts in relative shares of employment and value that takes place when higher value added activities gain ground through the adoption of new technology and a general rise of skills. Most importantly it directs attention to the variety of mechanism and processes at work on the road towards modern economic growth. The strong point is that the prerequisites of the first movers cannot be replicated but rather substituted. Thus Germany and France managed to create a great spurt and break with the old order but we cannot assume that this was done by following an English blueprint. The Gerschenkronian approach is still largely unexplored since its original scope is restricted to economies that have been successful or at least have made real efforts for full-scale industrialization, as was the case in parts of Eastern Europe. It has rarely been used for discussing what backward economies of today should do to break away from this state of affairs. Neither is the perspective explicit about one of the major concerns of today, inclusive growth. To the extent the Gerschenkron approach has been applied in the analysis of industrialization outside Europe it has served as an argument for the *necessity* of state intervention for late-comers, supported by the post-World War II East Asian development experience. This is, however, a selective reading of Gerschenkron, whose major claim was that missing prerequisites can be substituted for, of which the state taking the lead was but one possibility. Rather, the act of substitution corresponded to the specific degree of backwardness that the economy represented. This *situational relativism*, as Adelman and Morris (1997) labelled it, represents the notion that development is better perceived as non-linear and that different development mechanisms apply depending on circumstance, situation and degree of development. While the end objective is similar, the road to it is determined by country specific circumstances and preconditions stemming from the backwardness itself. This view is also present in the works of Hirschman (for instance 1958; 1981) who forcefully argued that growth is typically unbalanced and that sequences of development need not follow a pre-determined path but could be inverted depending on what linkages are activated in the process itself.

The writings in this tradition attempt to draw general implications from the variety of individual country experiences but while the number of ways to accomplish the great spurt towards modern economic growth are several, the list is not endless. The development path is not totally unique to each case and we have learnt from Kuznets (as well as Syrquin/Chenery, Timmer, and others) that structural change is a common characteristic of the development process. To make up for missing markets, deficient institutions or lack of agricultural surplus production the need for certain mechanisms to be activated becomes stronger, such as the role of financial institutions, foreign capital, or the state. The challenge is then how to analytically approach diversity in a systematic fashion and how to relevantly relate current developments to historical experiences even when external conditions, for instance possibilities to interact with the global economy, have changed. One of the most important and inspiring insights of this intellectual tradition, in the absence of manuals for change that can easily be converted into policy advice, might be the reminder that the development process is both dynamic and multifaceted and therefore not easily moulded into fixed models. At the same time a careful analysis of initial conditions has implications with regard to how we systematically think about possibilities for economic development. It is within this spirit that leading scholars in the fields of global and developing country economic dynamics in this book reflect upon past experiences and prospects for the future for the developing world. It attempts to complement our understanding of the development process and possibly provide a bridge between the two disciplines of Economic History and Development Economics that very much share the subject matter—to understand the reason behind why some countries are poor and others not—but have become methodologically separated.

1.4 The Content

The compilation of chapters is intended to stimulate the discussion on a big question on global development and what is in it for the developing world. Although standard economic theory postulates late-comer advantages due to the possibilities of emulating well-tried technologies and know-how, as well as comparative cost advantages, the potential advantage of backwardness has in reality shown to be conditional on various factors. We also need to look into greater detail why countries with the potential advantages of backwardness more often than not fall short of expectations. The chapters are divided under the two broad themes of this volume. In part one, three chapters are devoted to the continuing importance of the role of structural transformation. Part two consists of six chapters which, both individually and combined, show the diverse nature of both successful and less successful pathways of development.

The new global economic dynamics of recent decades make some of the authors pose the question whether there is an advantage of being late or if it is a gradually increasing disadvantage. It is argued by Lennart Schön that countries endowed with a skilled work force and relatively flexible institutions are more prone to structural change and therefore are more likely to reap the benefits of interacting with the global markets. According to a comparison of structural change made possible by using different benchmark years for purchasing power parity (PPP), the small, open, and relatively rich economies tend to take better advantage of changing relative prices on the world markets. However, most developing countries are not knowledge-intensive and by definition not rich, implying that narrowing of inter-sectoral productivity gaps, that is, to increase the average productivity of the lagging sectors is crucial for catch-up. If the large Indian and Chinese economies structurally upgrade and deepen their domestic markets, new opportunities might arise for the developing countries taking advantage of increasing purchasing power in India and China, a point also stressed by Justin Lin. While it is too early to say if low-income countries will be able to exploit these potential possibilities, a related question is whether and to what extent structural changes have been made over the last decades in terms of production structure and organization. As Lin argues, all low-income countries are in possession of latent latecomer advantage to be used if they succeed in making a correct self-identification of their own relative structural strengths and let the image of inspiration be a case with which the developing country in question shares similar development features. It allows for a closer scrutiny and greater understanding of why some Asian countries have not only been living up to expectations but also exceeded them.

One fundamental dimension of the structural aspect of the catching up process often overlooked is the role played by agriculture for conditioning not only the possibilities but also the speed and scope of the process. As Peter Timmer argues, with personal recollections from his days as a student of Gerschenkron, one of the neglected areas in the understanding of the development process, both in the catching up literature and among policy makers, is to acknowledge the central role of agricultural development. Not only is agricultural productivity growth important for improving the livelihood of rural populations but perhaps even more for providing linkages to other activities and in that sense easing the need for large scale substitutive efforts that may backfire. For Timmer, taking more careful note of historical experiences of agricultural transformation would provide policymakers with stronger evidence of how the development process might be encouraged than ever the results from randomized controlled trials could.

In part two Christer Gunnarsson provides an interpretation of how East Asian cases broke the traditional developing country pattern and achieved modern economic growth at a rapid pace. These economies utilized the advantage of 'being late' by adopting modern technology occasionally with the help of forceful substitution but also, as emphasized by Gunnarsson, with less substitutive forms. It can be argued that this not only set the East Asian experience apart from that of its European predecessors, but also that pathways differed within East Asia. To lay out the complexities of this dynamic story, Gunnarsson proposes that insights given by a retake on the Gerschenkronian perspective, stressing agricultural backwardness, provide different implications for our understanding of the development process than either the old state vs. market interpretations or the more Asian-style explanations. Similarly, as Anne Booth suggests, even within Asia it may be argued that although China and the Southeast Asian countries are rapidly catching up, the prerequisites are fundamentally different. With the Abramovitz argument of how economic growth and social capability are mutually intertwined, she finds that the most advanced ASEAN economies fifty years ago remain ahead also today and that very little intra-regional catch-up has taken place. Despite periods of rapid growth in some countries, for instance Thailand, this process has not automatically converted into capabilities in a virtuous fashion envisaged by the Abramovitz hypothesis. The variety of pathways, and sudden reversals of such paths in the region is quite notable, partly for reasons going back to pre-colonial conditions but also in the way individual countries designed their development strategies along the way.

As is well recognized, East and Southeast Asia over the last fifty years stand in sharp contrast to the development of Latin America. Luis Bértola takes a bird's eye perspective on long-term trends to assess whether the relatively progressive advances made over the last couple of decades might constitute a continent-wide shift in terms of structural change. Admittedly, he finds some signs of systematic change in terms of economic and political inclusiveness but is hesitant to subscribe to the view that fundamental changes have been made. Latin America seems to still be unable to pilot its own development pathway and reduce its propensity for volatility imposed by a high concentration on a limited number of export goods. This implies that the window of opportunity given by the commodity boom of the recent decades might not have been converted into sufficient changes in either the policy environment or the production structure. Somewhat at odds with this view, Lee Alston and Bernardo Mueller attempt to explain the underlying reasons for why Brazil has become a 'global agricultural powerhouse'. They argue that after a new belief system based on 'fiscally sound social inclusion' was credibly established in Brazil in the late 1990s, it released agricultural entrepreneurial spirit hitherto subdued. With the help of fitness landscapes, they stress that institutional change brought about by the abandonment of previous mismatched belief systems was the result of self-reflection. These economically more efficient institutions follow from a change in belief system that is better aligned with the reality of what this system promises. Alston and Mueller find support and reason in the Gerschenkron/Hirschman-inspired approach of contextualizing the development process to local circumstances rather than imitating a prescript.

Gareth Austin picks up on the argument of Gerschenkron that advances made in economies elsewhere alter the state of play for other late-comers. By focusing on sub-Saharan Africa, he argues that backwardness for a long time and for many reasons has been a great disadvantage, with colonial legacy and undesirable factor endowments strongly delaying structural change and