



Washington Consensus or BeST Consensus? Which Path forward for Sustained Economic Growth?

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Abstract

While the set of liberalizing and fiscally conservative development precepts dubbed the ‘Washington Consensus’ are now discredited as a tool for development in the global periphery, there is as yet no widely adopted or accepted alternative other than references to the ‘East Asian model’. In this paper we distil the essence of the experience of East Asia – of Japan initially and then of Korea and Taiwan and now of China – in a set of precepts that we suggest underpin the actual policies and strategies pursued with success by these East Asian economies. In the spirit of proposing an alternative to the Washington Consensus, we suggest that these precepts -- pragmatic and known to work – be dubbed a Beijing-Seoul-Tokyo Consensus. The essence of this BeST Consensus is its focus on capability building, on dynamic transitions from one stage to the next, and on building an institutional platform to capture latecomer effects. We outline what the elements of this BeST Consensus might be (in ten points, as contrasted with the WC) and then discuss why it is that they appear to work so well, and whether they can still be applied in the world politics of 21st century conditions.

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I. Introduction

Fifteen years ago, *World Politics* published an influential review by Robert Wade on East Asia's economic success – noting the conflicting perspectives, partial insights and shaky evidence on which judgments had been reached. Since then there has been the rise to prominence of the Washington Consensus (1990s) and the World Bank's *East Asian Miracle* report (1993). Now the rise of China as one of the most successful developing country holds the world stage. Are we any the wiser as to the sources of success in industrial development?

We begin with a paradox. For the past quarter century, there have been some spectacular successes in industrial development, and some spectacular failures. The successes certainly include Korea and Taiwan, which in their different ways emulated the prior success of Japan. The current success story is certainly China, which is lifting itself out of poverty with more than 20 years of annual growth rates of 10 percent or so. Then there are the failures. Apart from the 'failed states' of Africa, which are in a class of their own, there have been dramatic collapses, such as that of Argentina in 2001. Argentina had done everything right, according to the liberal market nostrums prevalent in Washington – and yet it was punished savagely by the international financial markets.

So we may express the paradox in the following terms. The success cases all departed in significant ways from the policies deemed appropriate by policy analysts in Washington. And many of the failures occurred in cases where the country followed Washington's advice closely.

In the case of China, the most significant achievement is the country's lifting itself out of poverty. World bank data reveal that over the two decades from 1981 to 2001, the proportion of people living in poverty declined from 53 percent to just eight percent (Ravallion and Chen 2007). Some at the World Bank maintain that this success is attributable solely to China's opening up, as in the work of Dollar and Kraay (2001). But it is difficult to make this case when confronted by such realities as China's heavily controlled exchange rate; its selective opening; its imposition of caps on foreign equity in joint ventures; its selective market opening; and its heavy regulation of the banking sector and foreign exchange operations. The more immediate and convincing explanation for China's success must surely have to do with its willingness to absorb the lessons of Japan, Korea and Taiwan, while adding some elements of its own that derive from its large domestic market.

This is the setting in which we wish to probe the thinking behind China's success and that of the other NEAsian counties such as Japan, Korea and Taiwan. We offer a set of precepts distilled from this experience that we dub a 'Beijing-Seoul-Tokyo Consensus' in contrast with those advocated under the label 'Washington Consensus'. For the past decade and a half, the policies promoted by the Washington establishment have focused almost exclusively on maintaining a conservative macroeconomic agenda combined with liberalization, privatization and deregulation – or allowing market forces to exercise more and more influence in the economy. The thinking behind this set of policy prescriptions was captured neatly in 1990 by John Williamson in the phrase the 'Washington Consensus.'

Meanwhile the countries of NEAsia followed their own star. While they all maintained relatively conservative macroeconomic settings, which helped them to avoid stop-go

macroeconomic cycles they did many things that are frowned upon by the 'Washington Consensus' – such as sequential opening or liberalization or Taiwan's and Korea's selective opening to inward Foreign Direct Investment (FDI). More to the point, they did many things that are not part of the 'Washington Consensus' – such as focusing their development efforts on capturing and diffusing technological capabilities in key industries that were targeted for catch-up.

In fact it is now widely recognized that the countries that succeeded in NEAsia followed a quite different set of prescriptions from those of the WC, where there was extensive targeting of industries and of technologies, based on prospects for catch-up with the industrial leaders; where development was conceived in terms of acquiring and disseminating technological capabilities as quickly as possible, and where industrial development was viewed as a process that would take decades and would involve strong commitments to invest in sectors and enterprises where returns would be negative at first but where they could be expected to turn positive eventually, and where prices would be set to reflect development needs rather than comparative static efficiency ('getting prices wrong').³

If the ideas of the WC when pursued by countries led to failure, and if success was achieved by countries that ignored the WC, then there is a case to be made for a set of alternative prescriptions, a set that describes what the successful countries actually did and what the countries emulating them are doing now. Actually, Rodrik (2006: 974) states that while the lessons drawn by proponents and skeptics differ, it is fair to say that nobody

³ Amsden (1989) on Korea and Wade (1990/2004) on Taiwan remain the best expositions of the unorthodox features involved in these countries' successful industrialization efforts. For a more recent survey, of theirs' and other countries' experiences, see Amsden (2001), and on Taiwan's experiences, Amsden and Chu (2003).

really believes in the Washington Consensus (WC hereafter) anymore, and that the question is no not whether the WC is dead or alive but what will replace it. We agree with this formulation, and accept Rodrik's challenge. In this paper we identify a comparable set of propositions to those formulated by Williamson in 1990, and dub them a 'Beijing-Seoul-Tokyo Consensus' (or BeST Consensus) as to what works best for development.

In proposing the elements of this alternative consensus, our task is to capture the essence of what the East Asian countries have actually done (in their pragmatic way) rather than look for an economic purist aspiration, which is essentially what the Washington Consensus is. This requires us to demonstrate a continuity between what the Japanese did, followed by the Asian Tigers (led by Korea and Taiwan) and now by China – and in such a manner that the set of elements of the alternative Consensus are seen to be coherent, complementary, plausible, and applicable widely by other developing countries today in the new world political setting of the 21st century.

II. The Washington Consensus – and what it leaves out

The Washington Consensus was formulated as such by John Williamson and included in a book published in 1990, *Latin American Adjustment*. The ten elements identified by Williamson were framed both as a reaction against the 'excesses' of the Reagan years and as a response to perceived inadequacies in Latin American reform efforts of the 1980s.

Elements of the Washington consensus

1. Fiscal discipline – keeping budget deficits under control;

2. Public expenditure priorities – redirecting expenditure away from white elephants towards neglected fields including primary health and education, and infrastructure;
3. Tax reform – broadening the tax base and cutting marginal tax rates;
4. Financial liberalization – abolition of preferential interest rates;
5. Exchange rates – ensuring competitive exchange rates;
6. Trade liberalization – phasing out trade restrictions in tariffs and then lowering tariffs;
7. FDI – abolition of barriers to inward FDI;
8. Privatization of state enterprises;
9. Deregulation – especially of regulations that impede entry of new firms ;
10. Provision of secure property rights.

It is readily seen as in Rodrik (1996) that points 1-5 can be classified as maintenance of a secure and stable macroeconomic regime; while points 6-10 call for more marketization of the economy (privatization, liberalization, deregulation). Thus the Washington Consensus conceives economic development as essentially a movement towards the operation of market forces in a setting of a stable macroeconomic context.

There is nothing to object to in each element in the Washington Consensus, as such, and all countries would want to move in that direction. But the Washington Consensus is inadequate as a guide to development in three fundamental aspects. The first is its lack of recognition of economic development as a catch-up process, one that has the strategic target of closing the gap with the developed world. Linked to this is its failure to see development as a dynamic process that moves through sequential stages. And linked to both of these features is the silence of the Washington Consensus on the fundamental role of capability

building, which must be seen as the core of successful development and certainly the central focus of the East Asian development experiences. Let us elaborate briefly.

1) Development as catch-up

While developing countries have many deficiencies, they do have the advantage that they can draw on the accumulated knowledge of the developed world, and do so without the inherited constraints and inertia of the industrial leaders. This provides a clear focus and strategic goal for the latecomers. The great Russian economic historian, Gerschenkron, introduced the notion of the 'latecomer effect' based on his studies of 19th century European industrialization. In the 1950s and '60s he outlined an approach to industrialization opposed to the prevailing 'stages of growth' theory that was based on capturing such an effect through institutional innovation designed to make up for the deficiencies felt by the late-comer (such as poor endowments of skilled labor, infrastructure or financial capital) and to maximize any advantages such as low costs. It is striking that the Washington Consensus completely ignores any such latecomer effect.

While Gerschenkron's studies focused on the institutional innovations that enabled Germany to catch up with the industrial leader, Great Britain (innovations such as an industrial bank that could channel savings into investment in new industries such as chemicals and dyestuffs), the application of his ideas by the East Asians in the 20th century focused on building catch-up institutions such as those needed to attract foreign direct investment (FDI); to capture technologies and diffuse them to their own nascent private sector; and to build and support industries. Now in the 21st century a similar set of institutions may be observed in China, spearheaded by the country's 'pilot agency', the National Development and Reform Commission (NDRC). None of these strategic goals and

their institutional supports, which were so essential to the success of catch-up efforts in the past, find any reflection in the nostrums of the Washington Consensus.

2) Development as a process

Latecomers see their industrial structure as one to be relentlessly changed and upgraded, with an emphasis initially on the reform and industrialization of agriculture, followed by the building of local manufacturing industries to absorb labor displaced from agriculture. Latecomers focus primarily on manufacturing as the engine of industrial development, seeking to upgrade it to the point where it becomes the primary industrial activity, in the pursuit of increasing returns that are best captured through manufacturing. Latecomers will likely begin their manufacturing operations with light materials and sub-contract activities, but will move as fast as expedient to more demanding activities.

Japan moved its industrialization process from upstream industries progressively downward, starting with steel and petrochemicals and heavy engineering then moving to shipbuilding and automotive then plastics and electronics; meanwhile its consumer goods industries started with simple products like clothing and footwear and then moved to more complex products. A similar kind of strategy was pursued by Korea and Taiwan, while Singapore was very selective in the kinds of industries that it allowed to invest in the city-state. This approach is informed by an understanding that capabilities developed in one sector can be diffused to another but that the industrialization process is – as the name implies – a sequence of operations and the completion of one industrial bloc after another. China is now following a similar strategy but on a grander scale, and making use of new elements such as its large domestic market to facilitate the process. The Washington

Consensus is silent on this issue of phasing and the ripple effect of capability development through the industrializing economy.

3) Development as capability enhancement

The difference between more and less successful Asian economies can be considered in terms of the priority given to policies to enhance long term growth potential—technology and higher education in particular, which are missing in the WC, while they can be considered as the core, distinctive elements of the approach developed in NEAsia. A recent World Bank assessment of the reform decade of the 1990s concedes that growth entails more than efficient use of resources and that growth oriented actions, for example, on technological catch-up or encouragement of risk-taking for faster accumulation may be needed (World Bank 2005, p. 11). Recent studies on reform in Latin America by ECLAC also find that macroeconomic stability is not a sufficient condition for long-term growth, which is more closely tied to the dynamics of the production structure, and that a well-functioning broader institutional context and infrastructure are essential but generally do not play a direct role in bringing about changes in the momentum of growth (Ocampo 2005). Our point is that East Asian experience indicates that microeconomic interventions should be combined with the capacity-enhancing elements (technology and education), so that the costs of distortions (rent-seeking) may not be felt so heavily owing to continuing growth generating new additional rents. While the NEAsian countries have followed some of the precepts of the WC, such as managing their fiscal expenditures and tax revenues, they introduced many initiatives that are simply passed over in silence by the formulation of the WC. We want to spell out these elements to be part of what we shall call a Beijing-Seoul-Tokyo Consensus.

III. The Structure and Elements of the BeST Consensus

Williamson meant his idea of a ‘Washington consensus’ to apply to reform and development efforts throughout the American hemisphere (and no doubt beyond) in the 1990s. Likewise we wish to imply by our ‘BeST Consensus’ a set of ideas that are being applied by China today and that draw on the entire NEAsian developmental experience (spanning Japan, Korea, Taiwan and Singapore) and can be harnessed by most of developing countries today – especially in South and Central Asia, Africa and Latin America. The term is not meant to convey any geographic focus on China or even on NEAsia itself. Like Williamson, we have in mind a set of ideas that can be referred to as the assumptions that underpin a set of policies. Indeed one of the principal tasks facing any developing country today, we submit, is to figure out the appropriate institutional mix and innovation required to implement the ideas and strategies that are captured in the assumptions made manifest in the BeST Consensus in ways that correspond to or complement conditions current at the time.

We start with the critical differences between developed and developing countries. While the WC sees these in terms of macroeconomic settings and priority given to market forces, we see the primary difference as residing in *the agents of economic growth* and their *capabilities*. We focus on what we see as the critical agents, namely private sector firms, and public sector institutions. We view the BeST Consensus as elaborating a set of ideas as to how the capabilities of these agents may be enhanced, upgraded, and disciplined – to the point where stable macro settings and market forces can be expected to work their magic. Thus the first two elements of the BeST consensus are with regard to identifying these two fundamental agents (see figure 1).

Figure 1. Beijing-Seoul-Tokyo Consensus

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|---|--------------------------------|
| A. Two Agents | |
| Private Firms (PF) | Pilot Developmental Agency (G) |
| B. Processes for Capability Building (PF + G) | |
| Arranging accesses for external knowledge | |
| Export-based engagement with global economy for disciplinary learning | |
| Targeting import-substituting technologies/sectors | |
| Sequential upgrading for dynamic comparative advantages | |
| C. External Environment for Capacity building (G) | |
| Generic human capital enhancement | |
| Catch-up friendly financial system | |
| Macroeconomic stability | |
| Phasing out of non-market interventions | |

Then we list four precepts that are focused on how to promote capabilities of private firms and industries and the reduction of risks involved for firms in entering these industries. One of the most important characteristics of the latecomer firms is being resource-poor and among the diverse resources constituting a firm, knowledge is critical in the context of capability building. Thus, arranging access to existing knowledge base and learning opportunity is the first element in the four capability building policies in the BeST Consensus. The next element is targeting industries/technologies for (import-substituting) development and taking rents away from foreign companies. This is needed because to bring up the capabilities of private firms requires assuring them the initial rents (profits) and learning opportunities until they grow enough to compete successfully in world markets. Target technologies are often those that are mature but formerly monopolized by foreign interests. The third element is to promote export-based engagement with the global economy as both a means of enhancing capabilities and imposing discipline. The fourth element in the capacity building part is sequencing of industrialization for changing/dynamic comparative advantages. This is needed because sticking to static

comparative advantages often leads to the late-comer economies stuck in low margin or low-value added products.

Finally, we enumerate four elements that enhance the institutional environment for catch-up. First we consider the role played by advanced education, both as a means of training people for targeted industries but also increasingly as an adjunct to knowledge generation and diffusion. The second element refers to the financial system that guide, facilitate and discipline the process of capability building. Only then do we consider macro stability without which the process of capacity building is subject to more turbulence and less smooth.

Before we elaborate on these elements, it is worth pointing out that certain pre-conditions must be taken for granted. We are assuming, for example, that the rule of law applies – without it there can be no prospect for development, under the guidance of either the Beijing-Seoul-Tokyo Consensus or the Washington Consensus. Likewise we are assuming that there are basic institutions and infrastructure in place, such as ports for trade and regulation of such infrastructure in the form of customs, quarantine and immigration controls.. But we make this a precondition, along with basic health care, housing and sanitation, rather than an element of the BeST Consensus, since these are obviously preconditions that must be met by any developing country today. Call them elements of ‘poverty reduction’ as does the World Bank. They must not be confused with development itself.

The BeST Consensus

The two principal agents

1. Creating firms and building their capabilities
2. Creating and relying upon the pilot (coordinating) State agencies to guide industrialization

Setting the process of capability enhancement in motion

3. Arranging firms to access and leverage advanced knowledge
4. Promoting export-based engagement with the global economy to discipline firms and expand markets
5. Targeting industries/technologies for (initially import-substituting) development and taking rents away from foreign companies
6. Sequential upgrading of the leading sectors and activities to secure dynamic comparative advantages

Creating an economic environment in which capability development will proceed

7. Building broad-based education, from primary education to tertiary education
8. Creating a financial system that is catch-up friendly but cautious about external financial liberalization
9. Establishing stable macroeconomic settings
10. Gradual phasing out of non-market interventions

1. Creating firms and building their capabilities

As opposed to building the State (as in the socialist enterprise of the 20th century) or focusing entirely on markets, the BeST Consensus starts explicitly with firms. The capacity of latecomer economies to grow capable private companies is the most important and

fundamental criterion to determine the success or failure of economic development or growth. They may initially be state-owned firms, where the risks for private capital are too high, but the idea is to move them towards private ownership (i.e. make them 'public' through an IPO) as soon as possible. This is rarely stated explicitly, which is why we make it the first element of the BeST Consensus.

If firms are the instruments of development, we see various approaches to their promotion in East Asia. In Japan and Korea, there was a model of large firms linked together in the form of investment conglomerates, called zaibatsu in Japan and chaebol in Korea (with the Japanese approach also including a bank as a central player). Harvard studies of the phenomenon see the conglomerate as a proxy for capital markets until these develop to a certain point of maturity, and hence as efficient investment vehicles in the early stages of development (Khanna 2000). In Taiwan the firms tended to be smaller, and to be freshly minted each time there was a wave of entry into a new industry (electronics, followed by semiconductors, and in the 1990s Flat Panel Displays). In China both features are evident, in the form of large State-owned enterprises and a multitude of small and medium-sized enterprises known as township and village enterprises, which have efficiently absorbed rural labor from agriculture into manufacturing.

The institutional foundations of firms are as necessary as their own operations – from the means for securing capital investment (such as stock markets) to the means for allowing risky ventures to be declared bankrupt if they fail. Such institutions provide the ecology that supports corporate development.

2. Creating and relying upon the pilot (coordinating) State agencies to guide industrialization

While the ultimate goal and criterion of development is to raise the capabilities of local private companies, the process needs pilot agencies to guide and coordinate the whole process. As understood by Gerschenkron, who analyzed the latecomer industrialization of Germany and Russia, and identified latecomer agencies, such as large state-owned investment banks to drive the process in these countries, it is such agencies that can make up for gaps or lacunae in the country that is seeking to industrialize. All the NEAsian countries built specific state-agencies that played a role of guiding the process of industrialization. In Japan MITI oversaw the entire process of new industry creation and nurturing the industry to the point where it could be launched into international competition. In Korea the institutions established in the 1960s under the Park regime included the Economic Planning Board to set economic plans; the Ministry of Trade and Industry to support industrial policy and export; and the Ministry of Finance to finance economic plans. In Taiwan the institutions established under the KMT included the Central Economic Planning Board and the Industrial Development Bureau, as well as the prime technology capture and diffusion agency, the Industrial Technology Research Institute (ITRI). In China today the principal pilot agency guiding the process of industrialization is the National Development Reform Commission (NDRC), which coordinates national investment plans and the development of new industries. The world's best such agency is undoubtedly Singapore's EDB, continuously functioning since 1965.

Setting the process of capability enhancement in motion

3. Arranging for firm diverse modes of accesses to external knowledge

The basic industrial development process consists in raising firms from being resource-poor to resource-rich, from firms that are marginal and uncompetitive to firms that are international in scope and competitive insofar as they are able to capture the latecomer advantages that are available. Securing access to the existing knowledge base determines the success of catch-up because the latecomer firms do not command sufficient capability to generate knowledge by themselves. While it is natural for advanced economies to create most of this knowledge stock, non-advanced economies try to tap into this stock, constrained by the limited channels of knowledge diffusion and their abilities to absorb and adapt new knowledge. In this way, the knowledge from advanced countries has the function of facilitating technological development in catch-up economies. Hence, the extent of knowledge diffusion from advanced countries to catch-up economies in each sector is a critical element for catch-up. Industry case studies, such as Lee and Lim (2001), confirm the importance of gaining access to the external knowledge base, and the high probability of failure of isolated attempts at targeted development of formerly imported technology.

In arranging access and learning opportunity for foreign knowledge acquisition it is important to note that there are quite diverse channels of accesses and learning, often different in different industries or stages of economic development. The alternative channels include informal learning, learning from OEM, licensing, FDI, strategic alliance, co-development, and so on. Experiences of Asian countries allow us to identify a sequential pattern in the evolution of the channels of access to foreign knowledge. In the earliest stage, the primary channel of learning is technical guidance from foreign OEM

buyers or learning by working in FDI firms. In the next stage, when the latecomer firms recognize the need for more systemic learning and planned technological development, such firms tend to resort to technological licensing and actively seek knowledge transfer from any FDI partners. In this stage, the critical factor for effective learning would be absorptive capacity of the latecomer firms, which also depended on the education system and other elements of the national innovation system of the country.

In the next stage, the latecomer firms establish a certain degree of in-house R&D capacity with a clear idea of what should be done how, and with how much resource to be allocated. With licensing or learning from foreign partners revealing its limits, the latecomer firms now should rely on public-private R&D consortia, research of the existing literature, overseas R&D outpost, co-development contract with foreign R&D or technology specialist firms and/or international M&As. These overseas posts also served as a window on recent trends in technological development (OECD 1996, p. 97). The final stage would be horizontal collaboration or alliance based on complementary assets.

While the process of learning does not have to follow the exact sequences outlined, it is important for the late-comer to know the options available and the factors involved in choosing one over another and the strategic implications for sequencing them.

What K,T and Jpn did

4. Promoting export-based engagement with the global economy to discipline firms and expand markets

Engagement with the global economy is of course emphasized in the WC. The BeST consensus shares this position – but for different reasons. In the BeST Consensus there is an

element of discipline and performance measurement in the outward orientation. This emphasis is related to a theoretical question: why can outward orientation be an effective development strategy? Aside from the obvious benefits--such as obtaining essential inputs, technologies, capital, and markets to achieve economies of scale--what additional benefits does foreign trade offer? More importantly, participation in the world market means that the economy will be subject to external conditions and hence a national government faces constraints on policy choice. Export orientation imposes market discipline, which the domestic market is not able to offer to protected producers, and thereby poses a set of constraints on domestic economic policies that prevent the adoption of measures which are severely antithetical to growth (C. Lee 1992). In other words, some lack of both economic and political competition within a nation is complemented by competition in world markets.

All NEAsian countries have recognized the significance of international competition and the world market in their industrialization efforts. But engagement with the international economy does not stop there. China, following the example of her neighbour, opened itself to inward FDI since 1979 but always setting conditions on inward investments by MNEs. In Asia, encouragement of JVs than the wholly-foreign owned FDI or imposing an maximum share on the foreign equity in the JV has been a mean to learn from the JV partners. Ultimately the NEAsian countries saw the world market as the goal, and internationalization of their major enterprises as a means of learn from, and conquering, that market. Beyond that, success in international markets, initially through export success, was seen as a key criterion for evaluating sound management where preferential finance was being made available, e.g. in Korea, and an external and objective measure of capability was needed to discriminate between sound and unsound investments

5. Targeting industries/technologies for (import-substituting) development and taking rents away from foreign companies

The development process consists in growing industries, where firms may flourish and develop enhanced capabilities. But industries cannot be randomly chosen, or left to the whim of multinational corporations. To enhance the capabilities of private firms requires assuring them the initial rents (profits) and learning opportunities until they grow enough to compete successfully in world markets. One effective way to assure such opportunities is to target certain industries or technologies. Obvious target industries would be those that exhibit externalities or market failure in terms of the gap between private and social return. While mainstream economics would accept only such industries, we can go beyond this and there are more targeting opportunities justifiable in the catching-up context.

Warning against targeting comes from uncertainty about right choices of industries or technologies. For example, no one can tell which industries or technologies are going to come to prominence in a particular country. But, this concern makes more sense in the context of the developed countries whose firms are on the frontier of technologies facing greater uncertainties. But, in the context of the later-comer, they have more justifiable target industries: these are the industries or technologies that the late-comer economies are importing or buying at monopoly prices because these products are monopolized by foreign companies. In this situation, import-substituting targeting involves taking the rents away from the foreign companies to local companies. In this import-substituting targeted development, local efforts face less uncertainty or risk because targeted technologies are often mature technologies that are not impossible to emulate by concentrated efforts by local indigenous R&D consortium.

Successful examples abound in East Asia, including development by local R&D consortium of TDX (digital telephone switches) in Korea and China when digital switches were in serious short supply but monopolized by foreign products (Mu and Lee 2005). While they were all supported in various ways by the government, they all successfully took away the markets from the MNCs or their JVs and became exporters. The preparation and cultivation of new industries calls for state-led efforts by a variety of agencies, from the acquisition of land for the firms destined for the designated industry, the acquisition of technology and the securing of finance including credit rationing, the adoption of nurturing strategies including tax concessions and R&D subsidies, the control of excessive competition at first to allow companies time to develop their products and markets, and a phased opening up to the full force of international competition. But, such activism by the states should be phased out at later stages because costs of local production and risks of entering new markets would be reduced owing to the dynamic learning effects which depend on the cumulative output produced.

6. Sequential upgrading of the leading sectors and activities to secure dynamic comparative advantages

The experiences of NEAsia indicate that their industrial structure has been continuously changed and upgraded. The initial emphasis was on the reform and industrialisation of agriculture, followed by the building of local manufacturing industries to absorb labor displaced from agriculture, and eventually moving to more capital or knowledge intensive industries. A close examination of successful catching-up economies finds upgrading in the same industry and successive entries (another kinds of upgrading) into new promising industries. Unless these two kinds of upgrading happen, the chance for successful catch-up is lower. This is because new cheaper labor sites are always emerging to replace your

position in the global value-chains, forcing you to move upward for higher value-added activities in the same industries, and because the old industries become mature and thus degrade into lower-value-added industries, forcing you to make entries into new emerging and high valued added industries. This need for two kinds of upgrading comes partly from the international industrial life cycles such that new industries tend to be created by the developed worlds and the later-comer countries and firms tend to inherit these industries after they become mature and their products become standardized. Given this life cycle, an important feature of successful catch-up is to be able to enter at an earlier and earlier (higher-value-added) stage of cycles as time goes on, which is possible only with the enhanced absorption capabilities. Otherwise, you are doomed to be stuck at the lower-wage activities or industries, with few chance for long term success.

Examples are numerous in East Asia. Semi-conductor firms in Korea and Taiwan started from IC-packaging or testing (low-value-added activities), then moved to IC-fabrication and eventually to IC-design (highest valued-added). The Tatung company in Taiwan has made successive entries since the 1960s into new industries, starting from black & white TVs in 1964, color TVs in 1969, VCRs, PCs in the mid 1980s, hard disk drives in the mid 1980s, TV Chips/ASICs in the late 1980s, and workstation clones in 1989 and so on (Khan 2002). Samsung group in Korea is well-known to have made successive entries into new and new industries over the 60 years of its history. In this process, the state had an important role in providing a field for joint R&D consortium and technology transfer, as well as tax and credit concessions for newer industries.

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Such a dynamic view on industrial changes is in clear contrast to the mainstream emphasis on static comparative advantages, an uncritical application of which can preserve the state

of the world with the developed countries specialized in more high value-added or high margin products and the developing countries locked in low-value-added or low margin products. Furthermore, it does not teach how to move from the latter to the former products and thereby makes the prospects of upgrading development uncertain. While such dynamic change of comparatively advantageous industries could happen without state intervention, the essence of the BeST Consensus is that some coordination by the state agencies could expedite the process of dynamic changes and provide a higher chance of success.

Creating an economic environment in which capability building will proceed

7. Building broad-based education, from primary education to tertiary education

Besides some policies targeting capabilities of private companies, there are some policies that can serve to enhance the basic generic capabilities of population. Education to upgrade human capital of population is such kind. All the NEAsian countries understood that there would be no successful growth without literacy, and so every effort was made to introduce universal primary education, then universal secondary education (a stage reached now by China) and finally to ramp up college enrolment rates. While the WC also talks about education, they do not pay enough attention to tertiary education. But we think that what have differentiated NEAsia from Latin America is different emphasis on tertiary education. Whereas two groups of countries had similar level of tertiary enrolment in the early 1980s (about 20%), nowadays the differences are so huge. Korea now has one of the highest levels (80%) of college participation in the world, with Brazil and Mexico still stuck at 20%. Now, China too is drastically ramping up its college participation levels by young people. As the developing countries get mature and approach middle-income country status, the

role of universities and research institutions becomes more critical in the knowledge generation and knowledge transfer process.

8. Creating a financial system that is catch-up friendly but cautious about external financial liberalization

The ‘water’ that ‘irrigates’ the developing economy is finance. If the flows are too great (as in too much capital flowing in from abroad) then there can be macroeconomic disturbances leading to credit shocks and disruption. If the flows are too meagre (as in too tight a monetary policy and high interest rates) then firms are starved of the funds needed to invest and grow their business. A Central Bank or its equivalent (such as the Monetary Authority in Singapore) is necessary to keep these matters under review and make adjustments as needed. In all the successful countries of NEAsia, interest rates were kept low for targeted industries and allowed to float higher in non-targeted sectors.

This situation can be called as “financial restraint” as argued by Hellman, Murdock, and Stiglitz (1997) that certain manipulation of interests are beneficial to economic development as long as real interests rates are not persistently negative. Again the Washington Consensus is silent on the need for developmental financial instruments, assuming as it does that liberalization of the financial sector will solve all problems. While the financial repression literature emphasize the role of positive interest rates in mobilizing savings, raising the levels of income has more direct impacts on savings in low income countries than interests rates. This justifies low interest rates policy inducing higher investment rates, which in turn lead to higher income and eventually high saving in the long run in East Asia.

Moreover, as attested by the numerous financial crashes recorded just in the last 15 years, external liberalization of the financial sector can contribute to financial crises rather than financial deepening. Countries like Taiwan, which is not allowed to be a member of the IMF, conducts its financial affairs with great prudence, exercising controls on inward and outward flows of capital, and Taiwan was almost untouched by the 1997 Asian financial crisis as a result. By contrast, the early to mid 1990s (external) financial liberalization in both in Korea and Indonesia had been followed by financial crises. China is taking no chances. That is why due regard to the developmental role of financial instruments is an important element of the BeST Consensus – yet is missing in the Washington Consensus.

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9. Establishing macroeconomic stability

Since capacity building takes time and requires commitment to decisive investment with a long gestation time, it is important to have stable political and economic conditions. Under unstable conditions, any business person would be hesitant to make long term commitment. Among the East Asian economies, Taiwan provides the clearest example in terms of maintaining stable macroeconomic conditions. While other East Asian economies had times of more turbulent macroeconomic periods including some inflation or external imbalances, they have had avoided extreme crises until 1997 that have haunted many LA economies.

It is widely agreed that the NEAsian countries were exemplary in maintaining fiscal balance; consistent interest rates; a cautious exchange rate policy; and careful scrutiny of all overseas transactions by the Ministry of Finance. These cautious approaches to macroeconomic management paid rich rewards.

10. Gradual phasing out of non-market interventions

The effort to increase competitiveness in markets provides evidence as to the respect NEAsian economies had for the disciplining function of markets and their willingness to accept market outcomes. State intervention in east Asia did not paralyse the disciplining function of the market, or effectively supplemented it with an alternative discipline mechanism whenever the intervention weakened market discipline. Furthermore, the goal of protection and industry nurturing in NEAsian countries was never to maintain a situation protected from market disciplines, but only to allow it to last for the time needed to bring the industry and the firms within it to the point where they could withstand international competition and full exposure to the market.

Thus the Japanese approach to developing its computer industry was to protect it with various devices up until the early 1980s, and then it announced that these protections would be disbanded and that the companies would have to stand on their own feet, and feel the bracing effects of international competition. Some companies did very well – such as Fujitsu or NEC – while others crumbled. But MITI refused to intervene to pick and support the failures. We see a similar approach to support and nurture of the enterprises in a new industry in the other countries of NEAsia, followed by a ruthless exposure of these firms and industries to international competition, and a refusal to intervene to help those that flounder.

There is no end to the process of industrialization. Instead a country draws closer and closer to an ever-receding frontier. As the frontier is approached, and innovation becomes more

important than imitation, so it becomes necessary to adapt and even dismantle the institutional arrangements that favoured earlier stages of the process. Japan was caught in this process during its 'lost decade' of the 1990s, when it grappled with the issues of dismantling some of the controls and regulations that had worked in earlier stages of its development. Korea dismantled older institutions and introducing new institutions only after the 1997 financial crisis. Taiwan cautiously deregulated its financial sector and external account – while both countries evolved so that parliamentary oversight of the targeting of industries and technologies became more and more insistent and demanding. China too is now experiencing these pressures, particularly at a local and regional level where democratic institutions are taking root. This is the real meaning of the terms 'privatization', 'deregulation' and 'liberalization' which are employed in the Washington Consensus as if they are timeless aspirations. According to the Consensus that reigns in Beijing, Seoul and Tokyo, by contrast, strong government and leadership is required to carry a country through the difficult early stages of industrialization, but as a certain level of industrial maturity is reached, so the controls can be progressively dismantled, and the demands for democracy – that will always express themselves as a country's standard of living rises – be accommodated. In the end, the pilot agency can be dismantled in favour of a national legislature. At that point, the country has industrialized and can count itself as a 'modern' nation.

IV. Why does the BeST Consensus work? Why is it plausible?

Before moving to the question of the generalizability of the BeST Consensus as a set of development principles, it is well to inquire into the plausibility of the set of ideas. Why would it be expected to work, and why has it worked?

Strangely enough, given the stakes that bodies like the World Bank have in the matter, the investigation of the set of policy mixes that powered the industrialization of NEAsia has been subjected to remarkably little independent investigation. It has of course been subjected to an enormous amount of rebuttal-oriented investigation – but that is self-defeating. The minimum that critics ought to concede is that the policies applied by Korea, Taiwan et al *did in fact work*. As contrasted with the precepts of the Washington Consensus, which remain abstract, speculative and theoretical, the precepts applied in NEAsia – which we are summarizing as a BeST Consensus as to what works – did in fact work.

The issue is: why, or how?

Several lines of argument can be adduced to attempt an answer to that question. The first line of argument concerns the package of precepts themselves, such that all the 10 elements of the BeST Consensus form a package of complementary and mutually reinforcing prescriptions with a central focus to foster the capabilities of the latecomer firms. The targeting of industries for development, and the targeting of technologies within these industries, and the sequential upgrading are of a piece with the emphasis on building capabilities of the firms. The promotion of engagement with the global economy is not only a means of bringing new sources of competence into local economic agents (through inward FDI) and of expanding the markets and sphere of activities of domestic enterprises (through outward FDI) but it is also a means of providing an objective performance (disciplinary) measure of company performance where credit is being targeted, as in the case of Korea in particular.

Secondly, we wish to make the point that the prescriptions of the BeST Consensus work because they are formulated in a way that enables countries implementing the prescriptions to identify and capture the latecomer effects that are available *at the time*. To refer to institutions as the ‘weapon of the latecomer’ is to capture in a phrase the point that latecomers have the possibility of compensating for their late arrival with institutional innovations that enable them to accelerate their catch-up with industrial leaders, e.g. through capturing advanced technologies, and diffusing these technologies as quickly as possible to the private sector through such institutional innovations as targeted R&D consortia. ‘Weapons’ connotes both defensive institutions (e.g. to protect a country from excessive flows of ‘hot capital’) and offensive institutions (e.g. export consortia to market products collectively in foreign countries). The power of the Gerschenkronian approach lies in the fact that it invites concentration on the issues that matter most, namely the building of new institutions and the pursuit of fresh strategies, depending on the situation at the time that the country is attempting (or re-attempting) its development push.

A third line of argument concerns the goals of the set of precepts, and whether they promote cost-reduction or risk-reduction. It is commonly assumed in the debates over ‘infant industry protection’ that subsidies are being paid to an infant industry in order to give it time to develop the efficiencies needed to compete – and these are justified in formal terms as creating the conditions where spill-overs and learning effects may become manifest.⁴ But this cost-reduction kinds of government programs are now severely curtailed by WTO rules, as we discuss below. That leaves intact many of the ‘risk-reduction’ programs perfected in East Asia, which do not depend on any kind of cash transfer but on market opening, or market promotion, or the seeding of new industries as practised by

⁴ For formal arguments in this vein, see for example Succar (1987).

Korea, Taiwan and Singapore. In the semiconductor sector, for example, Taiwan was able to 'seed' the new industry in the 1980s by setting up state-owned corporations that led the way into the market, thus making it easier for private firms to follow them. China is known to be studying such 'risk-reducing' approaches to industry development closely.

A fourth line of argument concerns the pragmatism of the implementers of the policy prescriptions that we label the BeST Consensus: these precepts were never set in stone. On the contrary they were framed in pragmatic terms to deal with real issues, and evolved as needed, such as the desire for foreign currency leading to a focus on export industries and then this focus in turn providing an objective measure of enterprise performance in the allocation of preferential credit. Neither Park Chung-Hee nor Chiang Kai-shek would have formulated export performance as an objective measure of enterprise success for purposes of targeting credit, yet both were sufficiently flexible that this evolution occurred within their regimes, and was found to be highly effective.

Various theorists have tried to capture this adaptability and pragmatic flexibility in various ways. Liebenstein termed it 'collective entrepreneurship (1968) which remains an excellent phrase to capture the state's experimentation with different approaches and its readiness to change course when needed. Hausmann and Rodrik (2003) capture the same pragmatic spirit in their description of 'economic development as self-discovery' where the point is that the developmental state does not have to have an a priori sense of which industries will work best, but can experiment and find out which ones do best, e.g. in terms of exports.

For our part we see the plausibility of the package of principles that we label a BeST Consensus in the way that they continually reinforce a focus, on the part of both firms and

of institutions, on the central strategic goals of the process – which can be encompassed in a word: *catch-up*. For this is the ultimate advantage of the latecomer; it has strategic goals that are clearly enunciated and delineated. When a country reaches a developed stage and is on the technological frontier, then innovation becomes critical, in order to canvass as wide a variety of technical options as possible. Evolutionary processes feed off variety, and selection mechanisms work most cleanly and efficiently when they are fed by adequate variety. But the latecomer does not have to indulge in such luxury. The lines of development have already been laid down, in one industry after another. In semiconductors, Korean firms like Samsung knew that VLSI CMOS memory chips were going to be the most significant, and so this is what the firm invested in, with full backing from the other technology leverage institutions in Korea. Taiwanese firms knew that fabless operations were going to be the order of the day in Silicon Valley, and so there would be an opening for silicon foundries – and so the Taiwanese moved decisively to establish TSMC, still the world's most successful foundry. In the Flat panel Display industry, which has superseded the semiconductor industry, again the Korean firms and the Taiwanese firms knew from the prior experience of Japanese firms that the dominant technology would be TFT-LCD – and this is what they focused on, with great effect.

V. Can the BeST Consensus work in other countries and other times?

Even if it is conceded that the policy settings favoured by the BeST Consensus worked for the countries of NEAsia from the 1960s to the 1990s, the sceptics still claim that those same policy settings would not work today, or would not work beyond the countries of NEAsia, with their highly distinctive initial conditions, with their authoritarian, and their highly equal distribution of income. Let us deal with these arguments.

The critical issue concerns the initial conditions. Were there conditions that fundamentally favoured the countries of NEAsia and which are not found today? Certainly there are important differences. The most obvious is the international setting, and the restrictions that the developed world countries have imposed on developing countries through the rules of the World Trade Organization (WTO). Globalization now means that the world economy is so much dominated by large MNCs. Has the world situation so changed that development prospects according to the BeST Consensus are now impossibly constrained? We are strongly of the view that countries pursuing a development pathway informed by the BeST Consensus will have the best chance of breaking free of poverty in the 21st century. Our argument moves through six points.

1) Defences against rent-seeking

A first issue concerns the propensity for rent-seeking that the BeST Consensus throws up. Given the emphasis of the NEAsian approach to state activism and targeting, a serious objection should be raised, namely that such arrangements will lead to rent-seeking. Without active counter-measures, this would indeed be the expected outcome – at least according to standard neoclassical expectations. But it did not turn out that way in the countries of NEAsia. As Rodrik pithily puts it: ‘Why did trade protection, industrial policy, and subsidized credit work in these countries when it failed most everywhere else?’ (1996: 19). Rodrik suggests that part of the explanation might lie in the high commitment to educational attainment – by the late 1950s, the NEAsian economies had ‘a much better educated labor force than would have been expected on the basis of their income levels.’ And a second, perhaps more salient feature, was that ‘in all of them the distribution of income and wealth around 1960 was exceptionally equal by cross-country standards.’

It is obvious that these two initial conditions are not available in most of the developing countries. How then can countries get around this problem? We would point to several elements in the BeST Consensus that would act to curb the potential for rent-seeking. The first element is outward or export-orientation where any preferential resource allocation has to be based on firms' performance in exports. As explained above, export orientation imposes market discipline, which the domestic market is not able to offer to protected producers, and thereby poses a set of constraints on domestic economic policies (C. Lee 1991). The second element is the point that the BeST Consensus is strongly biased toward generating new sources of growth and new rents or taking rents away from foreign firms, which tend to lighten any potential burden. In other words, the rules of game are not so much about re-distribution of rent as creation and generation of rents. For example, the preferential and targeted public and private R&D consortium (in Korea and China) to develop indigenously the digital telephone switches was not about taking away the rents accruing to foreign goods back to indigenous producers.

2) WTO constraints – and how to get around them

A second issue concerns the new environment created by the WTO and by global trading conditions generally. Launched as such in 1995, but stretching back through the General Agreement on Tariffs and trade (GATT), the WTO is the organization that now embodies and enforces the rules for intellectual property protection (TRIPS), for trade-related investment measures (TRIMS) and the general agreement on trade in services (GATS). These codes impose stringent restrictions on developing countries' rights to deploy many of the institutions and policy settings that were available to the countries of NEAsia, such as infant industry protective tariffs, barriers to inward FDI and exchange controls. In the case of latecomers such as India, one of its most successful strategies, involving the allowance

of patenting over generic drug processes but not over products, and which was instrumental in India building a strong generic pharmaceuticals industry, was outlawed by TRIPS and had to be disbanded.

But smart countries find ways to work around or through these restrictions, particularly in areas that can be called 'innovation' rather than trade or development. As is well-known, the WTO rules allows substantial room for state subsidies for R&D expenditure. The US does lots of state-led R&D in the name of defence-related R&D – and smart developing countries will follow its example. Developing countries can pay much more attention to their 'national systems of innovation' not only because R&D conducted through GRIs is important in developing domestic technological capabilities, but also because this provides a path through the tangle of WTO rules and restrictions. The WTO allows some discretion in policies to support the SMEs, and, furthermore, export subsidies in the countries with per capita income below 1,500 dollars.

3) Locally owned firms or multinationals?

Third, given our emphasis on promoting private companies as the engines of growth, one might ask whether it is necessary for successful catch-up to have more or less independent and indigenously owned large companies often taking the forms of the business groups, or whether it is feasible to rely upon the foreign MNCs or FDI. This question arise when one look at the experiences of Japan, Korea and more recently China where we have seen the strong role played by large locally-owned companies or business groups. Whether this element is necessary or not is an important question because bringing up such large and independent companies is now perceived as quite difficult, if not impossible, in most of the

developing countries with heavy dominance by the MNCs. Our answer to this question is that it is good to have such big companies but it is not necessary.

Such answer is based on the counter-examples of Taiwan and Singapore where reliance on or interdependence with, the MNCs was higher. But, for them the MNCs were places for learning and knowledge diffusion as they were able to continuously move upward for higher-value-added activities in the the global chain. In this sense, they are the counter-example to the argument, e.g., by Pack and Saggi (2006) that the appearance of outsourcing and value chains and their criss-crossing places constraints on development prospects, in that these value chains will prove to be exclusive and will deny entry to an industry to any but the most efficient firms

4) A catch-up-friendly world economic system?

While we argue that catching-up development is still possible even under the WTO regime, if one follow the policies derived from the BeST Consensus, we recognize that the world economic system is increasingly making catch-up more difficult than before. In this regard, one serious issue is the IPR (intellectual property right rights) protection and some moves toward the IPR regime standardization. Given our emphasis on capacity building and access to knowledge, we are concerned about the possible anti-catch-up impacts of the stringent and standardized enforcement of the IPRs. However, as is now known more than before and analyzed in the World Bank sponsored research such as Fink and Maskus (2005), welfare-enhancing effects of stronger IPR protection cannot be warranted even by neo-classical economics as it notes the trade offs between innovation-enhancing and monopoly-enhancing effects. Furthermore, in the context of most of the developing countries, even the innovation-encouraging effects are less warranted. The simple logic of more IPR protection

leading to more R&D assumes implicitly that there is existing R&D capabilities there, which is not the case in many developing countries. What matter more for them is first to create and have some level of R&D capabilities first, before thinking about how to encourage them by, eg. providing IPR protection. Otherwise, simply increasing the IPR protection is to protect the interests of the incumbent IPR owners, mostly MNCs. Stiglitz (2006) also noted that the danger of monopolization is greater in small developing countries because markets are smaller and more frequently dominated by at most a limited number of firms. Thus, he emphasize that developing countries should be given more scope in deciding what kind of industrial policies are appropriate-giving them opportunity to create new industries—so too should these powers be granted in the arena of intellectual property (Stiglitz 2006, p. 119)

While Stiglitz wrote his book to “make globalization work” and to this end employed a concept of a ‘post-Washington Consensus’ we see that many of his policies suggested are also needed to make more catch-up to happen. For example, more “fair than free” trade regime is need globally. While we all believe in virtue of free trade, the current system is far from being free because it does not involve free mobility of workers across nations. Worse than this is the reality that many rich countries provides huge subsidies for their agriculture, which prevent poor countries from specializing in and sending agricultural exports to rich country markets. We view favorably Stiglitz’ principle of asymmetric or cascading opening to foreign trade (where a richer country at certain level opens its markets to countries less rich than itself). This principle is consistent with our focus on the need for international engagement because the actual scheme of international engagement that worked in the past in NEast Asia was an asymmetric opening of export promotion

combined with import control. We think such an opportunity needs to be afforded to the next generation of developing countries.

5) Authoritarian regime needed to drive development?

An important question for developing countries today in seeking to apply the lessons of the BeST Consensus is a political one. Put most starkly: Does a country have to be governed by an authoritarian regime in order to foster the discipline and coordination needed to implement the prescriptions of the BeST Consensus? We first concede that authoritarian regimes may be in a better position in terms of implementation capabilities. Certainly the Park regime in Korea and the Chiang KMT regime in Taiwan are instances of this. Japan is the obvious counter-case, and even Singapore, which has clear authoritarian overtones, but has remained a democracy throughout its development trajectory. Of course, democracy has emerged in the fullness of time in both Korea and Taiwan, as the countries grew wealthier, and it is certainly emerging at local level in China today.

We see obvious advantages in democracy, amongst which is the convenient feature that citizens are not subject to arbitrary arrest and torture. Truly strong states get it wrong more often than they get it right. Thus the military dictatorships of Latin America left little in the way of legacy – save perhaps for the biofuels program started in Brazil – whereas the military dictatorships in Korea and Taiwan (while not on anything like the same scale of brutality) left a powerful legacy of development. The difference lies clearly in strategic orientation and in institutional capacity in formulating and implementing a program of national industrial development. Our point is that this is an option available to the political leadership of any developing country today. On top of this, the key to NEAsian success was institutional longevity. Look at Singapore's EDB, founded in 1965 and still going strong,

and now widely perceived to be the best industrial development institution in the world today (Schein 1996).

In other word, what matter is not the type of the regimes but whether they can sustain new program long enough to have tangible fruits. As long as new program is defined as something like public good that could befit a society as a whole, although not everybody, there is no reason for such program not to be sustained. The possibility of generating ex post momentum (benefits) of a new program can also justify somewhat aggressive move toward a new direction initially without fully reaching consensus (which is very costly as it takes time), like China in the late 1970s but only with partial or with stealth as in the case of India in the early 1990s. However, the “authoritarian advantage” hypothesis is not easy to be maintained. The “thesis” expects that authoritarian governments would be more disposed to initiating market oriented reform because a main impediment to reform was the political activation of social interests hurt by those changes in policies (Rius and de Walle 2005). While the case of China is consistent with this thesis, the case of India is not, especially in consideration of the fact that India not only initiated it but also sustained for more than a decade despite of several changes in the political leadership.

6) China – the exemplar of the BeST Consensus

Our final argument is to point to the fact that *China itself is the biggest and best practitioner of the ‘Beijing-Seoul-Tokyo Consensus’ in the conditions that obtain today*. In conditions markedly different from those that obtained in Korea, Taiwan and Singapore, China is successfully industrializing. It is a member of the WTO, and abides by WTO trade rules. It draws on the experiences of Korea, Taiwan and Singapore, and draws the appropriate lessons in terms of the utilizing firms as vehicles of leverage (Baek 2006). It

uses large firms in emulation of Korea (and Japan) in the form of its state-owned enterprises. It utilizes small and medium-sized enterprises in conjunction with state-run R&D institutes, in emulation of the Taiwan model. It utilizes MNCs as vehicles of knowledge, in emulation of Singapore. And it deploys a pilot agency in the form of the National Development and Reform Commission (NDRC) which acts as the ultimate arbiter of where investments flow in China. In fact we see China's strategies today as the vindication of the experiences of the NEAsian countries. So the policy settings that worked before can still work in NEAsia today, in the case of China. They can work anywhere else.

VI. Concluding remarks

As the WC has lost its credibility, it has been recently augmented by a long list of so-called "second generation" reforms that are heavily institutional in nature (Rodrik 2006). Also, more recently an important work by the Growth Commission (2008) came out, acknowledging the importance of government activism and industrial policy, while cautious about hasty liberalization and privatization.

The so-called 'augmented Washington Consensus' includes the following ten additional elements: corporate governance; anti-corruption; flexible labor markets; WTO agreements; financial codes and standards; prudent capital-account opening; non-intermediate exchange rate regimes; independent central banks/inflation targeting; social safety nets; and targeted poverty reduction. But this remains a shopping list rather than a recipe for successful development. This augmented WC is criticized in Rodrik (2006) in that its emphasis on institutions is dead-end because the most ambitious institutional reform efforts can be faulted *ex post* for having left something out. The cross-national empirical literature has

failed to establish a strong causal link between any particular design feature of institutions and sustained economic growth – as discussed in the World Bank's 2005 report.

From our perspective, it is striking to see that both the augmented list and the World Bank's 2008 Growth Commission report still leave the building of technological capabilities by private firms as a marginal issue, whereas in our view the evidence from East Asia indicates that this is the real binding constraint that can limit sustained growth. This is also our point of departure from Rodrik who pointed to the importance of binding constraints but did not try to identify what exactly these constraints might be. His recipe is that countries should focus in the short run on selectively removing binding constraints on growth (which may differ from country to country) and in the medium- to longer-run on enhancing resilience to external shocks. By contrast, according to Lee and Kim (2009) the toles of R&D and college education emerge as the binding constraints for long run growth for middle-income countries whereas basic political institutions and primary education are identified as binding constraints for low income countries. For this reason, we conjecture that China's economic growth will last for some time yet, given its high emphasis on R&D and tertiary education, whereas Rodrik (2006) hinted at an alternative possibility unless China manages to strengthen the rule of law and enhance democratic participation which he considers to be a longer term constraint.

The key difference between the WC and what we are calling the BeST Consensus is that the WC is speculative and based on what economists would like to see whereas the BeST Consensus is based on what successful developing countries have actually done. Our BeST Consensus represents our distillation of what pragmatic governments in NEAsian countries have actually done in order to lift their countries out of poverty. We formulate and

generalize these pragmatic prescriptions not just in terms of what individual countries actually did, but with an eye to their wider application, by developing countries around the world looking for a different set of prescriptions to likewise lift themselves out of poverty in the early years of the 21st century.

We are now seeing the prescriptions of the BeST Consensus actually being pursued, to some extent, in other countries looking to play a leadership role in their regions such as Brazil in Latin America or Nigeria in Africa. Since the World Bank and other multilateral institutions have run out of ideas, why not now try the idea that we know works, suitably adapted to the conditions of the countries that are desperately trying to escape from poverty?

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