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Book Reviews

How Rich Countries Got Rich … and Why Poor Countries Stay Poor by Erik S. Reinert, New Delhi: Anthem Press, 2008, 365 pp.

Inequalities in living standards and relative shares of industry and trade have divided the world into "rich" and "poor" countries. There are consequently important debates and disputes about the distribution of the benefits of development, industrialization and globalization. Development economists, who are very much concerned about poverty and the distribution of wealth in the world, have tried to explain the increasing gaps that have arisen between the developed and the less developed nations today. It has been a standard belief that a poor country should export raw materials and agricultural goods for consumption to the developed countries and in return, this country should import manufactured goods from the developed countries.

In historical terms, David Ricardo's trade theory, which has become the linchpin of our world economic order, and in contemporary terms organizations such as the World Bank and IMF, have emphasized this mutually beneficial aspects of trade. They argue that each country should specialize in producing the goods to which it is best suited and can produce at the lowest cost. In this view, the ability to trade in specialized goods in which a country has a "comparative advantage" is more important than each country developing a similar industrial capacity.

This book by Erik Reinert, an economist from Norway who was trained in the United States, basically attacks the neoclassical and Washington Consensus arguments for comparative advantage and free trade, and instead brings back the appeal of the "old policy orthodoxy" which argues that industrial production increases productivity and raises standards of living, and that the developing countries will always remain poor unless they pursue deliberate policies to industrialize and achieve a more equal position in the world economy through "emulation" or imitating in order to equal or excel. His view is supported by historical evidence during the last 500 years that the present "rich" countries significantly increased per capita incomes by shifting away from an agricultural to an industrial economy. His arguments are also based on his years of working experience as an advisor or consultant in several poor and rich countries.

Reinert sees that today in many poor countries we actually observe the opposite of development and progress, or what he calls retrogression and primitivization. The experiences of poor countries today appear in sharp

contrast to those faced by most developed countries in their early stages of development. He argues that trade liberalization often does not deserve the priority it typically receives in development strategies. The established fact is that the developed economies were and still are very protectionist when it comes to the industries (especially agricultural products) in which developing countries are most likely to enjoy a comparative advantage, and this protectionism by the developed economies has been a major cause of the divergence in per capita income in the world.

Reinert's book attempts to bring back "traditions in which economics is not and never can be a 'hard science'" (p. xxiv). It questions the application of standard international trade theory for the developing countries; it energizes the role of protectionism; and it supports the dynamics of manufacturing and technological change. Contrary to textbook economics, he describes economic development as a giant failure of perfect markets. Reinert teaches us that "if you want to understand the causes of American and European prosperity, study the policies of those who created it, not the advice of their forgetful successors" (p. xxix).

The book, which is about economic development rather than economic history, is particularly concerned with investigating past records in the world economy by going through over 50,000 volumes of historical documents. It is an extension of Reinert's original PhD thesis submitted to Cornell University, USA, in 1980. It starts off by explaining the problems underlying the current ruling economic theory and the need for alternative approaches. In Chapter 2, it traces the evolution from Physiocracy via Adam Smith and Ricardo to standard textbook economics, covering a period of over 500 years, and a historical experience from poverty to wealth among the rich countries today. The writer argues eloquently in Chapter 3 the role of "emulation" in the successful development process of the rich nations. He explains the practical limitations of Ricardo's free trade theory in Chapter 4, and in Chapter 5, explains why the present poor countries have failed. He distinguishes the necessary aspects of economic development in Chapter 6, discusses the weaknesses of the Millennium Goals and the recommended development policy in Chapter 7, and Chapter 8 concludes with getting the economic activities right, that is by giving emphasis on adding increasing returns activities. The book is supplemented with seven appendices which are mostly summaries of past theories or ideas.

Erik Reinert makes the point that the benefits of trade openness and liberalization policies should not be oversold. His account of the historical experience is wide-ranging, well-referenced and very impressive. It echoes the mounting worry about what globalization may imply for development and development policies in poor countries. His book contributes genuinely refreshing ideas to the debate, and point to promising directions

IJIE vol 2 no 1_08-03-10.indb 102 3/8/2010 9:55:21 PM

for future action and R&D. The message is simple: development policy should not underestimate the role of state intervention, protectionism, and industrialization.

I personally share Reinert's conviction that state intervention and industrialization matter for development. However, his answer as to how to put the development policy in place may still need to be refined more precisely. For example, an important lesson to learn from the book is that if the First World is allowed to protect their agriculture in order to develop, then the Third World should be allowed to protect its manufacturing and service sectors. How can this be made possible in practice given the economic and political strengths of the rich and the weaknesses of the poor countries? After all, as Reinert himself agrees, given the domestic political pressures to protect their economies, the governments of rich countries unashamedly refuse to practice what they preach.

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Uneven Paths of Development: Innovation and Learning in Asia and Africa, by Banji Oyelaran-Oyeyinka and Rajah Rasiah, Cheltenham: Edward Elgar, 2009, 238 pp.

Post-colonial Asian and African economies began the long journey to development around the same period in the middle of the last millennium. At that point, one could well argue that the prospects for attaining the goal of "high income nation" appeared brighter for African countries, primarily due to their better access to a vast array of natural resources and their respectable GDP growth in the 1960s. So, why then, half a century later, are the economies of East Asia so far more developed than those of sub-Saharan Africa, especially in terms of industrial development?

The authors of this volume acknowledge that this is not a novel question, as it has been dealt with in a number of other scholarly treatises. What is original about this important comparative study of institutions and organizations in Asia and Africa is its focus on learning and technology capability development. The authors argue that their work constitutes a further contribution to the literature on problems of industrial development in developing economies. Through an in-depth examination of the computer hardware sector in these two continents, the authors aim to provide a clear assessment of learning and innovation, an inventive method to obtain well-founded answers to the questions they pose.

The authors assess the dynamics of the convergence of institutional, technological and policy factors to explain the different economic outcomes in these continents, stressing the importance of context and resources in such an assessment. Commendably, too, they point out that a study of a "sector system of innovation" must include a scrutiny of firms and institutions that are linked through market as well as through non-market means, the latter involving social relations that are not price determined. Put differently, policies matter, as evidently seen in East Asia, though as the authors correctly note, government strategies are deeply rooted in the social system. Consequently, they argue, there is a need for a more "inclusive" approach to an analysis of learning and technology development.

Another distinctive feature of this study is that the authors propose a "systemic quad" to frame their analysis. This systemic quad has four essential pillars critical for innovation, working in tandem with each other through economic agents or actors and institutions. These four pillars are basic infrastructure, high-tech infrastructure, network cohesion and global integration, all coordinated by one central institution. An essential dimension of this quad is public-private partnerships involving state and business actors and organizations collaborating and coordinating closely to drive learning and innovation. This is a vital point as the real economy is a complex mix of public and private institutions, and the nature and scope of their ties bear significance on industrial outcomes. That was, after all, one of the most important lessons of the process of development in "first tier" industrialized East Asian countries, that is, Japan, South Korea and Taiwan.

The issues that are stressed as crucial for understanding the pace of industrial development are arguably the primary strength of this volume, as they have hitherto not been addressed in the literature. There are, however, two fundamental problems with this comparative study. Firstly, the scope of the empirical work, specifically in the component dealing with Asia, could have been enhanced, mainly to better capture the complexities and specificities of "context", which is an important theme of the volume. The issue of context is closely linked to the authors' stress on "inclusivity", an issue recognized as important but inadequately developed, probably because it is too narrowly understood.

Secondly, since the focus of this study is on issues of learning, innovation and domestic enterprise development, it is odd that there is no analysis here of industrial growth in Japan and South Korea. A discussion on learning and innovation in these two highly industrialized Asian countries is presented only in the Introduction and Conclusion, and intermittently in the country studies. And, although the authors explain why South Korea has been left out of this study, there is, surprisingly, no justification for excluding Japan. This drawback is of some concern given that the focus of this study is not merely

on institutions and organizations but about a mode of economic development where the state plays a monumental role in cultivating entrepreneurial domestic firms. Importantly, too, Japan and South Korea had adopted different modes of public-private partnerships to nurture entrepreneurial firms.

As a study reviewing strategy, structure, institutions and organizations to assess development strategies, Japan and Korea are important comparative referents because when they embarked on their industrialization drive, their economies bore remarkable similarities with the situation in present day sub-Sahara Africa. South Korea was one of the poorest economies of Asia in the 1960s, while Japan, in the immediate post-World War II period, had scarce resources and limited capacity to export given its poor access to markets. The state of these two economies was then no different from that of the emerging African economies under study.

Other crucial questions emerge in this comparative study of public-private cooperation to drive industrialization. In terms of some know-how in a sector, what volume of proficient domestic capital was there in the first place that the state could build on when promoting key sectors? Are there firms and manpower with the capacity to learn and develop new technology? Can local firms learn from their links with transnational capital and move on through innovation based on R&D to add value to their products and services? Are these the reasons why Indonesia, China and South Africa, all large countries which have a similar pattern of transnational-local firm linkages, have industrial outcomes that are so different?

These questions are linked to the issue of the pattern of domestic enterprise development adopted by Japan and South Korea, where R&D was driven primarily by large-scale enterprises with state support. And a comparison here between these two industrialized Asian countries and Taiwan, where small and medium-sized firms (SMEs) have developed export capacity, would have provided other important lessons for Africa. The lessons include the issue of whether there is a need to promote large-scale enterprises over SMEs.

An issue related to the point about transnational-domestic firm linkages is the significance of foreign direct investments (FDIs). Why have such ties benefited domestic enterprises in some countries but not in others? For the countries in Asia and Africa under study here, the answer to this question is presented in a comprehensive comparative table in the concluding chapter. The differences in policies, institutions and organizational and network forms in these countries provide insights into this question. The primary point teased out of this informative table is that not only should a country have the relevant institutions, but the government should also ensure that there is proper coordination between them. Once again, the Japanese example is important as the main institutions of development were ultimately under the control of the Ministry of International Trade & Industry (MITI) and the Ministry of

Finance. In Malaysia, on the other hand, all the relevant institutions exist, but there is hardly any coordination among the numerous agencies serving to nurture domestic enterprises as well as bring them into contact with transnational firms.

This issue of transnational-domestic firm links raises two related points. First, strategy and structure must fit context for public-private partnerships to productively thrive. In this table, however, there is inadequate analysis of context. Second, one core aspect of strategic interventions not addressed is the issue of the role of the state in linking industrial and financial capital. In the country studies there is inadequate analysis of the effectiveness of the financial sector in driving innovation coordinated by the state, although this topic is discussed at some length in the Introduction and Conclusion. It is quite probable that, in most countries reviewed here, the links between the financial and industrial sectors were not well forged and coordinated, an issue that would have hindered investments in new technologies.

Another issue related to context is that of "inclusiveness", a key point that is unfortunately inadequately addressed, given the heterogeneous nature of Asian and African societies. One essential factor here pertains to the question of ethnicity, specifically how the multi-ethnic nature of society in Southeast Asia and Africa informs public policies and public-private partnerships introduced to nurture domestic capital. In this regard, ownership and control of the largest domestic enterprises in these emerging economies is of much importance, specifically as state policies have been introduced to favour enterprise development among members of particular ethnic communities. For example, in South Africa, Nigeria, Indonesia and Malaysia, huge entrepreneurial enterprises are owned by ethnic minorities and yet there are public policies that appear to hinder effective employment of these firms. Equity ownership informs organizational control and since the authors argue that they aim to assess firm level capabilities to understand learning and innovation, this offers further credence to the need to weave in these issues of bounded rationality, opportunism and uncertainties, a process that would allow them to better understand the reasons for the differences in the technological capabilities of these two continents.

Inclusiveness is an important issue as questions related to this concept have to be addressed. How efficient are institutions, of which firms and government agencies are an important component, in coordinating transactions and rents to ensure technological development if their focus is only on one or a few segments of society or regions within a country? To what extent do companies, specifically those preferentially selected for development in key economic sectors, have the ability to learn and innovate? How much institutional support is there for those who show the capacity to do so? These questions are alluded to but inadequately tackled.

IJIE vol 2 no 1_08-03-10.indb 106 3/8/2010 9:55:21 PM

What is evident in all cases is the profound role of the state in co-ordinating institutions coherently to develop a sector. And the institutional capacity of public and private agencies go far to explain developmental outcomes. This book, undoubtedly, is a new contribution to the literature on development in emerging economies, providing scholars in the area with important concepts that can be employed in similar studies. But future studies in this area would do well to make it a truly inclusive study, one that would need to be more multi-disciplinary in nature.

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