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FESTSCHRIFT FOR RAUL V. FABELLA

Guest Co-editors — **Emmanuel S. de Dios**, **Sarah Lynne S. Daway-Ducanes**

ARTICLES IN THIS ISSUE

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PRE

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Festschrift for Raul V. Fabella

This special edition of the *Philippine Review of Economics* honors Dr. Raul V. Fabella in his 70th year and recognizes his invaluable contribution to the economics discipline and profession. This edition comprises 13 articles from his colleagues and several generations of former students inspired or mentored by Dr. Fabella who are themselves making their mark in economics. The broad spectrum of topics covered—agricultural economics, competition policy, contract theory, game theory, history of economic thought, international economics, issues in productivity, growth and development, monetary policy, political economy and rent-seeking, public economics, and the theory of teams—are issues that Dr. Fabella himself has written on or taught his students during his long, productive years as a Professor of Economics at the UP School of Economics, nurturing an "oasis of excellence" in his spheres of influence, as well as advocated as a roving academic in his later years, endeavoring to engage policymakers and the public in general, in pursuit of welfare-improving changes for a better Philippines.

The wide gamut of topics in this issue is a testament to Dr. Fabella's eclectic intellectual interests yet unwavering devotion to upholding a high standard of academic excellence. As his biographical sketch at the National Academy of Science and Technology summarizes:

> Fabella's very development as a scholar and intellectual leader presents numerous paradoxes: a classicist turned mathematical economist; a rational-choice theorist who derives material and metaphor from both history and physics; a solitary thinker who agonizes over pedagogy; a pure theorist immersed in policy-debate; an inherently shy, private man who must deal with crowds. His career displays to the fullest the range of issues – from the mathematical to the moral – that economists can and must confront if they are to attain to that "cool head and warm heart" that was Marshall's ideal. A classicist, however, might simply recall Terentius: *Homo sum: humani nil a me alienum puto*.

Indeed, to Dr. Fabella, nothing related to human behavior is outside his interest. At 70 years of age, National Scientist of the National Academy of Science and Technology (Philippines) and Professor Emeritus at the University of the Philippines, he is yet to reach the zenith of his intellectual verve: Fabella the economist is transfiguring into Fabella the social scientist – one to whom *homo economicus* is no longer the norm, but the exception in the vast complexity of human interactions in society. It is thus unlikely that this will be the last festschrift in his honor.

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Some reflections on the state of development economics in Asia

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This paper reviews some salient aspects of the state of development economics, from the early post-war pioneers through the major 1989 survey by Nicholas Stern, to contemporary experiences and lessons. The latter is illustrated with references to five South and Southeast Asian countries. While the techniques of economic analysis have become ever more sophisticated and the data bases larger and richer, significant analytical puzzles remain. The central question of why some countries perform well and others indifferently is still imperfectly understood. Because many factors—economic, political, institutional, as well as random events—shape countries' development trajectories, country economic forecasting over the medium to longer run continues to be as much art as science.

JEL classification: B20, N15, O53
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1. Introduction

This short paper, written in honour of our esteemed colleague and friend, Philippine National Scientist Professor Raul V. Fabella, offers some thoughts on the current state of development economics. Reflecting both Raul's primary intellectual focus and our own lifetime experiences, our thoughts are directed mainly to some of the lessons learned from the past half century of Asian economic development.

Development economics is a relative latecomer to the discipline. As Gerald Meier [2005]—himself a major pioneer in the field—observed, the subject came to be taught in universities only in the 1950s. Prior to that, the closest approximation

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was courses taught on the "primitive" "colonial economies". These courses were typically in the imperial powers, most of all the United Kingdom, as they came to terms with the "winds of change" as the decolonization process gathered momentum. The international architecture only began to formally recognize the special needs of these countries in the aftermath of the Bretton Woods Conference in 1944. In its earliest evolution, moreover, the practitioners were overwhelmingly white males from rich countries, apart from a few pioneers from the developing world such as W. Arthur Lewis and Hla Myint.[1]

The field arguably moved from the periphery to the mainstream, and in some respects came to dominate it, during the 1980s, for at least three reasons.

The first was the immensity of the challenges for the great majority of the world's population living in poor countries. For the first quarter century after World War II, approximately corresponding to the end of the colonial era, three of the world's four most populous countries, China, India, and Indonesia, grew very slowly and hardly made a dent on their endemic poverty. There was also the "African growth tragedy" in the words of Easterly and Levine [1997], who sought explanations for the continent's almost uniformly sluggish economic growth. Therefore, contrary to theories of convergence, many developing countries were actually falling further behind the rich world. This outcome, confronted on both humanitarian and strategic grounds,[2] was an infinitely more important analytical and policy challenge for economists than whether, for example, a rich economy could grow at 3 percent or 3.25 percent.

In fact, understanding why some countries grow fast and others slowly became one of the most hotly debated issues in the economics profession at this time. Xavier Sala-i-Martin [1997] ran two million regressions in search of an answer, while the 1995 Nobel Laureate Robert Lucas [1988] observed:

> Is there some action a government of India could take that would lead the Indian economy to grow like Indonesia's or Egypt's? If so, *what*, exactly? If not, what is it about the "nature of India" that makes it so? The consequences for human welfare involved in questions like these are simply staggering: Once we start to think about them, it is hard to think of anything else.[3]

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[1] Appropriately the extraordinary, trailblazing life of W. Arthur Lewis has been extensively documented (see for example Tignor [2006]). Recipient of the 1979 Nobel Memorial Prize in Economic Sciences, Lewis grew up in the impoverished isolated state of St Lucia. Among his notable "firsts" were being the first person of African descent to be on the faculty of the London School of Economics, to hold a named chair at a British university, and to be a full professor at Princeton University. We will return to Lewis's contributions below.

[2] Recall that the strategic dimension was relevant in the Cold War era, as the rich capitalist west was concerned about the prospect of poor countries defecting to the Soviet bloc. It is no coincidence that one of the early influential treatises in development economics [Rostow 1960] was subtitled "a non-communist manifesto".

[3] Although Lucas's sentiment was persuasive, one might quibble over his choice of countries, an issue to which we return below.

This conundrum for economists was all the greater because, arguably more than any other social science discipline, the great majority of economists believe that economic theory and reasoning should have a public purpose, to understand real-world, practical issues, and to present solutions to pressing economic and social problems through better policies. The thinking of the leading Australian development and international economists, Heinz Arndt and Max Corden respectively, is illustrative:

Arndt (personal communication): "Political scientists...are preoccupied with the distributional effects of policy: Cui bono? Who are the beneficiaries? Whereas economists, in their innocence, worry about the best ways of improving social welfare, raising the living standards of the whole community, political scientists are fascinated by the struggle for shares."

Martin Wolf (of the *Financial Times*, and the world's most influential economics columnist) observed in his Foreword to Corden's [2018] memoir that the volume highlights the fact that "Economics is a political subject. Its proper aim [is] to make the world a better place. … Economics is not a religion; it is a toolbox."

A second reason for the growing interest in the study of developing countries and hence in development economics was the spectacular and historically unprecedented economic dynamism of several East Asian economies, beginning with Japan in the 1950s and several followers from the 1960's. The World Bank's [1993] *East Asian miracle* was the first study to popularize on a grand scale this defining phenomenon. A decade and a half later, the Bank's follow-up study, the 2008 Growth Commission report, reminded us also that this high growth was not the natural order of things: of the 150 economies examined over the course of a century of economic development, only 13 warranted inclusion in the high-growth club (averaging at least 7 percent growth for at least a decade). Most of these (nine) were in East Asia, essentially the Miracle economies to which China was now added.

A distinguishing feature of this Asian economic dynamism was the incontrovertible evidence of historical "turning points" when, for a variety of country-specific reasons, economic growth accelerated significantly (and then poverty incidence declined dramatically) in the developing Asian giants in response to deliberate, durable, and decisive policy reform. These turning points are generally taken as 1978 for China, 1991 for India, and 1966 for Indonesia. The fact that the literature on these economies had consigned them to a dismal future[4] reignited intellectual and policy interest in their experiences.

[4] For India it was Raj Krishna's "Hindu Equilibrium" of 1 percent growth in per capita income. In the case of Indonesia, a leading development economics textbook of the time (i.e. Higgins [1968]) characterized it as a "chronic economic dropout".

Their success also demonstrated pathways for other poor countries. Arguably the most important among the latter was Vietnam's *Doi Moi* reforms beginning in 1986. This country, then one of the world's poorest, devastated by decades of brutal conflict, subsequently transformed itself into one of Asia's most dynamic economies.

A third reason for the increased interest in development economics has been the rising prominence of economists from poor countries, especially India, in the world's leading universities. Indeed, some among them have received the highest professional accolade, the Nobel Memorial Prize, notably Amartya Sen in 1998 and Abhijit Banerjee in 2019. These economists have naturally worked on the problems facing their countries of origin, and they have inspired others to do likewise, including Banerjee on more effective anti-poverty programs, Sen on democracy and development, Bhagwati on economic liberalization, and many others.

In fact, this marks a continuity with the earlier pioneers in the field with roots in the developing world. It is no coincidence, for example, that Lewis and Myint grappled with the notion of dualism. How could it be otherwise in the layered, unequal, racially segmented colonial economies in which they grew up? They both struggled with the stark reality that the neoclassical model in which they were schooled could not explain the huge disparities in inter- and intra-country wealth. It is useful to quote Lewis at length on this topic, as an insight into the reasoning that led to the formulation of his famous model of the dual economy and disguised unemployment [Lewis 1954, 1955]:

> Walking down the road in Bangkok (in August 1952), it came to me suddenly that both problems (the relative prices of coffee and steel and the wealth and poverty of nations) have the same solution. Throw away the neoclassical assumption that the quantity of labour is fixed. An "unlimited supply of labour" will keep wages down, producing cheap coffee in the first case and high profits in the second. The result is a dual national or world economy where one part is a reservoir of cheap labour to the other. (Tignor [2006:88], quoting from Lewis' autobiographical note.)

Crucially, however, both Lewis and Myint maintained their belief in the efficacy of the liberal capitalist economic model, provided that the discriminatory colonial system was dismantled and that there was a strong government role in the provision of universal education, health, and welfare services. In this respect they parted company with both the Raul Prebisch/Latin American "dependency" model of comprehensive import substituting industrialization and the Soviet-style planning model as advocated for example by the influential Indian statistician and planner P. C. Mahalanobis.[5] It is not unreasonable to conjecture that personal experiences with disastrous economic policy experiments were a factor in both

[5] The early debates and perspectives in development economics are comprehensively examined by Arndt [1987].

men remaining broadly in the intellectual mainstream: in Lewis's case his unhappy experience as independent Ghana's chief economic advisor in the mid-1950s, and for Myint his first-hand observation of the (self-inflicted) Burmese isolation and economic decline after 1962.[6]

2. A 1980s stocktake: Stern [1989]

We now move forward chronologically from the early pioneers to the stage where the discipline had evolved into a large and dynamic field of enquiry. The comprehensive 1989 survey by the eminent British economist Lord Nicholas Stern provides a convenient point of departure.

Stern [1989: 597] commences his survey with an all-embracing definition:

> Our definition of the subject will be the use of economic analysis to understand the economies of poor or developing countries. This includes, in particular, how standards of living in the population are determined, and how they change over time, and further how policy can or should be used in the influence of these processes. The definition contains, in principle, much or most of analytical methods in economics insofar as they can be put to use in the examination of the issues of interest.

Stern then proceeds with the survey under three general headings. The first is what he terms "Grand issues of the subject". This includes what constitutes "development", the role of the state, and the determinants of growth and distribution. These and other topics have always been central to development economics and, given the plight of billions of poor people, they are more urgent and important topics than anything else in the field of economics. But he also adds a caveat: "One can, of course, have too much of the grand issues, especially when their size is taken as an excuse for a lack of rigor, but it is to the credit of the subject that it has not lost sight of the big questions."[7]

The second general area is "The development of techniques and tools of analysis". These include cost-benefit analysis, tax and transfer analysis, planning models, and general equilibrium modelling more generally. Stern reasons that "Such issues … are in some respects less deep and exciting than the former class but, on the other hand, they allow for greater clarity of analysis and for results which are more explicit." It might also be added that they are the daily workhorses of economists in the public sector, who (hopefully) employ these techniques in their policy advisory work.

Finally, there is "a broader group of questions", covering a very wide range of specialized topics, but with the common feature that they are typically tightly focused microeconomic studies of a particular phenomenon, a market or location

[6] Myint [1972] in fact later went on to emphasize the primacy of outward orientation as a determinant of economic development success in Southeast Asia, when he drew a distinction between the successful states of Singapore, Malaysia and Thailand, in contrast to their more inward-looking neighbors.
[7] This was the focus of one controversial, highly cited monograph by Deepak Lal [1983].

where the details of institutions, geography, health or culture play a crucial role. While desirably theoretically informed, most of the research in this category is applied. Nearly all of it involves the collection of primary data, which is in Stern's words "an enterprise which is sadly rare in the rest of economics". We return to this observation in the concluding section.

Stern does not provide guidance as to the relative importance of these areas, presumably implying that a development economics teaching program and research centre would embrace all three of them. However, importantly, he notes that "Whilst it is often the grand issues which catch the economics headlines it is these tightly focused studies (that is, groups 2 and 3) which usually involve the harder work, analysis and scholarship and which in many respects form the bedrock of the discipline." If the contents of the major development economics journals serve as a guide, it is arguably the third area, featuring micro-econometric tools of analysis, that now dominates the field.

3. Insights from country studies

Although the frontiers have expanded considerably since the Stern survey,[8] many of the earlier issues and challenges reappear in new guises. More people have moved out of poverty than ever before in human history, driven by the economic success of China and other dynamic Asian economies. People are on average living longer and are better educated than ever before. Global inequality has been declining since around 1990, the point at which it became feasible to marry large-scale intra- and inter-country data on inequality [Milanovic 2016]. But the sense of "discontent" is palpable. The current era is arguably the most unsettling since the end of World War II. The past decade has witnessed the rise of illiberalism, populism, anti-globalization movements, economic nationalism and democratically elected authoritarian leaders. The challenges for development economics, and economics in general, are therefore just as daunting as those faced by the early pioneers. In this section we briefly draw attention to some contemporary fields of enquiry and debate through the lenses of country studies.

Starting with the premise that the biggest challenge in development economics is (still) to understand why some countries grow strongly and others do not, how far has our knowledge progressed since Stern? With a plentiful supply of success stories over the past half-century, one might have hoped that the profession would be in a position to provide definitive guidance. There has indeed been some progress. We know (as affirmed, for example by Sala-i-Martin [1997]) that more open economies (however defined) grow faster, that defying the laws of macroeconomic prudence is dangerous, that "institutions matter", and that political stability and inclusive societies are conducive to progress.

[8] In passing, it is worth noting that the literature in this field is now so large and growing so rapidly that it is almost impossible to keep up with it. The days (corresponding to when the authors, and Professor Fabella, were graduate students), of skimming the handful of major economics journals, along with the four major development economics/studies journals, together with journals from and about one or two countries of interest, are arguably behind us.

But much remains unresolved. A recent article in the *Economist* [April 14, 2018] provides a succinct reminder. Traversing the growth literature, starting with Solow-Swan, then cross-country empirics (both growth accounting and growth econometrics), and then analytical/quantitative economic history, it concluded:

> The economics of growth should be central to the discipline of economics… But until [economists] can give better answers, they should speak with greater humility… [The article also speculated that]…the answers rest more in history and politics than in elegant mathematics.[9]

In fact, the final sentence hints at a future research agenda. Stern's "grand issues" will always continue to grab the limelight. "Big (comparative and historical) data" pave the way for exciting new research. Economic theory will always constitute the bedrock of research. And economists have an uninspiring record of forecasting country prospects, as pointed out by Morawetz [1977] in his survey of early writings: South Korea's future was considered dismal, Burma/Myanmar's future was viewed favorably, and so on. Nevertheless, a fruitful parallel line of enquiry is analytically informed country economic narratives that are also cognizant of political and institutional parameters. To understand "why nations fail" (or succeed) in the Acemoglu-Robinson [2012] framework, one needs to delve deeply into their histories, politics, and cultures, as a first approximation making a judgement as to where the countries locate on the authors' "extractive-inclusive" spectrum, whether they may be considered "hard" or "soft" states (a la Gunnar Myrdal), whether or not the political-business elites are considered to be "developmental", and how a range of idiosyncratic and episodic factors—from wars and natural disasters to neighborhood effects and political leadership—shape outcomes.

Country economic narratives can also contribute to a "bottom up" theory of economic development if the right mix of theory and country expertise is combined. Of particular interest are country studies where there has been a distinct and durable acceleration in the growth rate, of the type noted above, which serve as a reminder that countries are not necessarily condemned to a path dependence of underdevelopment. Comparative studies organized around common analytical questions, or involving pairs of initially similar but diverging economies, are often particularly enlightening. Rodrik [2003] is an example of the former, and Lal and Myint [1996] the latter.[10]

Let us now briefly draw attention to some interesting country case studies, especially those that have puzzled on the upside or downside, and which can serve as entrées into important analytical questions. Economists typically approach a

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[9] Pritchett [2018] makes a similar observation, in particular pointing to the disappointing conclusions from the voluminous growth econometrics literature, which accounts now for the fading interest in it.

[10] The Lal-Myint pairs study is most illuminating and has not to our knowledge been repeated subsequently on any scale. Southeast Asia figured prominently: Indonesia with Nigeria, Singapore with several other small island economies, Malaysia with Sri Lanka, and Thailand with Ghana. (Arguably, Malaysia-Ghana would have been a better comparison, as some authors have subsequently noted.)

country with a sort of mental toolkit, of what to look for. Beyond the obvious outcomes like economic growth and living standards, economists want to know how open an economy is, what its macroeconomic policy framework is, how its institutions function and shape policy making, and so on. While useful starting points, country nuances and specific historical and political factors can have a significant bearing on development outcomes. For illustrative purposes we select five countries, from South and Southeast Asia and briefly highlight some of their salient features.

The Philippines: This is an obvious starting point both because we can draw on the wisdom of the person in whose honor this essay is written and because the country has experienced such variable fortunes. In the 1950s it was expected to be a leader in East Asia, given its educational foundations, its US connections, and its vibrant civil society. But as Perkins [2013] reminds us, for much of the late 20th century it was the "East Asian exception". In the half-century from 1960, for example, its per capita income only doubled, in contrast to the multiples of 10 or more in the neighborhood. Pritchett [2003] brutally wondered whether the country was a "Democratic Dud".

But painful lessons were learnt from the lost decade of the 1980s. As one of the country's most influential economists has observed, "We could not allow ourselves to be left behind, to remain a laggard in an otherwise highly dynamic, rapidly growing and prospering region. We needed to reshape our future…." [Balisacan 2018: xx]

And indeed, that has been the outcome, through concerted policy reform. By 2000 the country's per capita income had recovered to 1980 levels, and from around 2010 it has been one of the world's most dynamic economies, with more than 72 quarters of continuously positive economic growth. It is beyond the scope of this paper to explain the change in fortunes, apart from making the obvious observation that it has been the result of "better policy", particularly macroeconomic and commercial policies. But as Professor Fabella [2018], (the quotes that follow are from this volume) has emphasized, the institutional and political context has also shaped the modalities. The Philippines is not a China, with its "coherent policy and hard institutions". By contrast, it more resembles country cases of weak institutions where "public trust is low and the polity is fragmented". "How do we restore trust in our institutions?", he therefore asks. His answer is a nuanced one: the country can also draw on its strengths, including its vibrant civil society, its dynamic entrepreneurs, and its educational strengths.

For example, its citizens "…must constantly press upon advocates of government intervention the question: What is the market or government failure that the state intervention or program addresses?" Another consideration is that the country's agile conglomerates can "compete in the infrastructure development space as private partners in PPP projects of the government". Professor Fabella also points out that governments have been able to capitalize on crises by pushing through reforms in the energy and water sectors. The country's dynamic BPO sector, which developed partly as an accident of history, continues to prosper. The tax system is gradually being reformed. The Philippine Competition Commission is beginning to enforce more competitive structures in the non-traded sectors. To be sure, the Philippines faces many daunting challenges, but as a development case study, the last three decades provide grounds for cautious optimism.

Sri Lanka: This was another country where the earlier optimism was not realized. It was considered by the departing British to be the "model colony". Singapore's long-time prime minister, Lee Kuan Yew [2000:461-2], a close observer, remarked that:

> It had been carefully prepared for independence. After the war, it was a good middle-sized country…It had a relatively good standard of education, with two universities of high quality,…a civil service largely of locals, and experience in representative government starting with city council elections in the 1930s.

Yet the first quarter century of independence was a disappointment.[11] By the early 1970s the economy was stagnant, the trade regime had become prohibitively restrictive, and the politics ever more disputatious. A sweeping liberalization in 1977 then reversed this trend and the economy enjoyed moderately strong growth for the next two decades. However, just when the prospects for durable growth appeared at their brightest the long-simmering civil war erupted with increased ferocity, polarizing the country and jeopardizing the macroeconomy. Following all-out war against the Liberation Tigers of Tamil Elam (LTTE) by the Rajapaksa administration, peace was achieved. But it was arguably a case of "victory in war and defeat in peace" in the words of Athukorala and Jayasuriya [2015], with the administration presiding over adventurous macroeconomic policies and increasing foreign debt, rising trade barriers, a brain drain (especially from among the ethnic minorities) and majority-Sinhala chauvinism.

Although Sri Lanka retains many of its socio-economic strengths, perhaps more than any other Asian nation it has struggled to manage its ethnic diversity, and this has the potential to continue to retard its growth. The contrast with Malaysia and the latter's prolonged, rigid, politicized but workable affirmative action strategies is salutary.

Cambodia: If ever there were a country with unfavorable initial conditions and seemingly insuperable development challenges, this would be it. Yet for the past three decades it has been one of the most dynamic developing economies. It therefore serves as a reminder that, contrary to much conventional theorizing, being an extremely poor, conflict-ridden latecomer is not necessarily a barrier to rapid economic development.

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[11] This paragraph draws heavily on the excellent survey by Rajapatirana [2016], himself a presidential economic adviser until the November 2016 presidential elections.

For long a backwater of the French colonial empire, and very poor at the time of independence in 1953, from the mid-1960's it was increasingly engulfed in the Vietnam War [Chandler 2008]. At war's end in 1975, the vicious Khmer Rouge (KR) took power and presided over one of the greatest (proportionate) genocides in recent global history, with an estimated one-third of its population exterminated or fleeing the country, including most of its educated and entrepreneurial classes. The KR was ousted in 1978, but war and international isolation persisted until the Paris Peace Accords of 1993. At that time, it was among the very poorest countries in the world. Its physical infrastructure lay in ruins, there was a complete lack of trust in government and institutions, a generation had missed out on education, land titles had been abolished and disputes were frequent, the machinery of government had collapsed, and the policy regime was a tabula rasa. To become a middle-income economy in 2015, just two decades after the restoration of peace, would have seemed unimaginable after Paris.

Cambodia achieved very rapid growth for three reasons, all of which are in principle replicable [Hill and Menon 2013]. First, the peace settlement, and the ensuing political stability, has been durable, in spite of the increasingly authoritarian Hun Sen regime (now the world's longest-serving political leader). Second, good economic policies were quickly introduced. The trade and investment regime has been amongst the most open in Southeast Asia, enabling the country to exploit its comparative advantages in tourism, food crops, and labor-intensive manufacturing, boosted further by its location in a dynamic economic region. Macroeconomic management has been pragmatic, with extensive dollarization reluctantly accepted but quite effective. Third, there has been generous international assistance. In the first decade of post-conflict rehabilitation, ODA was typically at least 10 percent of GDP and sometimes more. Preferential export market access for garments has over time helped to create almost one million jobs.

Cambodia's development record is distinctive, but hardly unique. Other poor countries have been very large ODA recipients, have received generous international market access conditions, and have achieved durable post-conflict political compacts. What distinguishes Cambodia is the additional factor of highly open economic policies and an unorthodox but reasonably effective macroeconomic regime. Whether the current policy settings can be sustained remains to be seen. Its farcical national elections of July 2018, its centralized and ubiquitous corruption, and its deep political and commercial dependence on China all threaten its regime legitimacy and hence its economic development. But its past quarter century of socio-economic success has important lessons for development practice and policy for very poor, post-conflict states.

Singapore: Even allowing for the "triumphalism" of the tiny leadership group of this heavily managed one-party state (three prime ministers in 54 years, two from the same family), Singapore is arguably the world's most successful development state [Lee 2000]. It might be a "little red dot" (as a former Indonesian president pejoratively characterized it), a tiny island of 5 million inhabitants.

And indeed, its challenges in 1965 should not be underestimated. Expelled from Malaysia, and with a giant neighbor, visible on a clear day, intent on "crushing" it, it also had to face the imminent prospect of the withdrawal of the British military presence, which then accounted for about 5 percent of GDP.

Why has it been so successful? Lacking any natural resources, apart from its strategic location, the answer is obviously good policy. Its policy mix has been a combination of the orthodox and the experimental. It is the world's most open national economy, with almost no restrictions on merchandise trade, and a simple, incorruptible business environment. The government has also been pro-actively open. Under the guidance of its most important economic architect, Goh Keng Swee, it was the first developing country to recognize the merits of export-oriented industrialization and foreign direct investment, and to correctly anticipate the emergence of global production networks, particularly in electronics. Its macroeconomic regime has been prudent and innovative. Consistently running budget surpluses in most years, it has managed its exchange rate and labor market policies as inflation-targeting devices.

Its urban planning and social welfare policies have been similarly innovative. Eschewing the welfare state, its Housing Development Board has provided mass housing for up to 80 percent of the population. Financed in part through the compulsory savings scheme (known as the CPF), another significant policy innovation, and combined with the manufacturing export success, this had the effect of quickly exhausting the high level of unemployment that existed at the time of independence. Within little over a decade, it had transitioned from a labor-surplus to a labor-scarce economy, and it removed most of the country's slums. Its innovative urban planning extended in numerous other directions; for example, it was the first city (to our knowledge) to introduce congestion pricing for the private use of automobiles. Its airport and port typically rank among the very top of global infrastructure and logistics indicators, as do its universities.

It is hard to envisage a more suitable model from which other small island economies can learn.[12] Of course, how far its political model can be replicated is a matter of conjecture. Countries with stronger democratic traditions may not be willing to countenance such a powerful and authoritarian system of governance that tolerates only limited democratic dissent. Since so much trust is placed in non-transparent institutions, for example the management of its vast Government-linked corporations and its all-powerful Economic Development Board, its model is predicated on a ruthlessly incorruptible administration. It may also puzzle some follower countries that what is now one of the very richest countries in the world makes such meagre provisions for social welfare programs, resulting in a poorly educated under-class competing with immigrants for low-wage employment.[13]

[12] And not just small economies. In its early post-1978 liberalizations, China drew heavily on the Singapore experience in constructing its initial four coastal special economic zones.

[13] These and other issues are canvassed in two important volumes, by Lim [2017] and Low and Vadaketh [2014].

Thailand: This is another country case where complex economic and political interactions have shaped development trajectories in unforeseen directions. The only Southeast Asian country never to be colonized, it commenced the process of rapid economic growth from around 1960. This was largely an orthodox growth story. The powerful Bank of Thailand and Ministry of Finance presided over prudent macroeconomic policy (at least until the 1997 Asian financial crisis). Along with Singapore and Malaysia it was one of the very few "always open" developing economies (a la Sachs-Warner). The royal family presided over, and lent stability to, a sometimes-volatile political system. Large inflows of ethnic Chinese migrants had earlier formed the basis of a dynamic capitalist class. A desire to protect the nation state ensured that there was almost universal basic literacy. In the 1960's the country became embroiled in the Vietnam War, but it was not overwhelmed by it in the manner that its two smaller neighbors to its east were, while there were some beneficial side-effects in the form of US tourism and road construction projects.

But the country's three decades of uninterrupted rapid economic growth came to a sudden halt in 1996. Thailand appeared to navigate the Asian financial crisis reasonably successfully, as the "model" IMF reformer. But in reality, there was a nationalist backlash, combined with adept economic populism by Prime Minister Thaksin, who ruled the country from 2001 to 2006. His rule in fact exposed deep schisms in the country, as evidenced by democratic regress with military coups removing him and his political proxies in 2006 and 2014, followed by the heavily managed 2019 elections. The origins of this regress are complex and contested. According to some analysts, the large regional inequalities have also impacted on national politics, in the sense that the opposition parties have secured their strongest support in the populous but relatively lagging Isan region of Northeast Thailand [Phongpaichit and Baker 2016], consequently resulting in a continuing democratic stalemate. Other observers emphasize the importance of what is sometimes referred to as the country's "five pillars" (the military and the monarchy, in addition to the legislature, executive and judiciary), each with changing priorities and allegiances (see Wise [2019]).

During the 20th century the various coups, actual or attempted, had little effect on Thai economic dynamics since investors were confident that the fundamental business settings would remain unaffected. Indeed, it is still the case that the country's economic governance indicators have remained stable in spite of greater political uncertainty. However, economic growth has slowed, suggesting that the political factors are now weighing on the investment environment. Such a view is supported by one of the country's leading economists [Bhanupong 2019], who argues that since 2006 Thailand has had an "underperforming economy", and that "the coups have shattered the foundations of long-term growth" [ibid.:54]. The country, he argues, "…has been cursed by twin traps: the middle-income and the military coup traps" [ibid.:246]. From being one of the world's strongest performing economies for several decades, Thailand appears to have joined the ranks of moderate-growth economies while still some distance from rich-country frontiers, and with little immediate prospect of a return to economic dynamism.

4. Concluding remarks

Understanding the process of economic development is a fascinating, multifaceted endeavor, drawing on theory, advanced technical skills, history, politics, psychology and intuition, as exemplified by the rich works of Professor Raul Fabella. The profession has accumulated much wisdom over the half-century and more that the subject matter has been a central field of enquiry. A number of generally held truths have been established on the basis of theory and empirics. As a simple illustration, the profession moved on from the proposition that “getting prices right matters” to one that “getting institutions right matters” [MacIntyre 2003]. But there is no one single model of economic development than can be universally applied. The subject has to be approached with a combination of rigor, eclecticism—and modesty. Kremer’s “O-ring” theory of economic development reminds us that many factors can derail the growth process. Conversely, countries can surprise on the upside, as the examples above illustrate. History obviously matters, but it is not destiny. Reform can occur in a variety of institutional and political contexts, many of which are not readily amenable to formal modelling.

One final observation, and harking back to Stern [1989]: economic development is primarily an empirical field of enquiry, and good policy requires high-quality data. This century has witnessed an explosion of easily accessible cross-country data, in some cases stretching back over several decades. But it is important to remember that economists are usually consumers of data rather than producers of it. Indeed, the construction of high-quality data sets does not receive high professional recognition in the discipline. As a result, methodological innovation is frequently running well ahead of data quality. A case in point is detailed household-level socio-economic data, on which many social policy interventions (such as targeted social safety nets) are based. As observed recently by the *Economist* [May 26, 2018], “response rates to household surveys are plummeting” in rich countries, and are often weaker still in poorer countries. Unless governments are willing to implement expensive universal social welfare nets, which are surely out of the reach of all but the very richest of countries, how can governments accurately allocate scarce fiscal resources to the intended recipients?

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