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The World Bank’s East Asian Miracle: Too Much a Product of Its Time?

 Nancy Birdsall

Abstract

The 1993 publication of a World Bank book on the East Asian Miracle explained the extraordinarily rapid growth of Japan and seven other economies of East Asia (at 5 percent a year) between 1965 and 1990 as grounded in those economies’ adherence to market “fundamentals”—sound macro management, “shared” growth policies, investment in human capital—combined with an “export push” which fostered the technological learning that drove those countries’ high total factor productivity growth. The World Bank authors dismissed “industrial policy” as central to their growth and cautioned against other developing countries adopting industrial policy in the absence of strong government institutions. Was that caution too much a product of its post-Soviet, neoliberal era? Considering what we know now about the state of governance in developing countries, might industrial policy help boost growth in at least some developing countries?

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The World Bank’s *East Asian Miracle*: Too Much a Product of Its Time?

Nancy Birdsall

A renewed interest in industrial policy—in which governments promote certain industries seen as critical to long-run growth of the economy—has arisen in the last decade. In high-income countries, the focus is on green energy, strategically important products such as chips, and a resurgence of investment in manufacturing in general. For developing economies, there is the question of whether “industrial policy” might stimulate catch-up growth, and whether it might help deal with “premature deindustrialization” (Rodrik 2016)—that is, with the global decline of the manufacturing jobs that led the growth of today’s high-income countries.

It is an apt moment to look back to the 1993 World Bank publication, *The East Asian Miracle* (Page et al. 1993). The “miracle” of the title referred to the extraordinarily rapid growth in the 1960s through the 1980s of Japan and the four “tiger” economies (Korea, Taiwan, Hong Kong, and Singapore) of northeast Asia, and the three economies of southeast Asia (Indonesia, Malaysia, and Thailand) that had experienced economic growth of a lesser but still-impressive degree. From 1960 to 1985, this set of countries had growth “more than twice as fast as the rest of East Asia, three times as fast as Latin America and South Asia, and five times as fast as sub-Saharan Africa (pp. 2–3). In fact, along with China, the East Asian economies represent the greatest triumph of global development in the past century—a triumph built in part on “industrial policy.” Yet the World Bank, the largest lender and a major adviser to developing countries, has not encouraged other countries

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to implement industrial policy in the three decades since. The *Miracle* report can be read, after the fact, as an effort to explain and reconcile the resulting tension.

What was the recipe for this remarkable growth in countries of East Asia, and what role was played by industrial policy relative to other factors? The *Miracle* book was the first full exploration by the World Bank of what could be viewed as “industrial policy” in a developing country setting. The report was clear that these East Asian countries grew via success in industry or manufacturing and in some cases were characterized by considerable “government efforts to alter industrial structure to promote productivity-based growth” (p. 304). However, in no way was the book an endorsement of industrial policy by the World Bank for other developing regions and countries—indeed, quite the contrary. The book argued that East Asia’s success was grounded in the “fundamentals”: macroeconomic stability, high rates of investment in human as well as physical capital, free trade, policies that ensured growth was shared or inclusive, and government institutions and practices that minimized corruption. Even in the book’s discussion of industrial policy, the emphasis was on the strong institutional framework that supported the interventions and the unusual capacity of governments to maintain and sustain that underlying support.

The *Miracle* book got largely positive attention in the business and financial press (in outlets like the *Economist*, the *Financial Times*, and the *Wall Street Journal*), where coverage focused on the Bank’s emphasis on the market-friendly “fundamentals” versus state-led industrial policy as central to the region’s economic success. In the World Bank itself, the book was well-received; the use of “miracle” in the title gave it a certain elan. For all practical purposes, industrial policy did not subsequently make it onto the Bank agenda, nor onto the agenda of other development sponsors and supporters.

But history tells a long tale, and in this third decade of the twenty-first century, more than 30 years later, industrial policy is back on the agenda of development and other economists, including some at the World Bank—this time with a growing number of high-profile academic papers, using significantly improved empirical methods, finding evidence of positive effects of industrial policy in advanced economies (Juhász, Lane, and Rodrik 2024).

I spent 14 years from 1980 to 1993 at the World Bank; I was the head of the Policy Research Department, reporting to then Bank Chief Economist Lawrence Summers, when the Government of Japan offered to finance a study by the Bank of its own and its neighbors’ notable postwar economic success. In that role, I appointed John Page, a senior World Bank economist, to head the team of World Bank staff and consultants that prepared the report, and he was its main author. I am listed as one of the book’s eight authors because I did the background work on education, income distribution, and labor market issues; but with little experience or expertise on industrial policy and related macroeconomic, finance, and trade issues, and no experience in East Asia, I was a student more than a contributor on the issue of industrial policy in those countries. When Summers left the World Bank in late 1992 to join the incoming Clinton administration, I became the Acting Chief Economist with respect to the (virtually completed) East Asia report. In that role I

was the designated defender of the book-to-be for its in-house prepublication review and got some insight into the resistance inside the Bank to any seeming endorsement of industrial policy for other developing countries.

In this essay, I begin with a reminder of the origins of the report in the early 1990s, both within the economic and political context of that era and within the World Bank itself. I then review the main themes of the *Miracle* story explaining the success of the East Asian economies—high investment rates in human and physical capital, relatively open trade policies, inclusive growth, and a form of industrial policy that focused on exports (the latter seen as the key to these economies’ unusually high rates of productivity growth as a result of “technological learning”). I consider central criticisms made of the report both at the time and since. In the conclusion, I consider the extent to which lessons of the early 1990s may be relevant, or not, for developing countries today.

A Product of Its Time

The *Miracle* publication was very much a product of its time with its emphasis on market fundamentals—sound macroeconomic management, agricultural policies “that did not tax the rural economy excessively” (p. 5), financial policies that made banking accessible to nontraditional savers, and largely free and open trade policies—as critical to successful growth. It was prepared in 1992 and published in 1993. This was just a few years after the fall of the Berlin Wall in 1989; by the end of 1991, the Union of Soviet Socialist Republics had dissolved itself as a sovereign state. In trade policy, President George Bush signed the North American Free Trade Agreement (NAFTA) in 1992 on behalf of the United States with representatives of Canada and Mexico; the treaty was then approved by Congress and signed into law by President Clinton in 1993. The World Trade Organization came into existence at the beginning of 1995 as the successor to the post-World War II General Agreement on Tariffs and Trade (GATT). In the realm of development policy, the so-called “Washington Consensus” was first published in 1989, in which John Williamson had set out ten policies to promote growth in developing countries—policies that were widely (and incorrectly) viewed as reflecting an exaggerated “Washington-based international organizations” and US government view that developing countries should adhere strictly to free markets and open trade. (For a more sophisticated view of what the Consensus said and how it was applied, a useful starting point is Spence (2021) and the other three papers in the “Symposium on the Washington Consensus” in the Spring 2021 issue of this journal.)

Taking these events together, they seemed to many at the time to vindicate both democracy as a political system and free, open markets as an economic system. The early 1990s are reasonably remembered as a time when the view that market-driven economies and free trade (now often called “neoliberalism”) were key to successful growth in developing countries was so widely shared it was not debated. In the World Bank at the time, free markets were taken for granted.

It was at about this time that the Government of Japan offered to finance the marginal cost (for example, staff travel and consultants' time) of a study by the World Bank of the postwar economic success stories of East Asia, with a focus on Korea, Taiwan, Hong Kong, Singapore, Malaysia, Thailand, and Indonesia, as well as Japan itself. Their success stories were built at least partly on policies and programs that were enacted in addition to and sometimes in violation of the singular pro-market orientation that had come to dominate the World Bank and the larger development community by the early 1990s.¹ We can surmise that the Japanese wanted World Bank economists to unpack the keys to Japan's own dramatic post-World War II economic growth—including the role of its powerful Ministry of Trade and Industry (MITI) in supporting Japan's impressive industrial growth since the end of that war—as well as the keys to the extraordinary growth success of Japan's neighbors in East Asia in the three decades beginning in the 1960s. What lessons from East Asia might guide the World Bank (and the other multilateral banks and the IMF) in their future advice and support to developing countries in other less successful regions?

The Japanese gift was savvy (as well as generous) in its recognition that the way to influence the views of World Bank economists about of the “miracle” of fast growth in East Asia in the prior three decades was to sponsor a study, thus ensuring that at least some of the authors would internalize the potential role of industrial policy as a contributor to long-run growth—and in that way expand their perspectives beyond the basic recipe of market-driven growth based on accumulation of human and physical capital and productivity gains driven by healthy market competition. The resulting *Miracle* book took a big step in the direction the Japanese presumably envisioned, with its emphasis on the “export push” across all the high-performing East Asian economies, including its acknowledgement of the “modest” (always the adjective used) import protection on behalf of exporters and the mild financial repression that financed governments' credit support to exporting firms. (The next section will spell out the *Miracle* recipe for growth in some detail.)

Overall, did the (possible) objective of the Japanese—to put some form of industrial policy as practiced in Japan and its near neighbors on the World Bank map of good options for other developing countries in other regions—succeed?

Yes and no. The requirements and the benefits of state support for growth of manufacturing and especially of manufactured exports were laid out clearly in the *Miracle* report. But the report is also replete with cautionary points for other developing countries on the steep institutional demands of successfully implementing such an “export push” (and managing other programs that diverged from the neoclassical market model): “The institutional demands are not compatible with other developing countries where the fundamentals are not in place” (p. 26); “the use of contests in Japan and Korea required competent and insulated civil servants” (p. 26); “the prerequisites for success were so rigorous that policymakers seeking

¹Wade (1990, p. xviii) says Japan was “angry” at the “Bank's criticisms of its aid program in support of capitalist transformation . . .” and wanted more research on the region as a whole.

to follow similar paths in other developing economies have often met with failure” (p. 6); “the ability of economic technocrats to formulate and implement policies with a minimum of lobbying for special favors from politicians and interest groups . . . is critical” (p. 167).

I wonder whether the Japanese sponsors of the report were not in the end disappointed by its tone and what Wade (1996) refers to as its “paradigm maintenance.” Ultimately, the 1993 *Miracle* book did not endorse “industrial policy” for other developing country regions, at least not in the immediate future. Indeed, the report did not even endorse the approach of Japan’s own vehicle of industrial policy. Japan’s powerful Ministry of Trade and Industry and the Korean Heavy and Chemical Industry Drive were deemed to be largely ineffective (p. 293 and Appendix 6.1).

Looking back, it is hard to evaluate whether these cautions about an industrial policy approach in the *Miracle* countries influenced subsequent hesitation of staff inside the World Bank and in the larger development community to encourage developing country governments to be activists in some form, or whether the cautions simply reflected real and already understood constraints to successful industrial policy in most developing countries (then if not now). Either way, industrial policy did not make its way onto the World Bank policy map for developing countries in other regions in the more than three decades that followed, with one short-lived exception noted below.

In the nigh 30 years following the *Miracle* report, industrial policy (at the least in the form of the “export push”) did not have legs inside the Bank—not among the small team of research economists in the Bank, and not among World Bank country economists working in other regions. Nor was it much explored in development aid programs of the high-income countries, nor by developing countries themselves, with one exception noted below. In the practice of economic development, a singular market-oriented approach reigned for another three decades.

The Miracle Book Recipe: Neoliberalism Plus Exports Plus Institutions of Market Coordination

The *Miracle* volume set out three key ingredients for the rapid growth of the high-performing Asian economies: market fundamentals, shared growth, and the export-push industrial policy.

Market Fundamentals

The *Miracle* economies hewed closely to the “market fundamentals” for growth. As one would expect of any report in the early 1990s, following the “lost decade” of development in the 1980s due to hyperinflation and debt crises in many developing countries, good macroeconomic and financial management were repeatedly underlined as the *sine qua non* of healthy growth.

Good management encouraged high rates of accumulation of physical capital, with investment and savings rates (the latter supported by “postal” savings systems

operated through the national postal service in several of the economies) almost twice those of other regions (in the report, Figure 1.5). It also included unusually rapid increases in human capital (from what was already a head start in the 1960s compared to other regions; pp. 15, 43), aided by, in a virtuous circle, declining fertility associated with increases in girls' education.

What distinguished the *Miracle* economies from most of the developing world (and at the time from the former republics of the Soviet Union), however, was the ever-increasing efficiency in the use of these inputs—that is, high total factor productivity growth—including by adoption of foreign knowledge and technology from high-income countries, or “catching up.” The *Miracle* authors attributed the very high levels of total factor productivity growth in these East Asian economies to the “technological learning” associated with exports; they saw the continuous process of technological learning as key to understanding the growth miracle.

Equitable and Shared Growth

The *Miracle* report also put considerable emphasis on steps the East Asian countries took to ensure equitable or shared growth. For example, there was land reform in Korea and Taiwan (in the case of Korea, initiated by the US military in the immediate post-Korean War period), in which large estates were broken up and distributed to farmers. Education spending was concentrated at the primary and secondary levels—thus resisting the political pressure in most developing countries to favor university education for the elite in the use of public resources for education—with a resulting rapid elimination of initial gender gaps in education. These countries generally avoided the high indirect taxes on agriculture typical in other regions (especially Latin America), which were commonly associated with food price controls and chronically overvalued currencies that benefited urban consumers at the cost of rural producers. Such policies were part of what Lipton (1977) had called the “urban bias” in policies of developing countries. Financial policies like the postal savings accounts were instituted that made banking accessible to nontraditional savers.

In the early 1990s, this argument that lower levels of inequality could improve growth prospects in developing countries was new to the World Bank. It would not be until 2013 that the World Bank announced it would pursue what it labeled “shared prosperity,” making it an explicit goal for all member countries, and began to publish books under that name and with that measure (for example, World Bank 2014; World Bank 2016). Since then, a book on shared prosperity has been published annually.

What led the high-performing Asian economies policies to carry out policies and programs of shared growth? The *Miracle* report refers to the need for these countries to establish their political viability and legitimacy in the face of recent war and political threats: the aftermath of the Korean War, the conflict as Taiwan separated politically from mainland China, and for some, local Communist movements. Similarly, the political leadership of Japan needed to earn public confidence after the losses and destruction the population had endured during World War II.

The *Miracle* report includes country-by-country approaches to “achieving legitimacy through shared growth” (in addition to the heavy investments in education and health that yielded the notable declines in poverty and inequality): from Malaysia’s National Economic Plan to increase the wealth of the Bumiputra (which refers to Malays and indigenous people) relative to the ethnic Chinese; to postwar land reform in Japan, Taiwan, and Korea; to large, public investments in housing targeted to low-income households in Hong Kong and Singapore; and to support for small and medium-sized enterprises. Mechanisms that involve permanent asset transfers (land reform is an obvious example), by promising a future stream of income to beneficiaries, make the latter more likely to support growth-promoting policies and inhibit them from disrupting the economy—and do so over the long run.

Several years after the *Miracle* report, Campos and Root (1996) authored *The Key to the Asian Miracle: Making Shared Growth Credible*. In an indirect response to the *Miracle* report, they emphasize shared growth as a legitimating principle central and fundamental to the success of the Miracle economies—shared growth in the form of land reform; support to small and medium-sized industries, including in rural areas; and large public investments in rural infrastructure (in Indonesia especially). As they point out (p. 45): “Asset transfers (skills and property) represent a permanent stream of income and give beneficiaries a stake in the economy’s long-term growth.”²

Export-Push as Industrial Policy

The *Miracle* volume highlights a version of industrial policy in the implementation of an “export push” strategy for manufactured goods—“the broadest interventions were generous incentives for manufactured exports” (p. 88). The export push can be seen as a strategy to speed the structural transformation of economic development that Lewis (1954) had set out—essentially the transfer of labor from agriculture to higher-productivity industry. The Kuznets (1955) curve, showing that economic development was associated with an increase and then a decline in inequality, was documented based on this pattern of structural transformation and increasing productivity in economic development for the United Kingdom, the United States, and Prussia some decades earlier.

However, the focus was not just on a shift to manufacturing, but specifically on manufactured goods for export to the international market, justified in the report as a matter of economic theory by referring to the information-related externalities benefiting all domestic firms in “imperfect world technology markets” (p. 23) and by the coordination problems inherent in building an industrial economy. The report does not actually treat export-push as an “industrial policy”; instead, the report defines industrial policy as “government efforts to alter industrial structure to promote productivity-based growth”: “We find, on the one hand, that government

²They cite an earlier working version of a paper later published as Alesina and Perotti (1996), an econometric study across 71 countries showing that improvements in the share of income of the third- and fourth-income quintiles (meant to roughly represent the middle class) reduce political instability.

efforts to promote specific industries generally did not increase economywide productivity. On the other hand, the evidence shows that broad government support for exports was a highly effective way of enhancing absorption of international best-practice technology, thus boosting productivity and output growth” (p. 293).

The export push took the form of various nonmarket policies in support of exports of manufactured products, especially in the northern tier of East Asia (Japan itself, Korea, Taiwan, Singapore, and Hong Kong). All the high-performing Asian economies, for example, practiced some form of mild import protection, while ensuring automatic access for their exporters to intermediate imported inputs (always at international prices). Korea and Taiwan provided exporters with credit subsidies (performance-based, tied to firms’ export orders), financed by mild financial repression. Also in Korea and in Thailand, export targets “provided the basis for awarding access to foreign exchange, investment licenses or credits” (p. 89). In Hong Kong, public housing programs helped keep labor costs of industry down. All the high-performing Asian economies maintained flexible labor markets. Also, to safeguard the cost-competitiveness of exports they resisted creation of industry-wide unions and minimum wage demands, especially during any pressure or shock to macroeconomic stability.

The *Miracle* report argues that the support for industrial exporters enabled “technological learning” on the part of the private firms; that is, they could move rapidly up the scale of technological sophistication as they learned from equipment suppliers and importing firms abroad, from buyers who would transfer tacit knowledge, and from occasional access to nonproprietary technology—and eventually via the return of nationals from study and experience abroad. The authors attributed the very high levels of total factor productivity growth in the Miracle economies to the “technological learning” associated with exports, a benefit also emphasized by others (for example, Studwell 2013; Campos and Root 1996); they saw the continuous process of technological learning as the key to understanding the high rates of productivity and thus of growth in the countries of East Asia.

A perpetual question for advocates of industrial policy is not whether such a policy can possibly work, but whether the political process can oversee such a policy without giving in to rent-seeking special interests. The success of industrial policy in East Asia is described in the *Miracle* report as associated with two critical institutional traits: insulation of a well-compensated economic and bureaucratic technocracy from political pressure and the use of “deliberation councils.”

On insulation of economic bureaucrats, for example, the report noted that in Thailand, the Budget Bureau “has tight control of the budget drafting process” (p. 171), and in Indonesia, “parliamentary rules restrict the legislature’s discussion of the budget to “broad policy issues” (p. 173). Moreover, these insulated bureaucrats were honest—the successful representatives of a merit-based and highly competitive system—and were “amply rewarded.” Their resulting prestige provoked the only explicit reference to culture in the *Miracle* book: “Prestige is of course partly a function of culture . . . Confucian thought, with its veneration of scholars and preoccupation with written tests, especially civil service exams, remains a powerful force

in Hong Kong, Japan, Korea, Singapore and Taiwan, China. Not surprisingly, these societies have produced strong bureaucracies” (p. 178).

Deliberation councils were made up of business and labor members chosen by their respective sectors to allow for interaction of the technical bureaucrats with private business players; they were meant to address the high coordination costs that all countries face between and among business actors from different sectors, and between the private sector and the government, as well as to reduce rent-seeking by either private firms or powerful bureaucrats. The report’s authors took care to put the councils in the context of addressing a market failure: the councils “supplemented the market’s information transmission function.”

Such councils were especially well-established in Japan and Korea, but still “evolving” in Malaysia at the time. In the report’s discussion of these councils, there is a rare reference to them as a specific experience other developing countries might follow: “Malaysia’s experience with public-private cooperation through deliberation councils has particular relevance for developing countries. Unlike Japan or Korea, Malaysia is a multi-ethnic society; and unlike Singapore it has a relatively large land area and population” (p. 186). Several years after the report, deliberation councils were described and discussed in much greater detail in Campos and Root (1996).

The critical role of deliberation councils in East Asia has not subsequently received much attention in the World Bank, nor at the other multilateral banks. One possibility is that they have been seen as unlikely to work in other regions in the absence of such key preconditions as secure macroeconomic stability and a strong cadre of honest and well-compensated technocrats in government. Nor has creation of a core of technocratic bureaucrats received much attention as a critical “policy” in itself.

Summarizing the Miracle Recipe

How one interprets the core message of the *Miracle* report becomes a matter of emphasis among the three main ingredients. The report emphasized such market fundamentals as sound macroeconomic management and free and open trade policies as critical to successful growth. It also emphasized an agenda of shared prosperity, including sustained investment in improving educational attainment, agricultural policies that “did not tax the rural economy excessively” (p. 5), and others. At the same time, it was clear that market fundamentals did not tell the whole story in East Asia. Indeed, some of the steps the governments of the Miracle economies took to push exports are still discouraged in other developing countries, such as (modest) protection of domestic industry substitutes, subsidized credit to selected industries, interest rates paid on private savings kept low, ceilings on borrowing rates to increase firm profits—and most central, using all of the above to support exporting industries.

In short, the report constituted a quiet endorsement of a limited form of “industrial policy” that encouraged exports but was seen by the *Miracle* authors as neutral to the type of industry. For example, it did not endorse the specific efforts in Japan and Korea—and later in Indonesia—to develop “heavy” industries, assessing these as ineffective in the long run. It was, in short, a careful and qualified endorsement,

for some developing countries under some conditions, of some aspects of “industrial policy,” but not of industrial policy itself. The report did not usher in consideration of advice or support for industrial policy in and for other developing countries by World Bank (or International Monetary Fund) economists in the subsequent three decades, even on a limited basis.

Reaction Inside the World Bank

The general reception of the *Miracle* report was positive inside the World Bank, similar to the broader public reception described earlier. However, the reception was less positive in the East Asia region of the World Bank.

My recollection is that the Vice President of the East Asia region objected to use of the word “strategic” in the *Miracle* team’s initially proposed subtitle of the book, presumably because it could be taken to suggest a heavy government role as the key to the region’s success; the final subtitle became “Economic Growth and Public Policy.” In particular, staff in the East Asia region were worried about anything in the text of the book that might undermine the Bank’s difficult, then-ongoing position with the government of Indonesia: the Bank was pushing back hard on that government’s first steps with an industrial policy in support of developing a commercial airline industry—on the grounds it could never be competitive—and correctly so as it eventually turned out (as reported by McBeth 2023).

At least some former World Bank staff now say this divergence in reactions was no surprise. After all, the operational departments of the World Bank directly interacting with governments will naturally emphasize different perspectives than that of the Policy and Research Department where the book was prepared. For example, when the text of a World Bank report makes repeated use of caveats warning of the challenges of carrying out any version of industrial policy in countries where macroeconomic stability is an ongoing challenge and/or governance is weak, the operational departments face the unenviable task of telling governments that these caveats apply directly to them.

Here’s an epilogue: Fifteen years later, in 2008, Justin Lin, a citizen of China born in Taiwan, became Chief Economist of the World Bank. He developed a good relationship with the government of Ethiopia, advising the government on an approach he called New Structural Economics (Lin 2011). The approach, which emphasized governments building on the initial comparative advantage of their economies, was described by a then-former World Bank economist as “a relatively activist—and controversial variant of industrial policy” (Gelb, Clark, and Meyer 2012) and generated considerable mumbling among Bank economists. My impression from friends among Bank staff at the time was that Lin’s approach was seen as a version of misconceived industrial policy, including by the research staff that reported to him. After Lin left the Bank in 2012, he continued to advise the government of Ethiopia from his base at the University of Peking in China, until the political transition in Ethiopia in 2018, when Prime Minister Abiy Ahmed came to power. At the time, I had left the World Bank many years earlier and, in the interval, had become President of the Center for Global Development. But from what I knew

of inside–World Bank views among economists, Lin and his approach were viewed with deep skepticism.

In retrospect, the breadth of this skepticism seems overdone. After all, Lin’s focus in Ethiopia was on building up light manufacturing in a special export zone, with tax incentives and more attractive regulatory conditions for local manufacturers. Even at that time, such special export zones were encouraged and supported by the Bank.

Critiques

The fundamental critique of the *Miracle* report has had to do with its definition and treatment of industrial policy, and with its implicit conclusion that for most developing countries, beyond a carefully delimited export push, active involvement of the state in their economies would be risky and potentially counterproductive. But before discussing this issue, consider some other concerns.

The Not-Enough-On Critiques

Some critics of the report wanted more on the three southeast Asian countries that were considered part of the *Miracle*—Indonesia, Malaysia and Thailand—with attention to their impressive success (if lesser than that of the northeast “tigers”). The criticism was fair. But it is worth noting that the World Bank also published a contemporaneous book edited by Leipziger and Thomas (1993) with more detailed studies of each of the seven *Miracle* countries.

Some wished for inclusion of other countries such as the Philippines, although from the perspective of the time the Philippines did not fit the *Miracle* framework; its low growth and persistently overvalued exchange rate made it similar to many countries of Latin America.³ In retrospect, it is too bad Vietnam was not included or even mentioned, given its economic success in recent decades, but its growth had not yet taken off by the early 1990s. Also, formal relations between Vietnam and the World Bank started only in 1993, meaning data on Vietnam’s economy were limited at the time of the book preparation.

From a modern perspective, it is natural to wish that China had been discussed more explicitly, but although its economic reforms started in the early 1980s, China was still very much a low-income country in the early 1990s. The *Miracle* report does name fear of China on the part of its smaller neighbors, and fear of China’s potential influence on Communist insurgencies at home, as giving leaders in the *Miracle* economies ample reason to focus on growth, and especially on growth that was shared (Campos and Root 1996, pp. 30–44)—helping to fuel, for example, the

³The *Miracle* report did include a box entitled “Vested Interests Doom Philippine Land Reform,” which explains the failure of land reform as the outcome of a weak bureaucracy and poor enforcement of the reform. Landlords found ways to avoid losing control of their land, “confident they had plenty of time to lobby a future administration for more favorable provisions” (p. 169).

extensive investment in public housing in Hong Kong and Singapore (though they were also “a response to the massive influx of refugees and migrants from China”, p. 163). (Note that in deference to China, by then a member of the World Bank and International Monetary Fund, Taiwan is referred to throughout the text as “Taiwan, China”; China had become a member of the World Bank in 1980.)

What About Agriculture?

The critical positive role of agriculture was not much explored in the book, except indirectly to the extent that agriculture was not penalized as in many other developing countries by overvalued exchange rates (as in much of Latin America) or by other forms of “urban bias” that kept food prices low for urban workers (as in much of sub-Saharan Africa).

In contrast, Studwell (2013) emphasizes the centrality of agricultural success. He focuses on “gardening”-style agriculture—by which he means households maximizing labor input to maximize output on family farms—to explain the high output of agriculture in the postwar northeast Miracle economies. He argues that high domestic agricultural output minimized use of foreign exchange for food imports in urban areas and *released* labor for work in urban industry, in contrast to the Lewis/Kuznets model of structural transformation pulling labor to higher-wage industry. High agricultural product and productivity may have been the key to those economies avoiding the phenomenon common to most developing countries of a high proportion of urban workers moving out of low-productivity agriculture to the huge informal sectors in developing countries’ urban areas—where they can earn more, but not much more, than they could in agriculture (Gollin, Lagakos, and Waugh 2014). As does the *Miracle* report, Studwell emphasizes for Korea and Taiwan the importance of the land reforms supported by the US military in these countries and refers favorably to subsequent work at the World Bank of Deininger (2003) on land distribution and land reform in East Asia and other developing countries. Studwell’s (2013) book was published 20 years after the *Miracle* report and does not criticize the report directly. However, his thesis suggests that agriculture and “gardening” was too fundamental to be left out of the discussion.⁴

There is also the question whether the nature of crop cultivation affects social norms in ways that matter for the effects of policy on growth. The *Miracle* report generally avoids any reference to “culture” mattering, laying out instead the “institutional basis” for shared growth, as in the deliberation councils. However, noneconomists have pointed out the likely roots of the high-cooperation societies of the northeast countries of East Asia, including China, in the demands of growing rice—which for example requires collaboration among households on irrigation

⁴Referring to the history of implicit support for industry in already high-income countries, Studwell (2013) writes that the southeast Asian economies, in contrast to Japan and Korea, “had to wait until the post-colonial, post-World War era, when international agencies (notably the World Bank) . . . offered up a new ‘approved’ set of ideas . . . and more abstract economic theory took over, predicated on a belief that all economies . . . are subject to similar rules . . . the ‘science’ of economics” (pp. 82–83).

systems—compared to wheat and maize (for example, see Talhelm et al. 2014; Talhelm and Dong 2024). With one exception noted earlier, the *Miracle* report, written by economists, abjures any invocation of a “Confucian” culture.

The Total Factor Productivity Dispute

Young (1992, 1995) and Krugman (1994) argued that most of the unusually high growth in the Miracle economies was due to “perspiration” (Krugman’s evocative term for accumulation of physical and human capital) rather than to high total factor productivity growth—or gains in the apparent efficiency with which those inputs were deployed. In short, the miracle was more about increases in investment than in hard-to-measure “efficiency.”

This argument was in marked contrast to the (largely) contemporaneous view taken in the *Miracle* report. The report, in its analysis and discussion of what accounted for the high growth of these East Asian economies, argued that while high inputs of physical and human investment certainly mattered compared to other developing regions, those underlying factors could not explain the total differences in overall growth: “Controlling for their superior rates of accumulation, the HPAEs [high-performing Asian economies] still outperform the statistical relationship between accumulation and growth We are able, in the end, to predict only about 17 percent of the actual difference in growth between Latin America and the HPAEs” (p. 54). The conclusion was that the Miracle economies achieved unusually high levels of total factor productivity growth; they did much better at allocating their resources to high-productivity activities and “in mastering and adopting catch-up technologies” than other developing countries (for example, see Figure 1.10 in the report).⁵

Young (1992) singled out Singapore to make his point that productivity growth had been minimal relative to accumulation of physical and human capital. Singapore seemed a good example for him at the time; the *Miracle* authors’ estimate of total factor productivity growth (1960–1989) for Singapore of less than 2 percent per year (1960–1989) was indeed low compared to the estimate for the northeast countries (Korea, Taiwan, Japan, and Taiwan) of more than 3 percent (Figure 1.10, p. 56; Figure A1.3, p. 66). However, 30 years later, Singapore (along with its neighbors to the northeast) has escaped the so-called middle-income trap, becoming a high-income country according to the World Bank categories.

The Fundamental Critique: Was Industrial Policy Central?

The fundamental critique of the *Miracle* report was that, although it credited the export-push approach with fostering growth and technological advances (“a

⁵Stiglitz (2001, p. 512) later, when he was Chief Economist at the World Bank, called the total factor productivity debate “much ado about nothing,” noting there had been “a narrowing of the technology gap . . .” and referring to “deliberate efforts to enhance the transfer of technology [T]he successful countries made deliberate efforts to enhance the transfer of technology . . . most notably their support for technical education.”

winning mix of fundamentals and interventions”, p. 22), it greatly understated the centrality of industrial policy to the economic success of the region.

In a long and stinging critique of the report, Rodrik (1994) wrote that the thesis of the book is divided against itself—that the book overdoes the argument throughout that it was the market approach to growth that worked, despite the extensive interventions in markets that the book amply describes. He was particularly critical of the definition of “industrial policy” in the book as a policy meant to change the “sectoral composition of industry.” The *Miracle* authors argued there was no such change in Korea—thus writing off any effect of Korea’s heavy and chemical industry drive or of Japan’s similar program led by its Ministry of Trade and Industry on the buildup of heavy industries (steel, shipbuilding, and others) in those countries. They argued instead that in Korea the most successful sector (with the highest total factor productivity growth, consistent with the book’s alternative definition of industrial policy as pushing total factor productivity growth beyond its natural course) was the textile and apparel industry, a “market-conforming outcome”—and thus that “industrial policy” defined as meant to change the sectoral composition of industry in favor of heavy industries had failed. (This argument about the “failure” of industrial policy based on the sectoral composition definition has become harder to defend with the passage of time—should not some effects of Korea’s heavy and chemical industry drive be credited with the global success today of Hyundai and Samsung?⁶)

In addition, based on Rodrik’s own analysis of available data, he criticized the report’s lack of attention to the favorable initial conditions for growth in East Asia at the beginning of the 1960s—for example, the good education levels and the relatively equal distribution of land due to postwar reforms, especially in Korea and Taiwan—in comparison to other developing countries and regions. This was largely overlooked in the *Miracle* analysis, though alone it is not necessarily a sufficient explanation for their subsequent “miracle” growth rates measured starting in 1960.

Along similar lines, two well-known experts on Korea and on Taiwan were highly critical of the *Miracle* report’s dismissal of industrial policy as effective in those countries. In the 2003 introduction to the paperback edition of his 1990 book on Taiwan, Wade, like Rodrik, dismisses growth of total factor productivity in an industry the state supported as the correct measure of the impact of industrial policy (for example, Wade 1990, p. xx). He argues that the question of whether sectoral policies were effective ought to be based on the effectiveness of the specific policy instruments used to promote the targeted industries (pp. xix, xxii). He points to Taiwan’s “below-the-radar” nudging policies, for example to encourage foreign firms to switch supplies from imports to domestic providers (p. xxi), as sectoral rather than across-the-board.⁷

⁶Thanks to Danny Leipziger for making this point in a recent conversation.

⁷Wade also cites apparent success in Brazil, Mexico, and Argentina with “sectoral promotion policy” in the auto industry (p. xxi).

Amsden (1989) had written a book on Korea's successful industrialization, in which she told the story of the considerable state role in supporting the country's successful conglomerations of industries (the "chaebols"). In her review of the *Miracle* report (Amsden 1994), she argued that the Bank's plaudits for good macroeconomic policy in Korea overlooked the central role of strong state institutions even in that success. Amsden (p. 627) was also eloquent on the failure of the report to extract lessons for other developing countries from the success of East Asia's interventionist approach: "The greatest disappointment of the *Report's* market fundamentalism is a failure to study seriously how elements of the East Asian model can be adapted to suit conditions in other countries."

Such a study would have been and still could be a useful follow-up to the *Miracle* report, given the World Bank has a key role as adviser as well as lender to developing countries. Yet it is not surprising that no such study has been done, given the skepticism about industrial policy inside the Bank reflected in the report.

Was the *Miracle* Study Too Skeptical of Industrial Policy for Most Developing Countries?

My own judgment is that it remains unclear that the *Miracle* authors went too far in discouraging other developing countries in other regions from state-led interventions in support of industry, or even from such limited, performance-based support as the East Asian export push—with its modest import protection, subsidized credit, and other violations of free-market religiosity.

The bottom line was not far off given the risks that industrial policy programs could only make sense if and where macroeconomic stability was secure (the *Miracle* book includes several examples of East Asian countries abandoning industrial policy initiatives to preserve macroeconomic stability) and where rent-seeking—both by government bureaucrats selling and by firms buying privileges such as better access to foreign exchange, to credit subsidies, or to place-specific investments in infrastructure and so on—is not a major issue. In fact, macro stability in many developing countries, including East Asia, continued to be vulnerable to domestic as well international shocks leading to financial crises; even Korea and other East Asian economies proved vulnerable to the global financial shocks of the late 1990s and 2008–2009, though relative to other regions of the developing world they recovered more quickly.

On rent-seeking and other aspects of governance, what evidence there is suggests minimal if any improvement in most countries across the world. Kaufmann and Kraay (2024), who have reported on measures of economic and political governance for most developing countries for several decades, find "little evidence of trends in global averages of governance."

Moreover, the worry about the institutional capacity to manage such policies in the developing world persists today in the increasingly sophisticated literature that has emerged in recent years. For example, Juhász, Lane, and Rodrik (2023) argue that there is a "generic and powerful economic case for industrial policy" and conclude that certain types of industrial policy were "powerful in driving structural

change in countries such as Japan, South Korea, and China.” But they also conclude that it is “very difficult to derive broad generalizations for other countries and time periods from this experience *without taking institutional differences into consideration*” (my italics), consistent with the cautions for other developing countries three decades ago in the *Miracle* study. Similarly, Barteska and Lee (2024) conclude that the effect of industrial policy during Korea’s growth miracle was entirely dependent on bureaucratic capacity—with the key mechanism involving the transmission of information about market conditions—rather than on direct or indirect government subsidies.⁸

In short, there is still no agreed-upon bottom line on industrial policy for developing countries, among economists outside or inside the World Bank. That suggests the *Miracle* book, though in many ways a product of its neoliberal time, and probably overly wedded to the “neoclassical” growth explanations for East Asia’s success, was not completely off the mark in its caution about industrial policy for other regions of the developing world.

Does the *Miracle* Report Have Lessons for Today?

That the *Miracle* report’s caution about industrial policy for other developing countries was not completely off the mark in 1992–1993 does not mean, however, that 30 years later there are not some developing countries today where governance is in fact above average and some forms of industrial policy could be tried—including special export zones for industry and support for innovation in the service as well as manufacturing industries. And there are many others where the prerequisites of success with industrial policy, such as a laser focus on the quality of primary and secondary education, a well-organized and well-paid civil service, and introducing or strengthening some form of consultative interaction between government officials and businesses, should now be high priorities.

The report itself includes one clear statement about the applicability of lessons from East Asia for other developing regions: “The export push strategy appears to hold great promise for other developing countries” (p. 25). (However, even that conclusion is hedged by concern that the key tactic of credit subsidies to exporters paid for by financial repression would violate international trade rules—still true today under World Trade Organization rules—and by the requirement of a “high level” of institutional capacity to manage such a program.) Three other lessons of the report are worth noting before turning to the question of industrial policy built, as in the *Miracle* countries, for export success.

A first lesson is the benefit of “shared” growth policies. The World Bank (2014) took up that lesson, not in response to the *Miracle* report, but two decades later in response to a growing body of academic work on the negative effects of inequality

⁸Jaramillo and Kim (2025) discuss positive effects of Korea’s first “mission-oriented” research and development program, instituted in 1992 when the *Miracle* report was under preparation.

on growth,⁹ when it instituted an annual publication on “shared prosperity” in developing countries.

A second lesson is the potential benefits to an economy of creating a consultative mechanism between the public and private sectors, as in the deliberation councils in many countries of East Asia. Many more developing countries now have the prerequisite of a well-compensated, technically competent cadre of civil servants, and many also have some system of dialogue with private businesses that could be strengthened and institutionalized.

A possible third lesson, even in the digital age, is the value of a “postal savings” scheme. The two key characteristics of such a scheme are that it should be widespread and easily available, thus bringing in substantial amounts of savings across the population, and also that this ease and convenience should make it possible to pay depositors a lower interest rate—a mild form of financial repression. The *Miracle* report credited postal savings in some countries with the high private savings rates that enabled high rates of public and private investment in physical and human capital.

Still, the most important lesson of the *Miracle* report may be the potential of export-oriented industrial policy to spur growth in those developing countries with adequate governance—which nowadays would include many of the countries the World Bank classifies as lower-middle-income (currently defined as with Gross National Income per capita in 2025 from \$1,136–\$4,495) and upper-middle-income (\$4,496–\$13,935) (Metreau, Young, and Eapen 2025).

Bangladesh and Vietnam are examples of countries that have become successful exporters of industrial goods in this century. But for most developing countries, expanding that category of exports is increasingly challenging due to “premature deindustrialization” (Rodrik 2016)—that is, developing countries are running out of opportunities to industrialize at lower levels of income than did the advanced economies and the East Asian economies, as robots and other technological advances substitute for low-skilled jobs in manufacturing and as services take up an increasing portion of global consumption. Of course, it has not helped that China in the last few decades has beaten most developing countries to what are declining opportunities for exports of manufactured goods.

With premature deindustrialization, more new jobs everywhere arise nowadays in services: education, health care, elderly care, retail, finance, insurance, logistics, and so on. Perhaps ironically, the objective of “industrial” policy (defined as interventions by the state) in many developing countries in the third decade of the twenty-first century should be to find ways to increase jobs and productivity in the modern “services” sectors. But productive jobs in modern service industries require more education and training—more than those of workers in the earlier period of low-skilled manufacturing jobs in the last century. That makes improving the

⁹An early draft of an International Monetary Fund paper, Ostry, Berg, and Tsangarides (2014), may have been particularly influential. See also Lane (2025); using newly assembled data on the introduction and termination of HCL drive policies in Korea, Lane concludes that the drive was in fact successful.

quality of education at the secondary level in middle-income countries, particularly in “technical” skills (mathematics, pre-engineering) an abiding lesson of the *Miracle* report.

Indeed, the *Miracle* authors concluded that the key to the unusually high total factor productivity growth of the East Asian economies, which distinguished them from most other developing countries (as much as their high investment rates at the time), was the “technological learning” associated with their export push. The report credits the export push for that learning, as exporters learned from and through interactions with importing firms abroad.

But behind technological learning at the factory level was the high level of good-quality schooling of managers and workers.¹⁰ In other words, a key lesson from East Asia is the emphasis going back decades on high-quality primary and secondary education and on secondary and post-secondary technical education.

The likely importance of broad-based, educational achievement is worrying for many middle-income countries—including India and Nigeria¹¹—where recent tests of primary school graduates ten years after they have completed school find many cannot read a sentence; more worrying still, the results of such testing over the last decade in many countries suggest that the quality of education in those and other countries is actually declining (Le Nestour, Moscoviz, and Sandefur 2022).

Beyond these lessons, the *Miracle* study raises “why?” questions for students and scholars of development. Was fear of China the main reason behind the early emphasis of the Miracle countries on creating and maintaining legitimacy through shared growth? Why did the need for newly formed governments to create legitimacy not encourage shared growth in other regions such as postcolonial Africa; was a foreign threat necessary? Why did shared growth never take hold in Latin America—except perhaps in Costa Rica and Uruguay, where mountains (and smallholder coffee) in the former and grasslands in the latter meant they avoided the plantation-type agriculture associated with colonialism and long-run inequality? Is it a coincidence that Costa Rica and Uruguay have the largest middle classes in the region today? Is a large-enough middle class the key to good governance (Birdsall 2016)? Why were the nations of East Asia politically able to take the sometimes difficult steps needed to maintain macroeconomic stability? Why were the Miracle countries able to institute and strengthen postal savings systems? Why did the system to woo big business—including deliberation councils—emerge in the East Asian region but not elsewhere in the developing world? How important overall was the influence of the successful Japanese example, including on industrial policy?

¹⁰ See Appendix 1.2 in the report. Still today, students in Korea, Taiwan, and other East Asian Miracle countries typically do much better than students in other advanced economies on, for example, the internationally comparable PISA (Programme for International Student Assessment) test (for example, see <https://worldpopulationreview.com/country-rankings/pisa-scores-by-country>).

¹¹ India and Nigeria are both classified as lower-middle-income economies by the World Bank.

The relative silence of the *Miracle* report on lessons for other developing regions was unfortunate, but forgivable. How much could be said in one book? What matters now is that in the last few years a methodologically sophisticated literature on industrial policy has appeared among economists, with lessons for developing countries (for example, Juhász, Lane, and Rodrik 2023).¹² Economists in the research arm of the World Bank are also contributing. McKenzie (2025) counters many concerns about direct government support for private firms, noting that the market failures that industrial policy targets “have long been at the core of what development economists study” and arguing that recent research in developing countries shows industrial policy “can deliver.” Reed (2024b), in a paper on “embedded autonomy” (Evans 1995) in Korea’s late twentieth-century computer sector, refers to “public-private dialogue” in Cambodia, Peru, and Tunisia—examples akin perhaps to the deliberation councils of East Asia.

In this journal, a symposium in the Fall 2024 issue described practical issues in industrial policy: how a government might choose among the available industries (Reed 2024a) and the issues of political economy needed to support such a choice (Juhász and Lane 2024). There are also questions of what specific industries a government might choose in a world economy where export-push manufacturing is unlikely to be a widespread answer, what industrial policies a government might choose, how the government might evaluate whether those policies are working, and whether the government will be able to back away from efforts at industrial policy that are not working. In short, the details of what industrial policy would help which developing countries catch the train of technological learning remain unclear. However, the issues, after three decades, are back on the agenda, and the 1993 *Miracle* report may find a new generation of students and scholars eager to explore again whether and how “industrial policy,” however defined, can advance the cause of development.

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¹²See also the papers at this conference at Columbia University in November, 2024: <https://ipdcolumbia.org/publication/new-thinking-in-industrial-policy-perspectives-from-developed-and-developing-countries>; and this policy brief summarizing some issues at that conference https://ipdcolumbia.org/wp-content/uploads/2025/02/conference_policybrief_v4.pdf.

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