PART IV

THE FUTURE

CHAPTER TEN

HOMEGROWN DEVELOPMENT

I listen with attention to the judgement of all men;
but so far as I can remember,
I have followed none but my own.

MICHEL DE MONTAIGNE(1533–1592)

TWELVE-YEAR-OLD CALEB and I are in Tokyo, in a district called Akihabara. We have visited three temples: a Buddhist one, a Confucian one, and now an Electronics one. We are in an eight-floor electronics department store in a district that is thick with them—blocks and blocks of electronics stores. All the latest electronic gadgets are on display. Huge plasma-screen televisions (Caleb's favorite). MP3 players the size of packs of bubble gum. Laptops the size of a hardback book. Digital cameras the thickness of a credit card. Reclining chairs that give an electronic back massage (my favorite). Customer service is exemplary—a sign in English announces WE CAN HELP YOU WITH OUR PLEASURE.

Japan is famous for its dominance of consumer electronics, not to mention the miracle of its glittering economy. There have been successive phases of rapid and slow growth in Japan, and most recently Japanese growth has slowed. We see in figure 32 (which has a logarithmic scale in which every unit increase means a doubling of income) that these variations are minor in the long run. Starting in 1870, the Japanese economy registered miraculous growth. It recovered quickly from the destruction of World War II to post even more miraculous growth. It became a full democracy after the evil militarist detour of the 1930s and 1940s. Today, income per capita is thirty-two times higher than what it was in 1870. And it did all this without the White Man's Burden—the West never colonized Japan. Instead, Japan had homegrown Searchers.

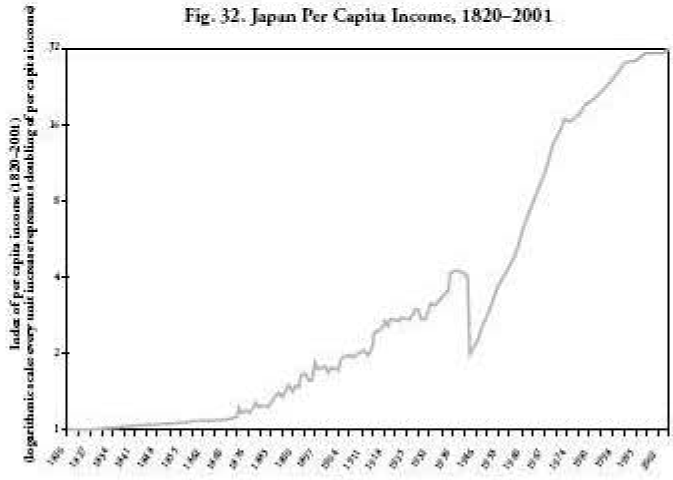

Fig. 32. Japan Per Capita Income, 1820–2001

The first reaction to Matthew Perry's visits to Japan in 1853–1854 was "revere the Emperor expel the barbarians." But when a group of samurai rebels overthrew the shogun and restored power to the Meiji emperor in 1868, the new catchphrase became "Japanese spirit, Western learning.[1] The young revolutionaries combined patriotism with pragmatism—they realized the West was ahead, and they wanted to borrow Western methods to catch up, while preserving Japanese institutions, culture, and independence. Once in effective power (the Meiji emperor was only fifteen in 1868), they studied Western institutions and technologies. They invited Westerners to Tokyo, and themselves went on long tours of the West. But this was to create no dependence on the West; the watchword was "self-help." (Even the ex-samurai who lost out in the new order established a Self-Help Society.) They had no particular ideology or attachment to any one Western method—their only criterion was to search for things that worked in Japan. One of the leaders of the new government, Yamagata Aritomo, said they wanted "to establish the independence of our country" and "to preserve the nation's rights and advantages among the powers.[2]

The new government faced many economic problems. Searchers found solutions that laid the basis for a miracle. Devoid of revenue bases, it declared a 3 percent tax on the value of land on July 8, 1873. What was more revolutionary was that the emperor declared all land, which had been allocated by village custom, to be the private property of those who farmed it. The government issued certificates of ownership.[3] Land could be bought and sold, and used as collateral for loans—the famous Hernando de Soto formula for unlocking the "mystery of capital." Although externally imposed land reforms have often been disasters, a homegrown reform that respected local custom was more successful.

However, when the land tax was insufficient to cover state spending, the inexperienced rulers printed money. Inflation resulted. Matsukata Masayoshi, the architect of the land reform, became finance minister in October 1881. He cut spending and privatized the many state-owned enterprises, using the revenues of the privatizations to buy back currency issues. In 1882, he created the central bank, the Bank of Japan, with a monopoly over the issuance of paper currency. He eschewed foreign borrowing as a trap that had prompted Western intervention or colonization in other non-European countries (Britain in Egypt, for example). Inflation came to a halt, and private enterprise took off with the privatizations. Matsukata wrote, "The government should never attempt to compete with the people in pursuing industry or commerce.[4] Although such reforms often work badly when imposed from the outside by the IMF today, these homegrown reforms worked.

Other Searchers emerged from the private sector. One of the enterprises that bought up privatized state companies was Mitsui. Mitsui Takatoshi founded a trading firm in the seventeenth century as a combination liquor store and porn shop (a good business formula across the ages). Two hundred years later, what had become a venerable chain of dry goods stores founded the Mitsui Bank in 1876. A key leader of Mitsui was Nakamigawa Hikojiro, who had spent the mid-1870s in London and translated works on economics and American politics into Japanese. Nakamigawa persuaded Mitsui to diversify into industry. They purchased the state-owned Tomioka silk-spinning factory, converting it from a loss maker into a profitable enterprise. The former porn shop also added the Oji Paper Company, the Miike Coal Mine, and the Shibaura Engineering Works (later to crowd the Akihabara district with electronics such as Toshiba) and partially integrated Toyota on its way to becoming one of the world's biggest companies.[5]

Another buyer of privatized state enterprises was Mitsubishi, founded as a steamship line in 1870. Like Mitsui, it bought up mines—copper as well as coal. It leased from the government the Nagasaki Shipbuilding Yard in 1884, where it designed Japan's first steel steamship. In 1890, it purchased eighty acres of marshland next to the Imperial Palace in Tokyo for one million dollars. Ridiculed at the time for buying a swamp, Mitsubishi later realized some profits on what became the downtown Tokyo business district, today worth billions of dollars. To keep its workers happy, it founded the Kirin Brewery. In the twentieth century, Mitsubishi would diversify into just about everything, most famously automobiles and cameras (Nikon). Today, it also makes some of the computer monitors, cell phones, high-definition projection televisions, plasma-screen televisions, DVD players and VCRs that Caleb and I saw in Akihabara.

Heads of Mitsubishi during its formative period included graduates of the University of Pennsylvania and Cambridge University. However, foreign schools could not provide all of the skills that Japan needed to become an industrial power. To make up for the shortage of skilled management talent, Mitsui founded Hitotsubashi University in Tokyo to train future executives. The government founded Tokyo University in 1877, and provided a system of elementary education in the 1880s, which was so successful that enrollment for both boys and girls was close to 100 percent by the close of the Meiji era.[6] Teachers' schools were established to train teachers. The Meiji rulers expressed their passion for education and their break with the past in a declaration in 1872:

> *Centuries have elapsed since schools were first established.... Because learning was viewed as the exclusive province of the samurai and his superiors, farmers, artisans, merchants, and women have neglected it altogether.... There shall, in the future, be no community with an illiterate family, nor a family with an illiterate person.... Hereafter...every man shall, of his own accord, subordinate all other matters to the education of his children.*[7]

After the militarist epoch of 1931–1945, Japan did have six years of American military occupation, during which it had the usual ambitions to transform Japan from the top down. The American conquerors brought along the patronizing attitudes of the West toward the Rest. Douglas MacArthur compared the Japanese people to "a boy of twelve." John Foster Dulles told Japanese executives that they "should not expect to find a big U.S. market because the Japanese don't make the things we want," although he suggested that maybe they could export cocktail napkins.

The Japanese knew better. The wartime development of heavy and chemical industries left behind advanced technology, engineers, middle managers, and skilled workers that could produce products considerably more advanced than cocktail napkins.[8] The Americans broke up large combines like Mitsui and Mitsubishi to promote competition, but these soon reemerged as economic power centers because the Americans had left untouched the large banks that had become their nerve centers.[9] The American occupation preserved and perhaps even reinforced the Japanese bureaucracy that was to implement Japan's peculiar state-managed capitalism. Public and private Japanese Searchers soon found the consumer electronics, automobile, steel, and other industries that would fuel Japan's extraordinary postwar export boom.

It is possible that the American post–World War II occupation is one of history's rare examples of top-down transformation of a society by outsiders. If this is true, the example doesn't lend itself to much replication since it took complete annihilation to get the chance to remake Japan. However, most of the evidence points to homegrown factors—the Americans were at most reconstructing an economy that was already advanced. (The same was true of the much-abused example of the Marshall Plan.)

Success and Self-reliance

It is easier to search for solutions to your own problems than to those of others. Most of the recent success stories are countries that did *not* get a lot of foreign aid and did *not* spend a lot of time in IMF programs, two of the indicators of the recent incarnation of the White Man's Burden (table 9). Most of the recent disasters are just the opposite—tons of foreign aid and much time spent in IMF constraints. This of course involves some reverse causality, as I discuss throughout this book—the disasters were getting IMF assistance and foreign aid *because* they were disasters, while the IMF and the donors bypassed success stories because those countries didn't need the help. This does not prove that foreign assistance causes disaster, but it does show that outlandish success is very much possible without Western tutelage, while repeated treatments don't seem to stem the tide of disaster in the failures. Most of the recent success in the world economy is happening in Eastern and Southern Asia, not as a result of some global plan to end poverty but for homegrown reasons.

TABLE 9. TEN BEST AND WORST PER CAPITA GROWTH RATES, 1980–2002

Country	*Per capita growth, 1980–2002 (%)*	*Aid/GDP 1980–2002 (%)*	*Time under IMF programs, 1980–2002 (%)*
Ten Best Per Capita Growth Rates, 1980–2002			
South Korea	5.9	0.03	36
China	5.6	0.38	8
Taiwan	4.5	0.00	0
Singapore	4.5	0.07	0
Thailand	3.9	0.81	30
India	3.7	0.66	19
Japan	3.6	0.00	0
Hong Kong	3.5	0.02	0
Mauritius	3.2	2.17	23
Malaysia	3.1	0.40	0
Median	3.8	0.23	4

Country	*Per capita growth, 1980–2002 (%)*	*Aid/GDP 1980–2002 (%)*	*Time under IMF programs, 1980–2002 (%)*
Ten Worst Per Capita Growth Rates, 1980–2002			
Nigeria	-1.6	0.59	20
Niger	-1.7	13.15	63
Togo	-1.8	11.18	72
Zambia	-1.8	19.98	53
Madagascar	-1.9	10.78	71
Côte d'Ivoire	-1.9	5.60	74
Haiti	-2.6	9.41	55
Liberia	-3.9	11.94	22
Congo, Dem. Rep.	-5.0	4.69	39
Sierra Leone	-5.8	15.37	50
Median	-1.9	10.98	54

Moreover, the success stories follow a variety of formulas, perhaps an indication of an exploration that reflected each country's unique history and characteristics. South Korea's government intervened in guiding its corporations, while Hong Kong was the poster child for laissez-faire capitalism. China is a unique blend of Communist Party dictatorship, state enterprises, and partial free-market liberalization. India is a long-standing democracy, South Korea and Taiwan more recent democratic converts, while Singapore is not a democracy. All of these cases did realize most of their success from markets, but some were quite far from a laissez-faire model. While I think that free markets and democracy are a big part of the success story of the West, countries sometimes take a circuitous route to get there, or they may conceivably have their own unique recipe.

What we do know from the success stories is that the West played small part in them. As noted earlier, it is also interesting that five of the success stories were never completely colonized by the West, while all of the disasters are former colonies.

Two Special Colonies

Singapore and Hong Kong were British colonies where things turned out better than in other colonies. What was different?

What is unique about these two colonies is that they were unoccupied territories that the British colonized with the permission (or coercion) of the nearby local rulers. Even if the British were disposed to boss around or mistreat the indigenous population, they couldn't, because there was none. The peopling of the two trading stations depended on voluntary migration, mainly from China. Since these colonies depended on trade, the British induced Chinese merchants to settle there. The Brits would hardly have scared the merchants away with exploitation, or any restrictions on trade, so Hong Kong and Singapore were born free traders. The British also left the Chinese communities free to pursue their incomprehensible customs and more or less govern themselves, only intervening if social upheaval threatened. Chinese traders prospered, the richest of them wealthier than the local Brits. Chinese representatives sat on colonial councils as early as 1889 in Singapore and 1880 in Hong Kong.[10]

Starting with a clean slate, culturally homogeneous (the immigrants even largely came from the same region of China, the southern coastal belt that is the same one booming in China today), and committed to free trade, these Chinese microstates started with a much happier colonial legacy than others. This could be ex post facto rationalization, but the colonization of empty territory was fairly unique in colonial experience.

During a visit to Singapore, I shared some guava juice with the Singaporean organizer of the conference I was attending there. We sat on a verandah overlooking a golf course. She told me that she was the first generation in her family to receive a formal education. She has a Ph.D. in economics from an American university, the University of Rochester. Her parents were illiterate when they migrated from southern China to Singapore several decades ago.

As recently as 1974, there were three times as many Singaporeans with no education as there were Singaporeans with a university education. Today, the proportions are reversed. The Organization for Economic Cooperation and Development (OECD) in 1996 certified Singapore's graduation as a developed country. Singapore is the first tropical country to officially become a rich country, according to the OECD. Travelers familiar with the gleaming airport, the efficient subway system, and the immaculate downtown area of skyscrapers can attest to the country's prosperity.

Hong Kong has had equal success at attaining OECD income levels. By 2001, Hong Kong and Singapore had overtaken their erstwhile colonial master.

Hong Kong and Singapore never got significant amounts of foreign aid, nor were they recipients of other Western attention, such as IMF programs or military intervention.

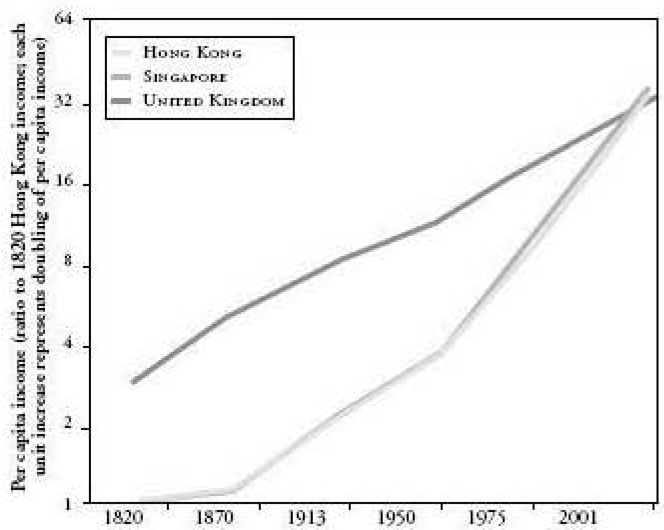

Fig. 33. Per Capita Income in United Kingdom Versus Hong Kong and Singapore

East Asia Dynamo

The success of Hong Kong and Singapore was the leading edge of the well-known success of the East Asian Tigers. I won't belabor the story of their success, since it is so well known—just note a few indicators.

The latest sign of success is in science education. In 2003, about the same number of citizens of East Asian countries received engineering Ph.D.s from American schools as U.S. citizens did.[11] The number of scientific journal articles published in East Asian countries quintupled over 1986–1999. Perhaps reflecting increased scientific expertise, high-technology exports from East Asia took off, growing by a factor of five in a decade (see figure 34).

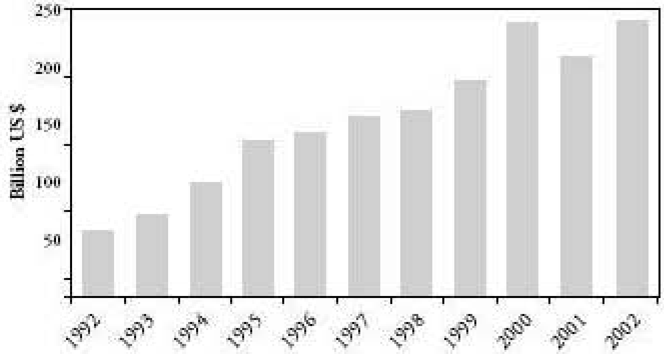

Fig. 34. High-technology Exports of East Asia Six: China, Hong Kong, Korea, Malaysia, Singapore, and Thailand

Taiwan, whose numbers figure 34 above does not include because the cowardly international agencies do not recognize it, has become a remarkable technological success story. The Taiwan Semiconductor Machinery Corporation (TSMC) is the world's largest producer of foundry chips. Th Electronics Research and Service Organization (itself started by the Taiwanese government in the early 1970s to get a jump on the IT industry) started the TSMC as a joint venture with Phillips o Holland in 1987.[12] Today TSMC has sales of $2.3 billion.[13] Taiwan also produces such complex items as notebook and desktop PCs, video cards, and sound cards. Acer Computers of Taiwan is the world's third-largest manufacturer of PCs, with sales of eight billion dollars.[14] Taiwan's amazing economy has produced ten billionaires.[15]

The Dark Continent Born Again

But what hope could there be for a region impoverished by warlords, civil conflict, unending war, corruption, and brutal tyrants, after futile attempts by the West to influence events?

I am talking about China in the twenty-first century.

There can actually be a lot of hope, as shown by figure 35, which illustrates the launch o China's per capita income late in the twentieth century.

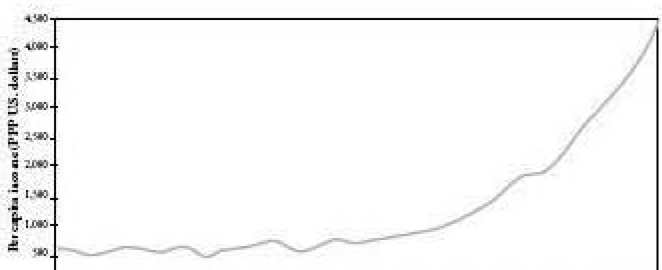

Fig. 35. China Per Capita Income in U.S. Dollars

If the West has never had much effect on China, it hasn't been for lack of trying. Long-standing Western enthusiasm for bringing the Middle Kingdom into the modern world has included the usual White Man's Burden brew of Christianity, civilization, and commerce. The Jesuits tried to bring the gospel to the imperial court as long ago as the seventeenth century, packaging it with Western science. The Jesuit Johann Adam Schall got an entrée by predicting the exact time of a solar eclipse on September 1, 1644. (The Chinese astronomers could also predict eclipses, but not so exactly.) The Chinese took the Jesuit astronomy and left the gospel.[16] The Chinese were happy to use Western knowledge and technology, but showed less interest in Western efforts to Christianize and civilize them.

Americans got even more excited about China's development after a recent convert to Christianity, Chiang Kai-shek, consolidated his hold over most of the country during 1927–1931. In a triumph of wishful thinking, the American media (led particularly by *Time* editor Henry Luce, the son of a missionary to China) saw Chiang as a democratic paragon who was leading China into the modern world. Chiang's Wellesley-educated wife, who did publicity tours to the United States, helped Americans visualize a progressive China. Luce said Chiang had "embarked on a vast reformation, partly inspired by the Christian gospel.[17] Chiang-led China was the "protagonist of democracy in the Far East." Americans lent their support through military aid and private contributions funneled through the United China Relief Fund, which fed starving children and promoted industrial development.

A few naysayers, backed up by later historians, noted that Chiang Kaishek was also a ruthless warlord who came to power by butchering his opponents. Chiang benefited from his long-standing connections to the Shanghai underworld, the Green Gang, whom he employed to massacre his Communist and other rivals in taking over Shanghai in 1927.[18] His underworld friends later helpfully assassinated other enemies, such as the head of the Chinese League for the Protection of Civil Rights (in 1933) and the editor of Shanghai's leading newspaper (in 1934).[19] Chiang installed concentration camps for political prisoners, maintained three secret police forces, and censored the press, publishers, and the universities—all in the name of "Free China." Meanwhile, nationalist officials enriched themselves under his rule.[20] This would not be the last time that the West would idealize its local "partners" in spreading development throughout the world.

China even got an early version of foreign aid. Between 1929 and 1941, the League of Nations provided China with thirty development experts on fields such as health, education, transport, and organization of rural cooperatives. On July 18, 1933, the League appointed a representative to "liase with China's National Economic Council for the purposes of technical collaboration" with the League.[21]

The long involvement of Europeans in China failed to leave much of a mark. The European involvement ended with Mao's victorious revolution in 1949. Then, after Communist tyranny, the "Great Leap Backward," and the Cultural Revolution seemed to have condemned China's people to eternal misery, something unexpected happened in China.

Second Chinese Revolution

I take my teenage daughter, Rachel, shopping for shoes. (Rachel and her teenage girlfriends constitute half of the American shoe market.) I like to turn over the shoes in the store and see where they were made. Almost always they are made in China. Less anecdotally, China now accounts for 63 percent of American imports of women's shoes.[22]

Not that China just exports shoes. I do a quick survey of my apartment. My New York Yankees baseball cap—made in China. My clock radio—made in China. My USB FlashDrive for my computer —made in China. The laptop computer itself—made in China.

The exploration of free markets that started with the end of agriculture communes in Xiaogang in 1978, as told in a previous chapter, spread to industrial as well as agricultural enterprises. On December 24, 2004, the *New York Times* did a story on China's textile enclaves. Datang is China's Socks City, producing nine billion pairs of socks a year, a third of the world's output. As recently as the late 1970s, Datang was a sleepy rice-growing village of less than a thousand people. People sewed socks in their spare time and sold them by the road in baskets. Ms. Dong Ying Hong worked in the 1970s as an elementary-school teacher at nine dollars a month. She gave up her teaching to make socks at home. Today, she is a millionaire as the owner of Zhejiang Socks.

Near Datang, in coastal China, there are other enclaves: Underwear City, Necktie City, Sweater City, and Kid's Clothing City. Hong Kong investors brought modern technology and designs to Necktie City in 1985; the workers at the initial enterprises soon left to start their own necktie companies. China's Communist government discovered ways to promote these enclaves such as handing out public land, giving tax breaks, and building transport infrastructure. What's scary is that China achieved this success even while bound by restrictions on international trade in textiles. Those restrictions expired on January 1, 2005.

China is the most remarkable success story of the last two decades: a very poor nation propelled into an economic powerhouse that scares the Chinese-made underpants off Western companies and other poor countries alike. It is an unconventional homegrown success, failing to follow any Western blueprint for how to be modern. It combines lack of property rights with free markets, Communist Party dictatorship with feedback on local public services, and municipal state enterprises with private ones.

After the market-based reforms started in 1978, what was $59 billion in industrial production in 1978 became $844 billion in 2003. Exports of $44 billion in 1982 became $428 billion in 2003. Enterprises such as Bao Steel adopted cutting-edge technology by sending engineers and managers for overseas training.[23]

Success attracts paternity claims. The World Bank suggests that "support from outside helped make reform happen and contributed to the structure of the reforms." The World Bank is allegedly saving China's poor on a shoestring budget: as of the year 2002, $563 million a year, or about a tenth of a penny per day for each Chinese person.[24]

I visited China in December 2003, amazed at the dynamism of everyone I met and everything I saw. Everyone is working hard, constructing edifices everywhere; everything and everyone is moving at high speed. Where Washington has its one perpetual traffic jam on its Beltway, Beijing has five beltways (with a sixth one under construction). Technology is exploding, with cell phones and computers everywhere.

The Chinese economics Ph.D. students I taught in Beijing and Wuhan Universities were ferocious in their desire to learn. I taught in five days the equivalent of a semester-long course, which exhausted me far more than my Chinese students. I later got a Christmas card from Wuhan University that had the bracing message "Improve oneself, promote perseverance, seek truth, and make innovations."

To be sure, the ultimate economic test of a society is not rapid growth but attaining a high level of income. China's per capita income is still only one sixth of that in the United States. The lack of democracy and the remaining inefficiencies caused by state-owned enterprises, banking-system problems, and other state-induced distortions in the economy are still major worries. The bubble may burst, or China may continue its amazing boom, but change is coming from exploration within.

India

I am hurtling down a street in old Delhi on a bicycle rickshaw. The "street" is barely wide enough to accommodate the rickshaw and the two middle-age tourist-wallahs on the back. The street is also crowded with fruit, vegetable, and flower vendors, motorbikes, wandering children, emotionally disturbed dogs, and two-wheel carts full of bricks pushed by strong men. Hindu temples line the street. We visit one of them. It dazzles with color paintings of gods, inscriptions in an unfamiliar alphabet, burning candles surrounded by flowers, the smell of incense, and carved stone and wood. It should be humbling to arrogant Westerners to realize that Indian civilization goes back more than three thousand years, which is a tad longer than the life of the White Man's Burden.

In any case, India failed to develop during the long period of British tutelage. After independence, foreign aid never amounted to more than about a hundredth of GDP. India initially took a heavily planned, interventionist approach to development, and knew only mediocre growth. The anemic growth was so notorious it even got its own name: "the Hindu rate of growth." India finally discovered its capitalist inner child late in the twentieth century. (See figure 36.)

As it does with China, the West tries to take credit for recent Indian success. In India as in China, the World Bank also congratulates itself on a protégé's rapid economic growth. By its own account, the Bank not only promoted free trade and worked with India's national government, but it also supported the Indian government's decentralization, working with India's myriad state, local, and municipal governments. As in China, the budget for these ambitious achievements was modest: about $1.75 billion in new World Bank lending per year, or about half a penny per Indian per day. How much difference did these modest sums make? The World Bank chief economist suggested their "powerful demonstration effects" enlightened the Indians.

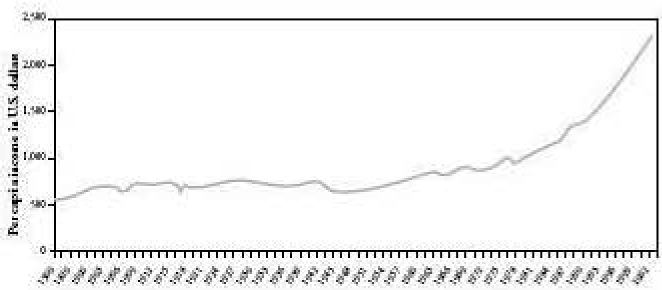

Fig. 36. India Per Capita Income in U.S. Dollars

Back on this planet, India had Searchers. Two young entrepreneurs from Delhi, Rajendra Pawar and Vijay Thadani, started a private computer school in the early 1980s. Their National Institute of Information Technology (NIIT) was an instant hit, so much so that they couldn't accommodate the demand. Their breakthrough idea was to become the McDonald's of computer education, franchising new schools wherever there was the demand. The franchisees were local professionals who carried the NIIT from the largest cities to the smallest towns. NIIT protected its brand name by standardizing classrooms, teacher training, and advertising, as well as by performing frequent audits and rigorous exams. Today, the tall, bearded forty-eight-year-old Rajendra Pawar leads a company with a stock market capitalization of two billion dollars; eight of his executives are millionaires. Lonely singles seeking matrimony often mention the NIIT degree as a credential in personals ads.[25]

India's famous success at outsourcing IT services for the U.S. market is exemplified by Wipro Ltd., India's most valuable company, at over ten billion dollars in market capitalization.[26] The company provides IT services to 138 of the Fortune 1000 and Global 500 companies, including such famous names as Sony, Nokia, Home Depot, and Compaq. It also runs call centers for the likes of Delta Airlines.[27] This is pretty impressive for an obscure company founded in 1945 as a maker of edible oils. The owner of Wipro, Azim Premji, with a B.A. from Stanford, is the fifty-eighth richest billionaire in the world.[28]

Turkey

I met Fatma two days after September 11, 2001. She lives in a rural village forty miles outside of Ankara, Turkey. I arrived in Ankara just as the planes hit the World Trade Center and the Pentagon back home. After a panic-filled day and night trying to reach my kids, I finally got through and found out they were okay. No planes were flying, so I could not return to the United States. My hosts in Turkey generously arranged some travel in the countryside around Ankara.

On these travels, I encountered Fatma.[29] a dignified middle-aged woman. She was sitting outside her home, a four-room mud-and-stone hut covered with wooden sticks and thatch. She told me of the precarious existence of her family. The only income earner is her illiterate teenage son, who does odd jobs of manual labor. Her husband died two years ago, leaving a large debt to the state welfare agency, which demanded repayment of the debt before it would pay pension benefits. To pay the debt, Fatma had to sell all the family's sheep. Still, some of the debt remained, preventing her from getting a pension. To earn money to feed her aged mother and two deaf and retarded children, she gathers food from the family garden. I can see that what she has described as a two-year-long drought has shriveled its produce. Fatma has some land outside the village, but it is worthless without rain and she cannot afford to dig a well and install an irrigation system. The family makes do on what food Fatma can gather from nature. The charity of neighbors helps the family survive. When I asked her about her hopes or fears about the future, she said she trusted in God to bring better times.

After my visit with Fatma, I went to the village square. The friendly men of the village were very hospitable to the uninvited visitor, offering me a drink of water and then of some unidentified but tasty alcoholic beverage. The men laughed and joked with one another as I asked them about their village. Some of them were of Kurdish descent but had lived in this village in central Turkey for decades. A few women were present, but held back from the conversation. The men pointed with pride to the beautiful local mosque. Some of the people in the square had probably been benefactors to Fatma, under the Muslim tradition of *zakat,* in which observant Muslims give away 2.5 percent of their wealth every year to the poor.[30]

Fatma is needy and poor, but she is better off in a middle-income economy than she would be in a very poor one. Her poverty is not of the same order as that I have seen in Africa. She has a reasonably comfortable home, with a television set and a refrigerator. I hope Fatma's life improved as Turkey's economy recovered strongly from the crisis of 2001. Turkey has had a strong economy for a while.

In 1917, Vehbi Koç, the son of a literary scholar of modest means, opened a grocery store in Ankara, Turkey, with an investment of eight dollars. He was sixteen years old. When he died, in 1996, he was on the *Forbes* list of global billionaires. His company, the Koç Group, went from a small trading firm to a global conglomerate that is one of Turkey's largest private employers. Koç Group produces everything from automobiles, televisions, VCRs, refrigerators, and ovens to matches and tomato paste; it operates banks, insurance companies, tourist properties, and retail chains; it thrives despite the lowering of tariffs and European competition. Koç's son Rahmi took over the business after his father retired in 1984. Rahmi Koç has a B.A. from Johns Hopkins University. In 2004, when he was number 406 on *Forbes* 's list of the world's richest people, Rahmi Koç passed the generational reins of the company along to his son, Mustafa Koç.[31] With consumer choice the guide for Koç that it never was for the White Man's Burden, Koç has prospered.[32] In 2002, its exports rose 45 percent, to $2.6 billion.

From 1970 to 1995, the share of manufactures in Turkey's exports rose from 9 percent to 74 percent.[33] Turkey's manufacturing sector as a whole has grown at a robust 5.6 percent per year from 1966 to 2003.

Turkey is one of the success stories of the twentieth century. Never colonized or occupied by the West, it recovered from the collapse of the Ottoman Empire and a war with Greece after World War I. It has known steady growth ever since. Notwithstanding periodic macroeconomic crises, conflicts with the Kurds, and military coups, Turkey is today a stable democracy. Students from the country are flooding the graduate schools of the United States, getting top faculty positions at prestigious American universities, or going back to Turkey to teach at very well regarded universities there.

Fig. 37. Turkey Per Capita Income

Turkey's government is negotiating with the European Union the conditions of its accession to the Union, promising the epic moment of economic and political unity of Western Christendom and what Europeans used to view as the Eastern infidels. Turkey is not just catching up to the West, it is rubbing out the line between the West and the Rest.

Botswana

In 1968, the South African company De Beers discovered significant diamond deposits in Botswana. Botswana's government negotiated a partnership agreement with De Beers. Whereas other governments with valuable minerals usually nationalized them, Botswana's government acted shrewdly in enlisting De Beers's expertise at diamond mining and marketing. In 1976, the De Beers Botswana Mining Company (Debswana) discovered another huge diamond pipe at Jwaneng, in southern Botswana, the largest diamond discovery in the world since the original South African discoveries at Kimberley. Botswana renegotiated the original agreement with De Beers, giving it close to 80 percent of the profits from diamonds. In 1986, Botswana sold to De Beers its stockpile of diamonds (previously withheld from the world market to keep prices high) in exchange for cash and an unprecedented 5.2 percent of the shares of De Beers itself, including the right to name two directors of the De Beers board. Botswana's economy grew at the world's fastest rate over the last four decades, despite its dependence on diamonds, an outcome very different from that of other diamond producers, such as Sierra Leone and Angola.[34] Botswana's tiny manufacturing sector expanded rapidly at the same time, registering 8.7 percent growth from 1966 to 2003. Cattle was another important prop for exports and domestic income. In the new millennium, Botswana is diversifying its economy to include other products besides diamonds and is coping with a terrible AIDS crisis.

Botswana may have benefited from strong pre-colonial institutions of consultations of chiefs with citizens (in *kgotlas* that were sort of like town hall meetings). Other favorable factors were benign neglect by Britain during the colonial period, the absence of ethnic conflict because of the relative homogeneity of the Tswana people, and clear indigenous property rights based on cattle holdings.[35]

Botswana shows a possible path for homegrown development for many African countries. The abundance of natural resources in Africa has been a curse due to their capture by corrupt dictators. We saw in chapter 4 that natural resources are historically associated with bad government. But historical tendencies are not ironclad laws; some countries can break free. Botswana shows that if Africans can get good government from their rulers, the abundance of natural resources can be turned into a blessing.

Not all African countries are resource rich, but many are. Angola's natural resources to produce food crops, coffee, sisal, oil palm, sugarcane, tobacco, citrus fruits, fish, hydroelectricity, diamonds, and oil should make it rich. People produced all of these things in the colonial period, but the abrupt departure of the Portuguese at independence and the outbreak of civil war destroyed this potential. Railways built by the Portuguese formerly reached into the mining regions of DRC and Zambia for lucrative cross-border transit to the Angolan port of Benguela. The railway has not functioned since independence. Peace in the DRC and Angola could open the door to tapping this potential again, if citizens' demands for better government were realized.

Chile

I saw just how well integrated Santiago, Chile, was into the world economy when I visited some of the local espresso bars during a visit to Chile's central bank. Barely clad young waitresses took orders, handed out the cups, and collected generous tips. Combining sex, caffeine, and commerce seemed like the epitome of the best and worst of today's global economy.

A purer vision of the benefits of Chile's development came during a visit to a shantytown in Santiago. Accompanied by some idealistic upper-class students who ran a charity renovating shantytown dwellings, I visited some clean, orderly homes amid well-kept streets. I talked to a grandmother whose cement dwelling was adorned by hanging pots of flowers, a television, and comfortable furniture. Poverty was here, but it was quite muted by comparison with other shantytowns I had visited around the world. Chile's economic growth has benefited poor as well as rich.

Chile is an exception to the current Latin American travails. After Salvador Allende's socialist detour in 1970–1973, the brutal military government of Augusto Pinochet instituted free-market reforms. Macroeconomic crises plagued the military regime, but the free-market reforms eventually paid off in the 1980s. Democracy returned, but both leftist and rightist political parties agreed to keep the free-market model. Today, Chile is a stable free-market democracy.

On July 23, 2003, Congress approved a free-trade agreement between Chile and the United States, which took effect on January 1, 2004. Chile exported a diverse range of products to the United States in 2004, such as fish, fresh fruit, wood, wood products, copper, and clothing.[36] The success of the fresh fruit industry is typical of Chile's exploration for its niche in the world economy. Exploiting its Mediterranean climate and its opposite Southern Hemisphere growing season, it seized on the chance to export gourmet fresh fruit to the North Americans.

When I recently flew to Chile during the U.S. summer, my flight was crowded with American college students bringing their skis and tourist dollars to Chilean winter resorts. The road from the airport to Santiago was a new four-lane highway that put to shame the traffic-choked trip from Manhattan to LaGuardia on the other end. In a nice example of South–South globalization, Senegalese singer Youssou N'Dour was playing on the radio in the taxi.

Fig. 38. Chile Per Capita Income in U.S. Dollars

When it suited them, Chileans borrowed freely from American economic models, as implemented by the famous Chicago Boys—disciples of Milton Freedman trained at the University of Chicago. A disproportionate number of my colleagues ever since graduate school have been Chileans—most of whom are now back in Chile, running the economy and government. Foreign aid, the World Bank, and the IMF were never more than trivial players in Chile during its discovery of a free-market democratic model.

Homegrown Development

The success of Japan, China, the East Asian Tigers, India, Turkey, Botswana, and Chile is turning into a comic relic the arrogance of the West. Americans and Western Europeans will one day realize that they are not, after all, the saviors of the Rest.

Even when the West fails to "develop" the Rest, the Rest develops itself. The great bulk of development success in the Rest comes from self-reliant, exploratory efforts, and the borrowing of ideas, institutions, and technology from the West when it suits the Rest to do so.

Again, the success stories do not give any simple blueprint for imitation. Their main unifying theme is that all of them subjected their development searching to a market test, using a combination of domestic and export markets. Using the market for feedback and accountability seems to be necessary for success. But we have seen in chapter 3 that creating free markets is itself difficult, and the success stories certainly don't all fit some pristine laissez-faire ideal.

We know that gross violations of free markets and brutal self-aggrandizing autocrats usually preclude success. Beyond that breathtakingly obvious point, there is no automatic formula for success, only many political and economic Searchers looking for piecemeal improvements that overcome the many obstacles described in chapters 3 and 4.

Nor is self-reliance a magical panacea for poor people—many unlucky poor people, no matter how hardworking, live in states run by gangsters or simply in complex societies that have not yet discovered the elusive path to development. Western assistance, suitably humbled and chastened by the experience of the past, can still play some role in alleviating the sufferings of the poor. In the next chapter, I examine how Western assistance could do much more than in the past, once it is freed of utopian goals.

SNAPSHOT: THREE CLASSMATES FROM KUMAWU

ROLAND AKOSAH, ROBERT DANSO-BOAKYE, and Yaw Nyarko together attended the Tweneboa Kodua Secondary School in Kumawu, a town of about ten thousand people in the Ashanti region of Ghana. It was not easy being a student at this school. Water was out most of the school year. Electricity, when it was working, was on from only 6:00 to 10:00 P.M. There were few books; all the students shared the one or two copies available in the school library. But Yaw Nyarko remembers that the teachers were very dedicated and they taught him and his two classmates a lot.

Together, the three men went on to study at the University of Ghana at Legon, near the capital of Accra. And together, all three left Ghana during the military dictatorship of Jerry Rawlings to get graduate degrees abroad

Roland Akosah, who got an MBA from Wharton, then worked for many years at IBM and United Technologies in the United States, had grown up in poverty; his mother had had no formal education. He decided to return to Ghana and start his own investment bank, Eno International, in 2000. Eno International has raised capital in Ghana and the United States to put money into pharmaceuticals and consumer electronics. It is buying up citrus groves with the aim of eventually starting an orange juice factory. *

With help from family and friends, Robert Danso-Boakye got an M.S. in International Banking and Financing in Edinburgh and a M.Phil. in Economics from the University of Surrey. His mentors persuaded him to return to Ghana in the late 1980s to participate in the new opportunities created by the deregulation of banking. Today he is in senior management at Trust Bank in Accra.

Yaw Nyarko got a Ph.D. in Economics on a scholarship from Cornell University. He became a well-known expert in game theory, writing articles such as “On the Convexity of the Value Function in Bayesian Optimal Control Problems.” After a stint at Brown University, he joined the Department of Economics at NYU, where today he is my colleague. He is also the vice provost for global affairs at NYU, where he has helped develop an NYU study-abroad site and research site in Accra. It is based at Ashesi University, the dynamic private university started by Patrick Awuah, and the University of Ghana at Legon. Yaw has donated his own time to teach economics to the eager undergraduates at Ashesi. He has even more ambitious plans: starting an interdisciplinary research center at NYU called Africa House.

Roland Akosah is skeptical about what foreign aid has done for Ghana. “We have a horrible reputation. Not only do people *think* we are panhandlers, we *are* panhandlers. It’s up to us to improve our own economy.” Yaw Nyarko adds that foreign aid “distorts incentives.” He thinks “it makes people look to others to solve their problems.”