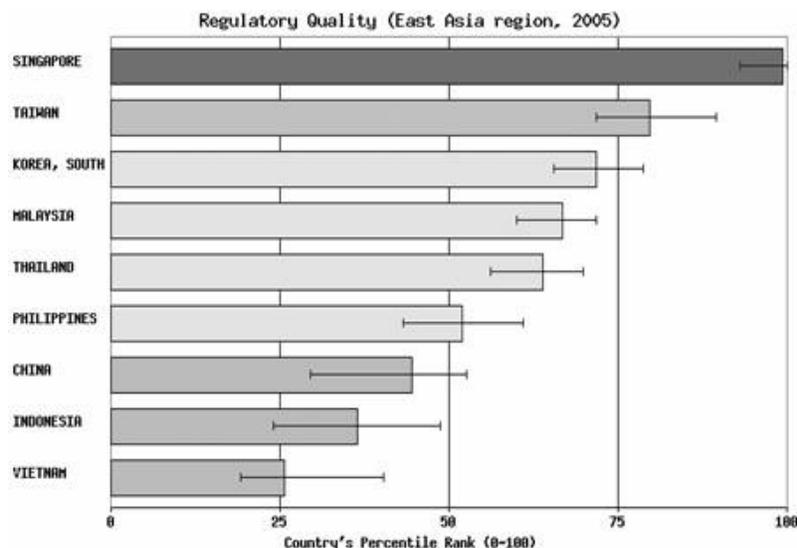




in poverty (Table 3). [1]

- 4 These developments have been made possible by improved production methods and increased labor productivity. Those advances had become feasible through the integration of the region into the world economy where advanced technology originated and where sufficiently large markets were found that enabled the leveraging of economies of scale and scope. Without a high degree of globality in the form of worldwide integrated product and financial markets, the economic success of the region could not have been achieved. Globalization provided the opportunity for the East Asian Miracle, an opportunity which no other region was able to exploit to even remotely the same degree. Tables 4 and 5 illustrate the relatively rapid growth within the area and Table 6 the extremely high degree of integration in the world economy as measured by merchandise trade. Thus there is little doubt that Pacific Asia has been the main beneficiary of globalization.
- 5 Table 5 illustrates strikingly the large differences in income and rates of growth within the region. Furthermore, the rates of growth are not systematically related to the levels of income. For example, the low-income country Indonesia has grown slower than South Korea whose standard of living is now equal to those of Southern European countries such as Greece and Portugal. Thus there is little evidence of convergence within the region. In fact, if China continues to grow at this rate for another few years, the picture will be one of divergence. Neither in the Asia-Pacific region nor in other parts of the globe has globalization empirically been associated with increasing political, cultural, or economic homogeneity.
- 6 In fact, most development economists would agree that this failure of convergence is likely to be related to institutional differences. A glance at one selected governance indicator — the picture does not change much if others are included too — suggests that structural differences among the economies of the regions are very pronounced (Figure 1). Such institutional differences can be systematized by constructing varieties of capitalism that “bundle” institutional differences and relate them to economic performance.



**Figure 1:** Governance Indicators for Selected Countries. Source: World Bank. Governance matters V: governance indicators for 1996–2005.

- 7 The distinction between such “varieties” on which this argument is based relies on the amount and particular nature of rent-seeking. At the extreme points of an imaginary triangular space three economic systems are to be found: a first one in which all types of rent are absent (pure capitalism), a second one where all national income is distributed in the form of rent (whose size and distribution is determined by a formal political decision making process and an allocation through bureaucratic channels), and a third one where all income is rent derived through the actions of personal networks. [2]
- 8 In the ideal world of pure liberal capitalism with secure property rights and its competitive pressures, rents in product, factor and financial markets are rapidly diminished and income corresponds in the main to opportunity costs determined in well-regulated markets. Entrepreneurial rents provide the dynamism of the economy but these types of rent are rapidly eroded by competition. The political class is satisfied with incomes that are equal to those in comparable positions in the market place; and it abstains from granting itself privileges that are not open to other citizens. This is the world classical liberals such as Adam Smith and John Stuart Mill envisioned as the ideal environment for economic growth.

















[14] The typology that has been presented is based on the prevalence of rent and not the degree of state intervention. It is indifferent, moreover, to state ownership of the means of production since both government and private monopolies are liable to produce inefficiency and rent.

[15] A further element pointing to functioning markets is the low unemployment rate: 1990-92: 2.5 %; 2000-04 3.5% (World Bank, *World Development Indicators 2006*, <http://www.worldbank.org/data> (accessed April 11, 2007))

[16] Mierzejewski, Alfred C., *Ludwig Erhard. Der Wegbereiter der sozialen Marktwirtschaft. Biografie* (München: Siedler, 2004).

[17] For a comparison between Europe and the United States, see Alesina, Alberto and Edward L. Glaeser, *Fighting Poverty in the US and Europe. A World of Difference* (Oxford: Oxford University Press, 2004).

[18] Hwang, Gyu-Jin, *Pathways to State Welfare in Korea* (Aldershot: Ashgate, 2006), 32. Park Chung-Hee wrote: "Economic equality in this context means not so much the communal ownership of property or its equal distribution, but the guarantee of the minimum right to survival and subsistence. It means, in other words, that employment opportunities should be equally provided, lowest individual income should be increased uniformly to the minimum level, and the people's minimum living standard should be guaranteed" (quoted from Wong, Joseph, *Healthy Democracies. Welfare Politics in Taiwan and South Korea* (Ithaca: Cornell University Press, 2006), 56.

[19] Moon, Chung-in, "Democratization and Globalization as Ideological and Political Foundations of Economic Policy," in Jangryn Mo and Chung-in Moon, *Democracy and the Korean Economy* (Stanford: Hoover Institution Press, 1999), 10.

[20] Wong, *Healthy Democracies*, 137.

[21] *Ibid*, 141.

[22] *Ibid*, 163.

[23] Li, John Shuhe, "Relation-based versus Rule-based Governance: an Explanation of the East Asian Miracle and Asian Crisis." *Review of International Economics* 2003(11):652.

[24] *Ibid*, 651-73.

[25] Douglass North, *Frankfurter Allgemeine Sonntagszeitung*. 20.8.2006. "George Bush und Genossen sind blöd." Nr. 33. S. 41.

[26] Holbig, Heike. "Ideological Reform and Political Legitimacy in China: Challenges in the Post-Jian Era." GIGA Working Papers No. 18. 2006. [www.giga-hamburg.de](http://www.giga-hamburg.de) (accessed April 11, 2007), 239.