Book Review
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Sanjaya Lall, 1996. *Learning from the Asian Tigers. Studies in Technology and Industrial Policy*. Houndsmills and London: MacMillan Press, and New York: St. Martin's Press.

In two recent studies, the World Bank (1993, 1994) spelled out its understanding of the role of industrial policy in economic development. The Bank acknowledges a positive role of functional, or market-friendly, interventions in Asia, but sees no evidence of a positive contribution by selective governmental intervention. In his new book, Sanjaya Lall of Oxford University gives a critical assessment of the method of analysis as well as the theoretical foundations of these studies. His response is a formidable challenge not only for the World Bank, but for many development and transition economists in the neoclassical tradition.

Most of the successfully growing East-Asian economies have pursued sector-specific industrial policy at some stage. In this, the World Bank (1993) and its critics[1] agree. However, the Bank considers free markets as the core to success, while specific policy has at best a supplementary role, and it interpretspolicy impact pessimistically in that it argues that

1. "despite these actions we find very little evidence that industrial policies have affected either the sectoral structure of industries or rates of productivity change" (1993, p. 21), and
2. the industrial policy followed by the East Asian economies would not be transferable to other regions because of the political and economic conditions in this region.

[1] See for instance Roderik (1995) and Brabant (1993).

Lall takes a different starting point than the World Bank study. He considers as a core to industrial development the development of ‘technological capabilities’ (chapter 2). These are the technological, managerial and institutional skills and organizations that enable enterprises to utilize equipment and technical information efficiently. Transfer of technology thus requires more than the acquisition of machines, patents, blueprints and operation manuals. The capabilities to utilize these technical resources efficiently, and to acquire the most suitable ones, are highly tacit knowledge that has to be taught and learned.

The development of technological capabilities has several characteristics that differ from the usual assumptions in neoclassical economics. For instance, it is follows unpredictable learning curves, and is dependent on networks of formal and informal relationships with related enterprises. Furthermore, it is evolutionary and path dependent at the enterprise, industry and country level. Especially the interdependence of economic agents, but also e.g. educational institutions, requires economy-wide coordination. The distinction used by the World Bank between ‘market-friendly’ and ‘selective’ policy measures appears of little use to describe actual policies. For these, and other, reasons Lall advocates active and selective policy in line with the traditional infant industry arguments. However, he urges more restraint and coherence of the of policy measures than those implemented in the past in many developing countries.

Lall reviews the policy implemented in Asia in chapter 3 and finds very different industrial policies, which however were mostly selective, and did have an impact on the industrial development of the country. In his critique of the World Bank study (chapter 4), he not only takes account with their failure to understand the process of technological accumulation, but also critiques the method of empirical analysis. At the high level of aggregation used in the World Bank study, the effects of policy would not be observable. Less clear is his conclusion about the tranferablility of the Asian experience. Lall rejects the claim that conditions in East Asia are so special, that a similar policy would not be feasible in other region. Yet, the reader is left wondering what policies would be feasible in, say, Eastern Europe where political institutions are instable and command relatively little respect in the business community.

In chapter 5, Lall reviews the World Bank (1994) study on Africa along similar lines. Country studies are provided on Malaysia in chapters 6, and on Ghana in chapter 7 written jointly with Ganashan Wignaraja. A final chapter discusses the policy of East Asian economies on foreign direct investment. Here, Lall stresses the variation of policy across the region. While Singapore welcomed direct investors with open hands, Japan and Korea acquired technology mainly through other means, while imposing severe restrictions on inward investment. However, for most countries, Lall describes a selective, activist policy that focused on acquisition of technologies deemed suitable for industrial development.

Unfortunately, the book is written as a collection of papers, partly published previously, which leads to some repetitions. Also, it is odd to find the references at the end of each chapter, but the footnotes at the end of the book. An integrated editing could have greatly enhanced the clarity of the arguments, and the accessibility of the information.

This not withstanding, the arguments presented are a profound challenge to mainstream arguments on industrial policy. Policy makers in other regions, such as the East European transition economies, should take account of these arguments alongside the World Bank advise. As, Sanyaya Lall himself put it (p. 122): “Does the bell toll for industrial strategy? No, the bell merely signals another round in the ring”. More ideology free analysis of governmental policy is highly encouraged. Lall provides a starting point.

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