BOOK REVIEW

Discussing Professor Lin's Book: The Quest for Prosperity[1]

Professor Dr. Medhi Krongkaew[2]

1. Prelude

I admit that I had not read Professor Lin's book, The Quest for Prosperity, until about a month ago when I prepared myself to be a discussant of his lecture at the NIC-NIDA 2024 on August 22-23, 2024. Considering that this is a widely read book among development economists and practitioners, from the first Asian Chief Economist of the World Bank, published by a reputable publisher (Princeton University Press) in 2012, my ignorance of this well-known economic development work is puzzling and needs a reasonable explanation.This is easy for me. In 2006, when I was appointed a commissioner in the National Anti-Corruption Commission of Thailand (NACC), I left my economics teaching behind and concentrated on my new field of interest, anti-corruption policies and activities. Even after the end of my tenure as an anti-corruption commissioner in 2012, I continued to work inside this national anti-corruption agency as its corruption prevention chairperson until 2017, when I retired from active academic activities to work on collating some of my unpublished writings for publication and other miscellaneous writings. The invitation by the President of NIDA to discuss Professor Lin's book and lecture today is a timely opportunity for me to return to economic development, which was and still is my main interest in the economics discipline. But more than two decades of my absence from my focus in this area may make it difficult for me to remove my rusty knowledge and understanding of the subject. I hope you will bear with me.

2. The Essence of Professor Lin's Book

I am sure that Professor Lin has been thinking about how to explain the economic development of a backward country since his student days at the Department of Economics at the University of Chicago in the early 1980s. After his PhD, he started his teaching career at Peking

[1] Paper prepared by the author as discussant to the lecture by Professor Lin Yifu in Session: On China Miracle and the Quest for Prosperity, at the NIC-NIDA 2024 International Conference, organized by the National Institute of Development Administration, in Bangkok, Thailand, August 22-23, 2024.

[2] Adjunct Professor, School of Development Economics, National Institute of Development Administration (NIDA)

University and various other academic activities, including several years as a senior research fellow at the Australian National University, where, as a fellow research fellow at the same School, I met Professor Lin for the first time in the early 1990s. He continued to work on his ideas of economic development for almost two decades, until in 2008 when China has risen from one of the poorest countries in East Asia in the early 1960s to the third largest economy in the world in terms of growth national income, Professor Lin as a representative of this economic success was asked by the World Bank in Washington DC to become its Chief Economist. This allowed Professor Lin to combine his background economic knowledge of development theories and experiences, and understanding of real-world development of China and other countries that he had an interest in, to see the real-world economic development of practically all countries in the world that are members of the World Bank.

This has made him a unique development scholar and practitioner that no other scholars or practitioners could match. Most other economic theorists in the past or at present developed their own ideas of development from their theoretical frameworks and logical reasoning, and based on relatively limited experiences compared to what Professor Lin has achieved and propagated these theories or explanations. And the acceptance or rejection of these theories would depend on finding out the development patterns of which countries or economies fit in with these theories. As I can see, Professor Lin's approach is different. He has accumulated his vast experiences and knowledge of real-world economic development in many developing countries, including his own, China, and tries to find a theoretical framework that explains the real-world situations. In short, this is a departure from an ordinary or orthodox understanding that good theory leads to good practice, as Professor Lin's technique suggests that good practice could lead to good theory.

If this understanding of mine is correct, then Professor Lin could be credited for establishing an economic development theory that resulted from acceptable good practices from various parts of the world. In this book, Professor Lin begins with his background knowledge of development theories that he had studied in the West, and he relies basically on the power of neoclassical, market-based economic theories to explain the growth and development of many developing countries in the world. With this basic theoretical foundation, Professor Lin, in the first half of his book, began his ideological and practical journey of economic development during his seven years of graduate and postgraduate studies in the US at the University of Chicago and Yale University. On reading this book, I cannot help but feel that this is indeed a semi-autobiography of Professor Lin from his childhood days to a well-known and well-respected Chinese economist today. His numerous quotations from well-known Western writers such as Shake spear, Beckett, James Joyce, Somerset Maugham, and Edgar Allen Poe, as well as Eastern scholars and writers such as Confucius, Wang Yangming, and Li Bing shows his deep understanding of Western and Eastern psyches, and use these to convince his readers of his concluding ideas of economic development. Although he briefly sketched his main development ideas known as New Structural Economics, he did not rush to propound its main concept until the very end of the book, while, in the meantime, readers were led persuasively through the stories of failures and then successes of some economies in Africa, Asia and Latin America. The flow of his stories is incredible: economic development history is told without his resorting to any mathematical equation or statistical table but simple and well-argued prose. When the end of the book is reached, I am sure most readers will understand perfectly what Professor Lin would like to convey.

What Professor Lin would like to convey is simple but bold, straightforward yet flexible and adjustable. He proposes that the government of a developing country wishing to attain economic prosperity, as seen in many other developed countries in the world today, begin by identifying the economic activity area or areas in which such a country or economy has a comparative advantage. This comparative advantage, whether obvious to perceive or of a latent nature, must be based on the economic endowment of that country. Together with the participation of the private sector, such industrial undertakings are slowly developing into profitable, mature, efficient, and flexible industries, making future upgrades possible without much difficulty. He calls this the second stage of action facilitation of economic development. In the overall processes of economic transformation from a poor economy to a more prosperous economy, this pro-active government would follow the six steps of policy implications, namely:

Step 1: The government should select dynamic, growing countries with similar factor endowments but with about twice the per capita income and about 20 years of successful development as a model to emulate.

Step 2: Continue to upgrade the already successful firms in the selected industries.

Step 3: If such firms do not exist domestically, the government can help by attracting foreign direct investment or incubation programs.

Step 4: The government should continue to promote innovations and scaling up of existing successful industries and firms:

Step 5: If poor infrastructure and bad business environments exist, the government could adopt economic zones or industrial parks to help remove barriers to entry of private firms;

Step 6: The government could compensate pioneer firms in the industries identified earlier with limited-term tax incentives, co-financing for investments, or access to foreign exchange.

3. Problems and Prospects of New Structural Economics

Professor Lin calls his economic development idea New Structural Economics. It shares a similar characteristic with the traditional or Old Structural Economics in the sense that the economic development of a country changes or transforms its economic structure from agriculture-based to industrial-based development. Also, the new industrial development must necessarily form an endogenous part of its changing factor endowments. However, while the New Structural Economics also relies upon market-based economic decision making in contrast to central planning in directing the movement of the economy, it does not support an extreme form of neoclassical principles known as Washington Consensus which include neoclassical policies that aim to remove all market distortions without due considerations to the possible negative side effects to the economy, radically reform social programs, and stay away from industrial policy. On the contrary, the New Structural Economics supports a more constructive and integrative role of the government. To Professor Lin, I think he would believe that it is fine for the government to "pick winners" as long as it is also constantly aware not to "pick losers" instead.

I am very much in agreement with Professor Lin's idea as pronounced in this book and elsewhere.[3] In my 60 years of my involvements in economic education economic career and profession, I have come across or exposed to various economic principles and ideologies, capitalism and socialism and something in between, Keynesian vs. Monetarist schools of thought, neoclassical vs. institutional economics, and so on, I have concluded that a correct or better way to develop an economy is to rely basically on capitalistic, market economy where decision on resource

[3] For example, at a symposium on New Structural Economics organized by the World Bank in 2011. See The World Bank Research Observer, vol. 26, no. 3, August 2011. See also Justin Yifu Lin (2012) New Structural Economics: A Framework for Rethinking Development and Policy, World Bank.

allocation comes from concerned and related individuals rather than someone acting as a dictator. But because of the well-known and well-accepted market failures and externalities or neighborhood effects, we need the intervention of the government or the public sector. It is the degree of this government intervention that differentiates between good government intervention and bad government intervention. The stories told by Professor Lin in this book about the success and failure of government in its handling of economic development is very clear on this point. It is not easy to pin down the extent to which we can say the government is doing too much or too little, but the general tone of Professor Lin on his proper type of government is about right overall. Indeed, as I will be able to say more on this later, I could even go further than Professor Lin on this position.

But before I do that, I have a few comments that I would like to raise regarding the problems and prospects of Professor Lin's idea. The first may be a bit trivial, but I will make it to reflect my surprise upon Professor Lin's approach to his study and his official position before he was appointed Chief Economist of the World Bank. From his book, we learned that his first economic lesson was about Marxism and Leninism from Peking University in 1979, then he quickly switched to laissez-faire economics at the University of Chicago in 1980. Six years on, he had his PhD in economics with little or no hint of a socialistic undertone at all. Considering the fact that most economists in China at that time were of Marxist upbringing, his methodological position must be unique indeed. Yet it does not mean that his basic economic training from the Chicago School has turned him into a far-right economist, whom one would expect from a typical economic graduate from this University. Professor Lin was able to develop his tenet of economic thought, with a judicious and clever role of the state or government in the normal affairs of the economy. The extensive role of government was anathema to the concept of capitalism that Milton Friedman, doyen of the Chicago School of economics, would espouse. On re-reading his Capitalism and Freedom, published in 1962, I have re-discovered Friedman's strong position against all kinds of economic affairs, be it the monetary policy, fiscal policy, educational policy, income distribution policy, or welfare policy.[4] I doubt if Friedman would approve of Professor Lin's position on the role of government in this book if he were still alive. But no matter, I don't think Professor Lin should pay any attention to the methodological position of this probably best-known economist from Chicago. It is all right to form his idea as Professor Lin did, without due consideration to the philosophy of the

[4] See Milton Friedman (1962). Capitalism and Freedom. University of Chicago Press.

School. Indeed, in more than 200 references that Professor Lin used in preparing this book, he did not use any source material from Friedman.

The second observation I have after reading Professor Lin’s book and many reviews of his book by various reviewers is that it is not uncommon to expect that these reviewers would raise many comments regarding the likelihood or possibility of the outcomes mentioned by Professor Lin. This is expected from Professor Lin’s forceful exposition of his policy prescription for a developing country to develop into a higher stage of economic status. The situations in the real world may not be the same as those perceived in Professor Lin’s idea. Professor Anne Kruger, for example, thought that while the readiness of infrastructure, both tangible and hard, like highways, ports, telecommunications, and intangible and soft, like the institutional structure, social values, and social capital, is essential, the coordination of infrastructure investments by the government is unclear. Moreover, Krueger commented that while protections may be given to firms during the import substitution period, little guidance is given as to how much protection industries would be provided with, how long that protection would last, how industries to be protected would be chosen, and so on. There are many other comments, especially in the book titled New Structural Economics: A Framework for Rethinking Development and Policy, published by the World Bank in 2012, where the author, Professor Lin, has a chance to respond to these many comments. At this juncture, it is challenging to dismiss Professor Lin’s idea because the outcomes of development efforts by progressive economies such as Indonesia and Vietnam in the last ten years attest to the accurate patterns of Professor Lin’s model.

However, while I am very supportive of the proactive role of government in its economic development efforts, I could not help feeling apprehensive about what can be called “government failure” as a corollary to market failure as a primary factor hindering economic development. As the name implies, government failure results from the government causing damage to the economy or the country from wrong policies and subsequent policy actions. This government failure can happen regardless of the form of government, be it a democracy or an authoritarian one. It could happen when government leaders are able to embark upon a given policy or policies that plunge the country into chaos. The political structure in this situation exists in such a way that there are or no mechanisms of checks and balances to stop the government in power from doing what it wants.

China offers a unique and extraordinary example of government failure and success. Today, China is an exemplary case of a developing country with the highest overall economic growth in the world in the last 46 years since 1978. This is, in part, an indication of government success. But before that, between 1949 and 1978, when the Communist Party ruled China under the leadership of Chairman Mao Ze Dong, it was the opposite case of government failure. During these more than two decades, China experimented with socialism and communism, where farms were collectivized and industrial outputs, especially iron production, were ramped up. This Great Leap Forward in the 1950s, together with the Cultural Revolution in the 1960s, had resulted in enormous disaster in the Chinese economy, where, as Professor Lin had mentioned in his book, about 30 million Chinese people had died from famine and starvation. It was unbelievable that the country that was the most prosperous in the world for more than two millennia could be reduced to one of the least developed countries during the 1960s and 1970s, basically as a result of misguided government leadership.

It took another Chinese government leader, Deng Xiao Ping, to revert this dire situation after the death of Mao Ze Dong in 1976. Deng was credited with changing the economic course of China's development. He had changed the economic direction of China from Soviet type socialism to market-based capitalism while being able to maintain a socialist political structure. On looking back, this was not easy at all because the influence of Mao's socialist ideology was still very strong even after his death, but the results of the economic disasters from the Great Leap Forward and the Cultural Revolution had softened the political resistance to Deng's change. He had a clever way to rationalize his action, saying that "Poverty is not socialism. To be rich is glorious. It doesn't matter if a cat is black or while, as long as it catches mice, it's a good cat"[5]. In his book, Professor Lin was trying to find similarities between Deng and Boris Yeltsin in changing their respective countries, in China and Russia. While the economic focus is practically the same, the change in political structure is different. China under Deng. Liberalized the economy first while keeping internal politics under tight control, whereas Yeltsin tried to do both at the same time, resulting in political turmoil and less than satisfactory economic performance.[6]

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[5] This and another quote on China's leaders can be found in Ezra F. Vogel (2013), Deng Xiao Ping and the Transformation of China, Harvard University Press.

[6] This part draws from my paper, "The Political Economy of Growth in Developing East Asia: A Thematic Paper", in Medhi Krongkaew (2018), Thailand in East Asia and Pacific Context, Institute of East Asian Studies, Thammasat University. Pp. 311-396.

4. The Importance of Economic Turning Points

What happened in China under the leadership of Deng Xiao Ping can be construed as a "Turning Point" of development that a country needs to start its meaningful change. To quote Chairman Mao's idea when he was building the Communist Party of China to change his country, he said that" "It only takes a spark to light a prairie fire". This spark is the same as our turning point which signifies specific policy changes that have momentous impacts on the economy in questions. These policy changes are often associated with events that caused major changes in the country or economy. Those changes may be long-term in nature, but they can also be short-term but the impacts must be large and noticeable. Each country normally has more than one turning points of major importance, but at least one most, or more, important turning point can create the spark that lights the prairie fire of economic development. In 1999, I was trying to find this spark or turning point in some East Asian countries in addition to China and found many interesting turning points in these economies as follows:

Korea

The decision to switch to heavy and chemical industrialization by President Park Jung-Hee of Korea in 1973 qualifies as an essential turning point in Korean economic history. In the ensuing 6-7 years, the Korean economy underwent enormous changes, good and bad. The political economy considerations that influenced Park and his technocrats and advisers and their running relationship with chaebols, must be considered crucial and very interesting. A close analysis of this turning point may prove or disprove the effectiveness of coalition theory between the state and big business.

Taiwan

Korea and Taiwan are often compared in terms of their adopted development strategies. Korea favored large enterprises (LES), whereas Taiwan favored small and medium enterprises (SMEs). The conditions under which the Taiwanese leaders decided to go the SME route are undoubtedly different from those faced by the Korean leaders. However, the support from the state was the same; that is, the Taiwanese government still had to provide concessionary loans and technical services to these SMEs. The analysis of the political economy of this policy turning point, which started in the early 1980s, would be instrumental.

Singapore

After successful import-substitution policies from 1959 to 1965 and export orientation policies from 1966 to 1973, the Singapore government embarked on a new phase in its development. The Industrial Restructuring Phase started in 1973 and was a significant turning point for Singapore. The government no longer wished to keep on promoting the export expansion of such traditional items as textiles, garments, electronic components, and ship repairs, but to encourage investments in skill- and technology-intensive sectors such as computers, electronics, machinery, and pharmaceuticals in order to generate more value added. A high-wage policy was adopted to force new industries to move away from low-tech, low-value-added, labor -intensive activities. Even unskilled foreign workers were affected by this policy when their wages were subject to a levy to force higher wages for Singaporean workers. This policy was successful, as Singapore could move up to technologically sophisticated 'upstream' manufacturing activities towards the end of the 1970s and early 1980s. How can we explain the origin of this policy?

Malaysia

The New Economic Policy of 1970 was a turning point for Malaysian economic development. Today, Malaysia sees an enormous improvement in the lives and livelihoods of Indigenous Malays. Boldly adopting this policy amid explosive ethnic problems required a deep political-economic understanding. The Malaysian government had to face not only ethnic problems but also the choice of economic strategies to move the economy forward quickly.

Thailand

The economic boom in Thailand in the mid-1980s had completely changed the picture of the old Thai economy. The development was not only rising; it had shifted up. The ensuing bubble economy created a euphoria that fooled most people, including the Thai monetary authorities, who jumped on extensive financial liberalization.This financial liberalization and its unintended results gave rise to the financial and economic crisis in July 1997. Who was involved in these decisions, and why?

Philippines

On looking back, the most prosperous economy in Southeast Asia in the postwar period had turned into 'a poor man of Asia' in the 1970s and 1980s. The long years under President Marcos's authoritarian rule were to blame for this. The end of President Marcos and the beginning of President Aquino in 1986 were important turning points in the Philippines' economic strategies and management.

Indonesia

The political event that saw the rise to power of General Suharto in 1965 can be considered an important economic turning point in Indonesia. But nothing extraordinary happened in Indonesia under Suharto's rule in the first 20 years. Indonesia was blessed with the discovery of oil and good oil prices from the beginning to the end of the 1970s, and the oil money helped the government provide infrastructure and social services for Indonesians. When the oil price boom faded in the early 1980s, Indonesia faced a new, probably more important, turning point: General Suharto announced his New Order in the early 1980s with sweeping economic reforms, deregulation, and liberalization. The New Order policies had propelled Indonesia into one of the most dynamic economies in Asia in the 1990s, but with a curious mix of good market efficiency and bad corruption, nepotism, and cronyism.

5. The Role of Government in SPA Economics[7]

By now, it should be obvious to everyone who has read this book by Professor Lin that the government is very important as a key player in the development efforts of any country under his New Structural Economics. I have said earlier that I am in much agreement with the position of Professor Lin in this regard. But on closer inspection of Professor Lin's idea, I have discovered that his perception of the desirable role of government in development strategy could be likened to the role of government in managing various government policies propounded by an Australian economist by the name of Professor Bruce Chapman of the Australian National University.

Professor Bruce Chapman convinced the Australian government in 1989 to adopt his plan to administer the student loan program for higher education in Australia. His Higher Education Contribution Scheme, or HECS plan, was straightforward. Instead of a university student having to borrow needed funds to pay for his tuition by himself, facing the daunting difficulty of finding a guarantor or collateral for his loan, the government could provide the necessary

[7] See Medhi Krongkaew (2022) "Bruce Chapman and His SPA Economics", Academy of Social Sciences in Australia, 10 Nov 2022, Reflections on the work of Professor Bruce Chapman AO FASSA (socialsciences.org.au)

funds for this student until his graduation. Once this student can earn sufficient income after graduation, he will start to pay back his debt through the normal income tax system. The extent and rate of repayment will be designed in such a way that the indebted student is not under undue duress to repay his debt with two important caveats that it has very low interest charge or no interest charge at all but the amount of debt will be adjusted year by year by price index, and a debt moratorium in case of personal exigencies such as unemployment or serious illness. This system is commonly called the “Income-Contingent Loan” or ICL system, which has worked very well in Australia since 1989 and has been replicated by many countries around the world today.

Based on this basic concept, Professor Chapman had tried to expand the applicability of this ICL system to cover practically all other economic activities that the government wants to be a financial partner with individuals or firms. I succeeded in establishing this student loan system in Thailand in 2006, but it did not last long due to later political problems. However, the excellent concept of ICL kept me coming back to Professor Chapman’s original idea. In 2021, I repackaged his ICL idea into a larger economic policy that shed the role of government in a new light. I called the organization responsible for this new arrangement of the government role the Special Public Arrangement, or SPA economics. Its scope of application is far greater than the narrow concept of university student loan financing.

I see a new structure for the state’s role that transcends its commonly conceived provider of public goods to partner with individuals or the private sector in carrying out one or many specific economic functions in society. This new “partnership” is more than the common understanding of a joint ‘public-private partnership’ (PPP) that we have seen discussed and implemented in various economic policies and cooperation, because the real benefits and costs of the state and the individuals or the private sector are now shared. The optimal trade-off between the two sides is now factored in. As evident in the example of the HECS system (which is now slightly modified and called a new name Higher Education Loans Program or HELP), government shares the success or failure of the students vis-à-vis the benefits and costs of the tax payers through the effective subsidies to, and the repayments from, the students, using the normal state facilities like its tax system. To me, this phenomenon should be recognized as a new ‘Economic Governance’, the same way that representative democracy is a form of ‘Political Governance’, and I would like to label this new invention of Bruce Chapman as Special Public Arrangement Economics or SPA Economics.

In Bruce Chapman’s SPA economics, the following five conditions are likely to happen or take place:

1. The state becomes a leading actor or a partner with the individual or the private sector in the functioning of its economic role in the overall picture of economic management. This has the beneficial effects of correcting capital market imperfections, market failures due to public goods, free-rider, and other economic externalities problems;
2. It creates necessary and important conditions for the efficient outcome of economic efforts through consumption smoothing, which reduces the cost and waste of economic instabilities brought about by the shortfall and excess of income and expenditure on the part of the student borrowers or other targeted individuals;
3. It relies on the strong and immutable role of the state (i.e. the government tax office) to be the effective instrument for collecting debt repayment, which not only efficient, timely, and less costly than done by the private sector, and which received the accolade from Joseph Stiglitz, a Nobel Laureate in economics who coined a new term ‘Transactional Efficiency’ to describe the outcome of this approach or technique (see Stiglitz 2014);
4. It enhances the welfare of both the individual and the state in taking advantage of future returns from private efforts (in successful cases), or to reduce the future losses of both sides (in unsuccessful cases);
5. The net overall effects should balance out the negative results of market failures and the redistributive issues in the capitalistic economic system, and the negative inefficiencies of resource allocation of socialistic economic system.

In 2006, Bruce Chapman and many of his academic supporters organized a conference that explored the possible applicability of this ICL-based SPA economics beyond the HECS/HELP systems. These applications include, for example, the use of income-contingent loans for agricultural drought relief, the use of the tax system to collect fines, the use of financial incentives for criminal reparations, helping economically disadvantaged regions as well as low-income households via income-contingent loans, and so on. In 2009, the Australian Journal of Labor Economics devoted its entire second issue to various academic papers on applications of income contingent loans on many economic issues and problems, for example, on the general exploration of creative applications of ICLs, on the use of ICL for mature aged training, and for extending paid parental leave.

The above list may look varied and quite impressive, but the fact is that it has hardly covered the full power of SPA economics, where ICL is a major tool of implementation. The application of SPA economics is only limited by the users' imagination. As mentioned above, it can be used whenever the state wants to create special relationships with its citizens or groups of people. Two significant economic issues come quickly to my mind: the promotion of immigration to Australia, where the costs of application can be as high as the benefits from a new life in Australia could generate for a given migrant family, but these costs could be instituted in the ICL scheme. Long-term climate management, which can be very expensive for the private sector but can provide great benefits for the country as a whole in the future, can be undertaken by using financial assistance based on the ICL concept.

I hope that this extended role of government in SPA economics can be linked with the proactive role of government in Professor Lin's development efforts. Now, "picking winners" should assume a new and more interesting meaning.

6. Concluding Remark

Professor Lin has made his country proud by diligently building up his academic activities and reputation to the point that he is recognized as a world expert in economic development. He was invited to serve as the first Chief Economist of the World Bank from a developing country. He had used this opportunity to expand his knowledge and expertise in development matters with enough confidence to offer his idea of New Structural Economics to the world's development community. This book, The Quest for Prosperity, is a testament to his devotion to sharing his knowledge and experience to help other developing countries achieve or attain desirable outcomes like his country, China. Although Professor Lin tried his best to be as direct as possible in presenting his own recipe for possible economic development, this recipe is still not a ready-made formula that can be applied to any development situation. The government and the people involved still need to be aware of the changing environment and the necessary requirements for adjustment.

An outstanding feature of Professor Lin's New Structural Economics is his specification of the appropriate role of government in development policy. To him, the New Structural Economics relies on neoclassical methodology to implement development policy. Yet, it is not in the same mold of laissez-faire economics a la Adam Smith or Milton Friedman, where the role of government is limited mainly to the protection from outside invasion, provision of necessary law and order, and essential assistance to people who are not able to look after themselves. The government of Professor Lin is required to help identify economic activities that draw or rely on endowment structure of the country that can be utilized or exploited to achieve comparative advantage over other countries, provide necessary infrastructure both tangible and intangible to help and facilitate the involvement of the private sector in undertaking investment in these industries or sectors. The so-called Growth Identification and Facilitation (GIF) framework defines the government's role. I see a possible link of this perception of the government in development efforts and the role of government proposed by Professor Bruce Chapman of Australia in its management of selected economic policies of the country, and hope that we can see a greater analysis of this link in the future discussion of economic development and policy implementation.

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