

Introduction

Being student in the International Master's Program in Asia-Pacific Studies allowed me identifying state institutional quality as a relevant topic for two reasons. Firstly, the relative recently development in the most developed Asian economies such as Japan, South Korea, Taiwan, Singapore, Hong Kong and China.

It is important to highlight as the definition of developed country one given by the United Nations, where economic criteria have tended to dominate discussions. Thus "a developed country is one that allows all its citizens to enjoy a free and healthy life in a safe environment."

Secondly, in Latin America the improvement of state institutional quality is an absent policy, therefore far from counting with strong state strategies and development goal; even state institutions cannot provide properly the necessary amount of public services.

In Latin America there is disproportionate predominance of neoclassical approaches¹, which not considered properly state institutional quality as an instrument to improve the economic development. In contrast, both institutional approaches and the Asian evidences, offer a complement to help the development process in this region. In order to achieve the thesis's objectives, it will be divided in six parts.

The first part has the motivation, theoretical and methodological aspects. The second part tries to determine the impact of state institutional quality on China's

¹ Neoclassical approaches focusing on the determination of prices, outputs in markets through supply and demand, often mediated through a hypothesized maximization of utility; basically.

economic development. The third part tries to determine the impact of state institutional quality on most developed Asia countries' economic development. The fourth chapter tries to give evidences from the Asian case to improve the Latin America's state institutional quality. The five chapter contrast the hypothesis via an econometric regression. Finally, there is the conclusion.



1. CHAPTER 1 Design of the research

1.1. Purpose and research question.-

The quality of state institutions as an instrument to catch up to higher levels of development is an absent aspect in Latin American countries. This region has experienced several reforms where the lack of institutional quality has been a permanent feature; although they could contribute considerably to solve the social problems and improve the standard of life in the region as has occurred in other regions.

One explanation of this phenomenon is that in Latin American countries there is a predominance of neoclassical approaches, which propose to focus exclusively on the market forces as the only instrument to get development goals. Consequently, the region lacks policies and objectives to improve the quality of institutions. Therefore institutional approaches will be a relevant contribution to this region.

Another important reason is that successive Latin American governments, which last around five years, are basically interested in short-term policies in order to get electoral gains. While, according to institutional approaches both modification and creation of institutions required a long-term process. Therefore, these governments practically do not have the necessary incentives for long-term reforms for improving institutional quality.

Latin America required successful empirical evidences on how institutional quality could contribute to achieve higher levels of development. Thus, in other regions such as Europe and East Asia, institutional state instruments are part of the overall development policy. Scholars reference the Weberian State for Europe on how the bureaucratic system is a sustainable tool to get social and economic welfare. For the East Asian region there are many examples, one of them being the Developmental State Model, where the role of institutions had helped to achieve development goals.

This thesis considers that the East Asian experiences offer helpful evidence on state institutional quality for Latin America for many reasons. The East Asian region has experienced the fastest process of development recently in the world; where the role of institutions had successfully been a fundamental instrument to catch up national development goals. It is rational to affirm that for that it is required to have a certain level of institutional quality; otherwise poor institutional quality would not be able to be an instrument.

East Asian countries have had lower levels of development than Latin America in the middle of the 20th century, but after a fast process of development, the first ones had exceeded the seconds by the 21st century. For that, in general, the East Asian region's development process represents an important reference for Latin America, but in particular in the present we focus in the specific contribution of institutional quality in this development.

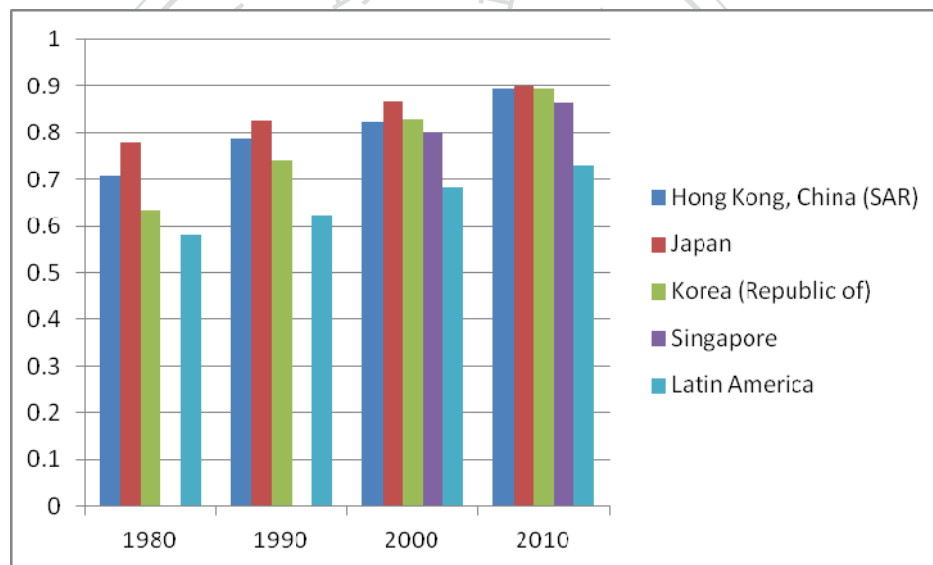
It is important to highlight that this thesis does not pretend to deny the benefits of market forces as well as other factors which could influence positively on the development of Latin America, but complement them with the institutional quality as another exogenous variable in order to the discussion about the increasing of the levels of development and solve the main problems in this region.

Theoretically, it is reasonable to propose that the low level of institutional quality in Latin America represents one of the factors, which explains the low levels of development in this region as well as its main problems.

Therefore, propounding policies to consider institutional quality as an instrument for Latin America countries is a new contribution for future policy-design in the region. For example, the government effectiveness will allow improving the quality of public services; the quality of the civil service and the degree of its independence from political pressures; the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.

To measure the impact of institutional quality on development, we need to count with an indicator of development. For the present proposal we assume the Human Development Index (HDI) as that. The following graphic shows a comparison between average HDI of Latin America and the most developed countries of the East Asia. There we can see that the levels of human development, since 1980 till 2010, for Japan, Hong Kong, South Korea and Singapore are higher than the level in Latin America.

Graphic 1: Comparison between Human Development Index of Latin America and selected Asian countries



Source: United Nations Development Program;
<http://hdr.undp.org/en/statistics/>

The present thesis aims to determine how state institutional quality has contributed to the development experience in the East Asia region. Then, this paper will evaluate recommendations for some institutional quality policies, which could be implemented in Latin America to improve the welfare in this region as well as the size of the impact on the development.

Concerning the quantification of institutional quality, there are diverse indicators to approach that. However, for the present thesis, it had been selected the six indicators proposed by the World Bank, which together are a robust proxy of the institutional quality for each country and allow the comparison and analysis:

- (i) voice and accountability.- when the citizens are able to participate in selecting their government; as well as freedom of expression, freedom of association, and a free media.
- (ii) political stability and absence of violence.- measuring perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including political violence or terrorism.
- (iii) government effectiveness.- measuring the quality of public services; the quality of the civil service and the degree of its independence from political pressures; the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.
- (iv) regulatory quality.- measuring the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.
- (v) rule of law.- measuring the extent to which Law Enforcement agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, the police and courts, as well as the likelihood of crime and violence.
- (vi) control of corruption.- measuring the extent to which public power is exercised for private gain (including both petty and grand forms of corruption), as well as "capture" of the state by elites and private interests.

Institutional scholars highlight that in the Asian case, some institutional legacies like classless goals or some Confucian values have been kept, modified or abandoned

according to the criteria of achievement of modernization and development goals, having as rationality the satisfaction of necessities of the people. This modernization according to achieve national development goals have allowed them to catch up high standards of development.

There are some questions we want to answer: Is it the institutional quality a relevant determinant of the recent development in East Asian economies? Are there some lessons from the East Asian experience, which could be implemented in Latin America in terms of the improvement of institutional quality? What would be the impact on the development of improvement institutional quality in Latin America in a similar level gotten in the East Asian region?

1.2. Literature review

Being as our main objective is to focus on the impact of institutional quality for Latin America, I have reviewed a diverse selection of literature, which analyzes the impact of institutional quality on development. Among the main empirical papers, we can mention the study of UNCTAD (2008) entitled “New way to link development to institutions, policies and

phy”, which examined the role of institutions in explaining the differential level of development across countries. The paper constructed two indexes first a Development Quality Index (DQI) and an Institutional Quality Index (IQI). There is an econometric regression where the DQI is the dependent variable and the IQI is the first independent variable; for the regression the model has two control variables, the type of policy and the geography. The paper evidences the relative influence of institutions varies across stages of development; likewise, development quality is a complex phenomenon: different factors are interrelated and help build up the process so that it works efficiently.

One of the most recent papers about institutional quality from 2011, is Elisa Valeriani’s et al. research titled “The Impact of Institutional Quality on Economic Growth and

Development: An Empirical Study”; in this case the impact of institutional quality is evaluated as a dependent variable for economic growth over a sample of sixty years in almost every country in the world at different stages of development. In the paper institutional quality do impact in a positive way on economic growth, for all institutional indicators that were examined. The only difference between how developing and developed countries are affected by institutional quality is in the size of the impact.

Marie Helgason (2010) examines and compares the effect of institutional quality on the economic growth rate in developed and developing countries, focusing on to what extent institutional quality affects growth at different stages of development, and if different institutions are more or less adept at promoting economic growth at different levels of development.. For that, she used three institutional variables from the following sources: Freedom House, the International Country Risk Guide and the Database of Political Institutions.

Another useful reference for our purposes is the 2010 paper from the United Nations Development Program, which compared countries with low institutional quality and countries with high institutional quality, having both the Human Development Index (HDI) and Gross Domestic Product (GDP) as dependence variables. One of the conclusions was a higher impact of institutional quality for more developed countries.

Deolalikar, Anil et al. (2002), relying on North for their theoretical basis, adopted a definition on institutions as, “the humanly-devised constraints that structure political, economic and social interactions.” Thus, institutions include social networks, gender roles, legal system, politico-administrative system, and the state.

Concerning state institutions, for him, they cover aspects such as the public provision of basic education and health services, public order and safety, and infrastructure. The nature of governance will determine the availability and quality of these public services and, hence, the extent to which the poor have access to them.

Deolalikar, Anil, et al. (2002) also defines non-state institutions as social institutions, values, and norms. A key social institution is social capital, which consists of informal

norms or established relationships that enable people to pursue objectives and act in concert for common benefit. Thus social capital is particularly important for the poor. In contrast, ethnicity and gender roles, which remain pronounced in Asia and lead to discrimination against minorities and females, are other institutions that underline poverty and inequality.

In his meaning, civil society consists of both formal and informal organizations that operate outside of the state and market to promote various interests in society. These include, among others, NGOs, community associations, labor unions, cooperatives, religious groups, professional associations, student organizations, media, and academic institutions.

According to Foa (2008) among the myriad of issues that have been addressed within the 'social capital' literature, notable examples include the finding by political scientists that countries and regions with greater associational life, trust and inter-group cohesion tend to have better public service delivery, financial accountability, and adherence to democratic norms.

Additionally, for him, the finding by psychologists that engagement in community activities has a significant association with measures of health and educational attainment; and, finally, the finding by economists of a robust association between social institutions and economic wellbeing in the form of both household income and aggregate economic growth.

Then, his definition of informal institutions clearly encompasses a wide range of human customs and practices, and therefore from among the universe of total possible institutions, we introduce a second term, social development, to highlight those which, theoretically and empirically, are conducive to welfare gains by reducing transaction costs, facilitating collective action, and improving allocated efficiency.

1.3. Theoretical Framework and hypothesis

As the main theoretical basis for institutional approaches, there are North, Williamson and Aoki's institutional theories. They highlighted the importance of institutions as the relevant measure to improve the development of societies. For them institutions should be understood as the set of values, norms, entities and laws. For instance, according to North (1990), institutions are defined as the formal and informal norms and conventions that pattern social behavior; in other terms, the rules of the game in a society that shape human interactions. From this theoretical framework, we find the role and importance of state institutional quality.

Thus state institutional quality is the effectiveness of the all state's institutions and whole state apparatus to fulfill their functions. In consequence, it includes mainly the formal norms, rules and social behavior given or make by state institutions.

To measure the performance of state institutional quality, we are considering the World Bank's proposal to develop institutional approach including its set of indicators. Also, it is followed the methodology of Ebeke (2011) who apply this indicator as a measure of state quality institutions. They are the following six ones:

According to the methodology of the World Bank, for the constructing the six indicators, there are the following data sources: Links to the Individual WGI Sources: African Development Bank Country Policy and Institutional Assessments (ADB), African Electoral Index (IRP), Afrobarometer (AFR), Asian Development Bank Country Policy and Institutional Assessments (ASD), Business Enterprise Environment Survey (BPS), Bertelsmann Transformation Index (BTI), Cingranelli Richards Human Rights Database (HUM), European Bank for Reconstruction and Development Transition Report (EBR), Economist Intelligence Unit (EIU), Freedom House (FRH, CCR), Global Corruption Barometer Survey (GCB), Global Competitiveness Report (GCS), Global Insight Business Condition and Risk Indicators (WMO), Global Integrity Index (GII), Gallup World Poll (GWP), Heritage Foundation Index of Economic Freedom (HER), IFAD Rural Sector Performance Assessments (IFD), iJET Country Security Risk Ratings (IJT), Institute for Management & Development World Competitiveness Yearbook (WCY), Institutional Profiles Database (IPD), International Research & Exchanges Board Media

Sustainability Index (MSI), International Budget Project Open Budget Index (OBI), Latinobarometro (LBO), Political Economic Risk Consultancy (PRC), Political Risk Services International Country Risk Guide (PRS), Political Terror Scale (PTS), Reporters Without Borders Press Freedom Index (RSF), US State Department Trafficking in People report (TPR), Vanderbilt University's AmericasBarometer (VAB), World Bank Country Policy and Institutional Assessments (PIA)

Then the World Bank combines the many individual data sources into six aggregate governance indicators, corresponding to the six dimensions of governance described above.

Thus For each of the six components of governance defined above (Voice and Accountability, Political stability and Absence of Violence, Government effectiveness, Regulatory quality, Rule of law and Control of corruption), the World Bank selected for each country and indicator of governance

(<https://openknowledge.worldbank.org/bitstream/handle/10986/3913/WPS5430.pdf?sequence=1>)

Finally, to count with an indicator of development, we count with the HDI, which come from human development theory and represent one of the most acceptable indicators. For the human development theory, development is defined as the human development progression, through the expansion of freedoms. For Amarty Sen, the father of the human development theory, there are three basic freedoms: a) nutrition, b) longevity, and c) literacy.

Sen proposes that we consider human development as the most appreciate indicator of economic development, replacing other indicators such as the Gross Domestic product. For him, human development represents a more complete measure.

As hypothesis it is proposed that exogenous improvement in the quality of state institutions to generate considerable positive impact on the level of development of the Latin America countries.

1.4. Methodology and Procedures

To evaluate the performance of institutional quality in the EastAsia region we count with a dataset for both state institutions and social institutions. For the convenience of the analysis, we will classify the EastAsian countries in two main groups, according to their similarities in terms of kind of institutions.

In the first groups, we analyze China. In the second group the Developmental State Model economies: Japan, South Korea, Taiwan, Singapore and Hong Kong. After we evaluate the most relevant institutional determinants in the Eastregion, we will suggest some measures of policies for the Latin American countries.

To answer our questions, it is possible to apply econometric methods. Given that we count the HDI as the endogenous or dependent variable to measure the level of development in Latin America; therefore it is possible to determine the impact of institutional quality. In the following formula we show the components of the HDI, developed by the United Nation Development Program, which involved important aspect of the life such as education, health and income:

$$HDI = \left(\frac{1}{3} * E\right) + \left(\frac{1}{3} * I\right) + \left(\frac{1}{3} * A\right)$$

Where:

DHI = Human Development Index

E = Longevity

I = Income

A = Literacy

The progress of development, measured as the progress in the human development index, will be evaluated having as ones of their exogenous or independent variables the

indicators of State institutional quality as well as social institutional quality already described in detail in the theoretical framework. Therefore, it will be possible to measure the contribution of institutional quality on development.

Thus in the following equation, we can see the final model considering all institutional quality indicators. Also, we need to incorporate a vector of control variables (V) as the other independent variables, which could influence on the IDH, in order to get the rigorous and accurate estimations of our target variable. For the regression, we are using a Panel Data of Random Effect, through the program Stata version 12.

$$HDI = \beta_0 + \beta_1 * QGI + \beta_3 * V + \varepsilon$$

Where:

HDI = Human Development Index

QGI = Quality State Index

V = Control variables

Previously, we need to determine the Quality State Index (QGI) as well as the Quality Social Index (QSI). The following formula describes the first variable (QGI), which is constructed since the six state institutional quality indicators, using Factor Analysis or Principal Components methods in the Stata program version 12.0.

$$QGI\alpha_1 = \alpha_1 * Y + \alpha_2 * I + \alpha_3 * P + \alpha_4 * D + \alpha_5 * C + \alpha_6 * V$$

Where instrumental freedoms are:

Y = Rule of law

I = Government effectiveness

P = Political stability and Absence of Violence

D = Regulatory quality

C = Control of corruption

V = Voice and Accountability

To contrast our hypothesis some parameters from the econometric model of the East Asian region will be introduced inside the Latin American model. As a consequence it will be possible to evaluate the impact of standards levels of institutional quality of the East Asian region on the Human Development of Latin America.

Source of information:

All needed variable are already available from 1990 till now for all Latin American and East Asian countries. We consider appropriate to include in the analysis, first, the most dynamic economies in terms of development and institutional changing, such as those from the South-East Asia ones. The sources of information are basically three:

- The Human Development Index and other variables related to development issues come from the Dataset of the UNDP <http://hdrstats.undp.org/en/tables/>.
- The variables of institutional quality related to the State and governance come from the Dataset of the Work Bank, <http://info.worldbank.org/governance/>.
- The variables of institutional quality related to the social institutions come from the Dataset of the Indices of Social Development, www.indsocdev.org.
- Finally, the control variable will have as main sources the dataset of both the World Bank and the International Monetary Fund.

2. CHAPTER 2 state institutional quality and strategies in China

To evaluate the impact of institutional quality on the development of the Asian region it is convenient to separate the case of China from the other economies due to the existence of special characteristic of its economy. For example, China has a big advantage in comparison to the others related to its large population and growing market able to attract easily FDI and get other economic goal with much more ease.

There are other differences between China and other East Asian experiences in terms of disadvantage. For example, China faces more political barriers from the Western developed countries and more pressure to open its markets to MNC. The United States has regulations banning its firms from exporting military-civilian high technology to China.

Therefore, this chapter analyzes the institutional determinants of the success of economic development in China under the institutional approach. This analysis is relevant due to conventional wisdom such as the neoclassical approach and its proposal that market forces could not fully explain the current development processes in China.

2.1. China's institutional context and quality

The Chinese government follows a process of catching up to developed countries, through state strategies to develop its own indigenous technology, its industry, the internationalization of Chinese companies and so on. For some scholars the institutional perspective offers the proper theoretical framework to understand some aspects of the Chinese development.

It is important to consider that the institutional legacy of China comes from the Maoist era, when the national goals were directed toward classless and equality in an explicit communism system. Then, since the implementation of the “open policy” at the end of the 1970s, there have been institutional reforms focusing on economic rising.

One example of this reform was that Deng’s restructuring had a principle to fight against the concentration of power in only one person, such as when Mao Zedong was in power. Therefore, under Deng, the political bodies had met with regularity. For instance, the annual convocation of sessions of the National People’s Congress since 1979 had had continuation without interruption.

There basically are four organs in the center of power: (i) the National Party Congress, (ii) the Central Committee, (iii) the Politburo and (iv) the Standing Committee of the Politburo. Where, the CCP keep a strong structure in terms of monopoly, hierarchical power, exercised control and high bureaucracy. In that context, the CCP determines the economic, social and political goals for China.

Among one example of these goals, we can mention that in the 15th Chinese Communist Party Congress (at the nineties), the Chinese government pointed out the objective of supporting Chinese state-owned companies’ internationalization. For Hongmei (2009) it in turn had three pillars: (i) international trade, (ii) attraction of FDI and (iii) internationalization of Chinese multinational companies. Also the government needs to work for a good international environment and cooperation with other countries.

Despite liberal reforms and privatization processes, Chinese state-owned companies still dominate the industrial landscape in China. Thus, the current generation of indigenous technology and internationalization process is dominated by the state goals. Therefore, Beijing has relevant competence on industrialization and internationalization of diverse economic sectors such as automotive, electronics, machinery, iron and steel, oil and petrochemical, aviation and aerospace, pharmaceutical, construction and so on.

After three decades of institutional reforms, some analysts have suspicious arguing that Chinese Government’ institutional context is a source of misperception considering

potential aggression for the world. For instance, the Chinese state is accused of being a powerful centralized state; but actually it is less powerful than other 'developmental state model' countries such as Japan or South Korea, given its huge geography and therefore lower state capacity.

Given such ambiguous institutional environment, (Schortgen 2009) said that there are two main schools of thought about China's global expansion. The first one includes the proponents of the so-called "China Threat", which adopts an alarming and hysterical perspective based on misperceptions and related to China's rise to great power with inevitable global confrontation. The second one is the so-called "China Challenge" school, which offers a more comprehensive and objectively rational evaluation.

Currently there is a redistribution of wealth and power moving from the West to the East; although globalization itself has not necessarily created these forces of convergence between western developed countries and eastern developing countries. Instead the effects of Asian countries such as China's institutional measure are a relevant determinant.

For some western scholars, the internationalization of China's companies seems to be a geopolitical counter-hegemon against the United States, suspiciously coinciding with the current stagnation of the main Western developed economies. For them a powerful China could diminish the capacity of the United State to assure its interests about the acceptance of free market around the world, and could also dilute liberal economy ideology such as the 'Washington Consensus'.

The Chinese government has made some efforts to attenuate concerns, for instance through its policy of "peaceful rise" and "peaceful development"; however, suspicious still coming from developed countries. It is important to remember that during the 1980s the same fears were directed against the rise of Japan. Therefore it is requested a more objective judgment about the rise of China.

Considerable time ago China has already outlined its "Five Principles of Peaceful Coexistence" as the framework under which its foreign policy would be conducted: (i)

mutual respect for territorial integrity and sovereignty, (ii) non-aggression, (iii) non-interference in internal affairs, (iv) equality and mutual benefit, and (v) peaceful co-existence.

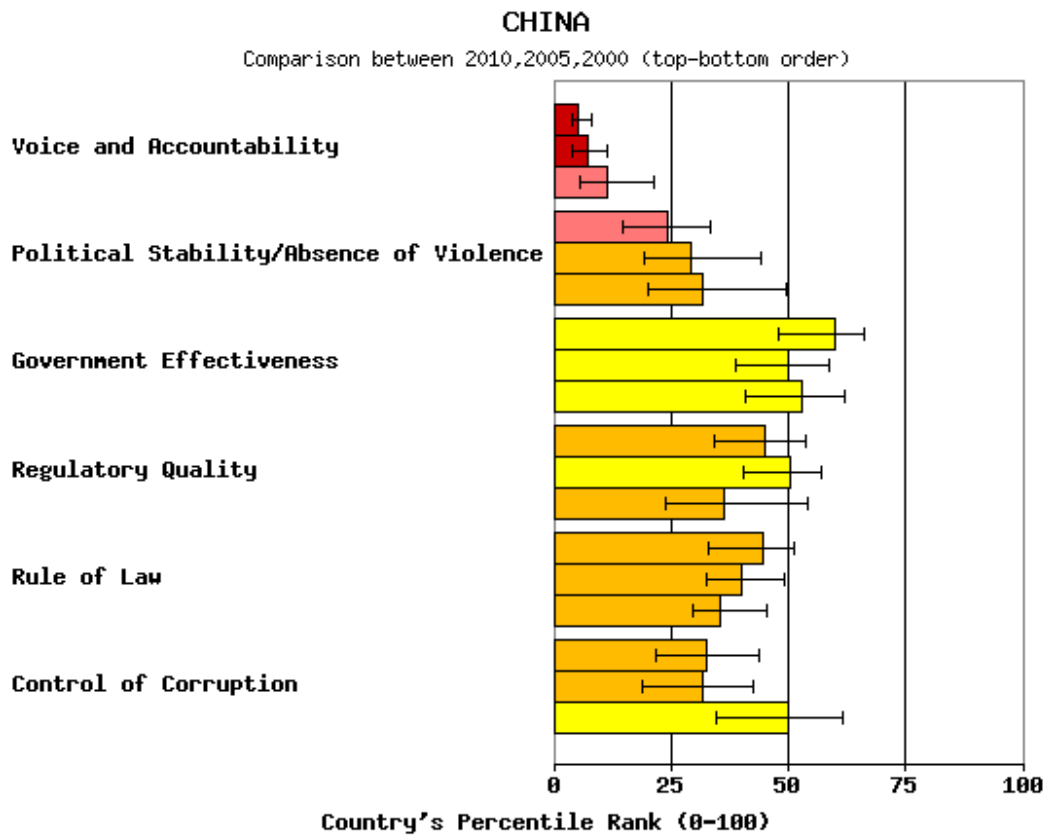
In 2001, China joined the World Trade Organization (WTO) consequently integrating successfully to the global economy. This global integration and its race to market and economic growth have made China convergence toward international accepted norms and standards of economic integration. In that context, China has emerged as a source of dynamic international trade and outward FDI.

The CCP is accused of keeping a strong power, weakening any possibility of other political reforms; nonetheless Yang (2006) justified China's supposed effort to enhance political central power as a necessity of stability in an uncertain and rapidly changing external environment, with potential social tensions given its big low-educated population. Thus slow and gradual political and institutional reforms are required in China.

Already analyzed the institutional environment in China, to evaluate the impact of institutional quality on development, it is convenient to focus on the evolution of a set of indicators. Following the methodology we are taking the six indicators proposed by the World Bank. It is important to highlight that only two of them present a positive evolution.

According to some institutional scholars such as Ebeke (2011) this set of indicators of state institutional quality, given by the World Bank, is a proxy of the whole state institutional quality for a country or region. Consequently, this represents the evolution of the institutional quality of China. China's modest progress in institutional quality has allowed considerable advancement in its economic development, given the existence of other determinants such as the big market, a strong state's bargaining power, etc.

Graph 2: China's total indicator of state institutional quality



Source: Kaufmann D., A. Kraay, and M. Mastruzzi (2010), The Worldwide Governance Indicators: Methodology and Analytical Issues

Note: The governance indicators presented here aggregate the views on the quality of governance provided by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries. These data are gathered from a number of survey institutes, think tanks, non-governmental organizations, and international organizations. The WGI do not reflect the official views of the World Bank, its Executive Directors, or the countries they represent. The WGI are not used by the World Bank Group to allocate resources.

As already noted, in China there is an improvement of only few state quality indicators, such as the two analyzed later. In fact, it is not enough to count with an incomplete institutional environment in terms of institutional quality to solve overall problems, but apparently with these few indicators, China had gotten considerable success in its economic development.

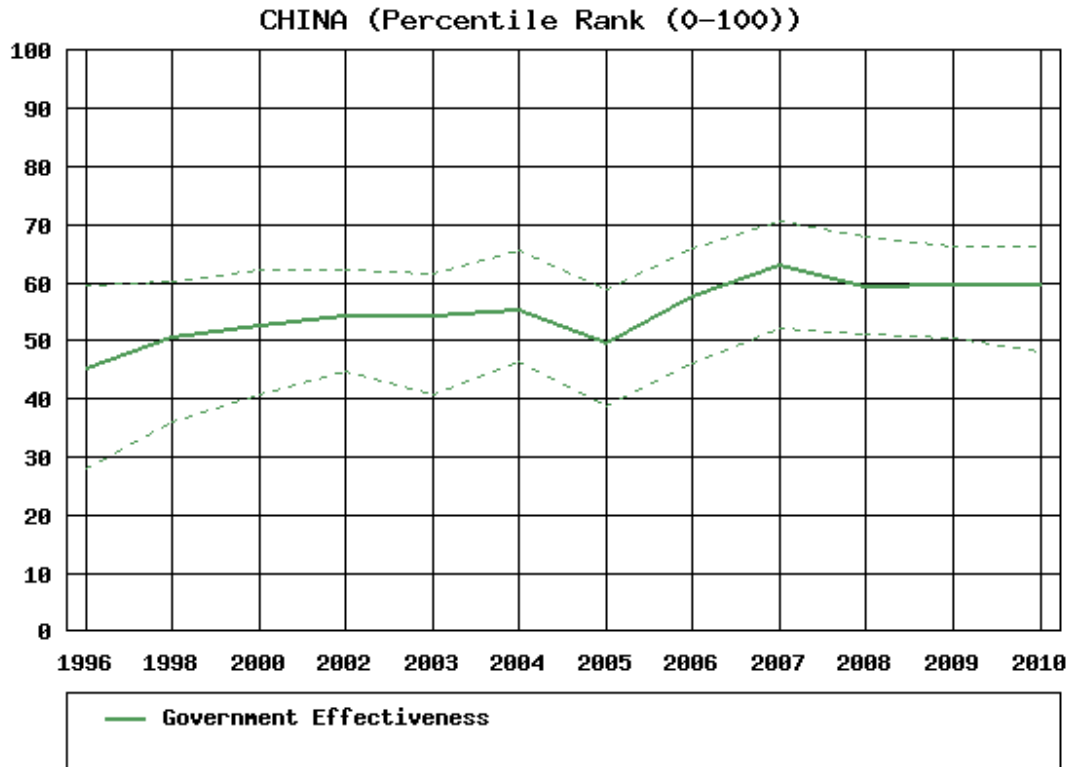
One explanation about this impact is that China poses other assets such as a big market, low cost of production and so on. Therefore only a little progress in terms of institutional quality has allowed these other relevant determinants to increase its economy noticeably.

The first one of the two mentioned relevant institutional quality indicators is the 'government's effectiveness'. According to the World Bank, China's government effectiveness has had a positive, although slow evolution since 1996, as could be viewed in the graph 1. This indicator has allowed progress in terms of institutional quality such as credibility of the government's commitment to its policies, upgrading the institutional context to support economic development.

The following graph shows the improvement of the indicator government effectiveness. According to the World Bank, this indicator measures the quality of public services; the quality of the civil service and the degree of its independence from political pressures; the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.

The scales on the horizontal axis go from 0% (lowest quality) to 100% (the highest quality). Although China has gotten to surpass the 50% of quality, it is important to point out that the value of the OCDE countries' governance indicators has standards above 90%. Therefore, although improving, institutional quality in China is not good enough yet.

Graph 3: China's evolution of government effectiveness



Source: Kaufmann D., A. Kraay, and M. Mastruzzi (2010), The Worldwide Governance Indicators: Methodology and Analytical Issues

Note: The governance indicators presented here aggregate the views on the quality of governance provided by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries. These data are gathered from a number of survey institutes, think tanks, non-governmental organizations, and international organizations. The WGI do not reflect the official views of the World Bank, its Executive Directors, or the countries they represent. The WGI are not used by the World Bank Group to allocate resources.

Source: http://info.worldbank.org/governance/wgi/sc_chart.asp#

The second relevant indicator is the ‘rule of law’. According to the World Bank the ‘rule of law’ measures the extent to which law enforcement agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, the police and courts, as well as the likelihood of crime and violence. These measures have a clear relationship with the fostering of the private agents as well as the economic development.

For the Chinese government, the private sector is a powerful economic growth engine. Thus, the CCP has regularly neutralized potential opposition to the private economic

growth. In fact, in different Party Congresses, the regime used to highlight the importance of the private sector for its development. At the local level, private economy also enjoys amiable treatment provided by the local governments.

For some scholars, the current economic growth experimented in China has had as strong foundation institutional reforms, especially which had ensured huge amount of foreign investments. Even though there is a predominance of the CCP as central power, there is a political relationship between the center and the local levels which is in favor of a kind of market-preserving federalism Yang (2006).

China's institutional environment sometimes is seen as connections and rivalries between central and local governments. Since the Opening and Reform in 1978 China has experienced significant decentralization and local authorities have become major stakeholder in the development within their own jurisdiction, in where regional authorities also promote the private investment and apply to 'rule of law'.

Certainly, the "open door" policy, liberalization and institutional reforms allowed China to counts with progress in terms of institutional quality. This chapter aims to determine how this institutional quality progress fosters economic development in China. Thus the liberalization has allowed the incentive for trade and investment from both domestic and foreign forces.

There still weakness in the Chinese institutional context, many indicators does not have a positive evolution; in spite of that the Chinese state has achieved its economic goals. In fact, with the current institutional environment and the applied institutional reforms, China shows an interesting model of economic development where the state is able to catch-up certain desired targets.

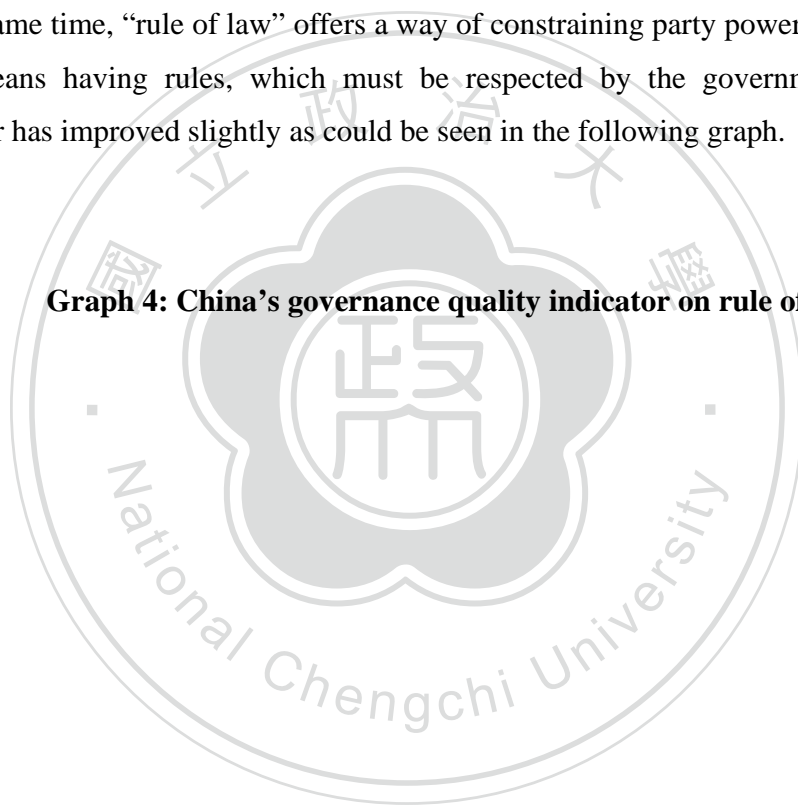
Concerning Chen (2002), who interviewed successful entrepreneurs, they consider important the "rule of law" as an institutionalized free market order to preserve private profits. The middleclass share the same idea about the necessary control over the big poor population and potential demands for egalitarian policies; for instance, in order to protect

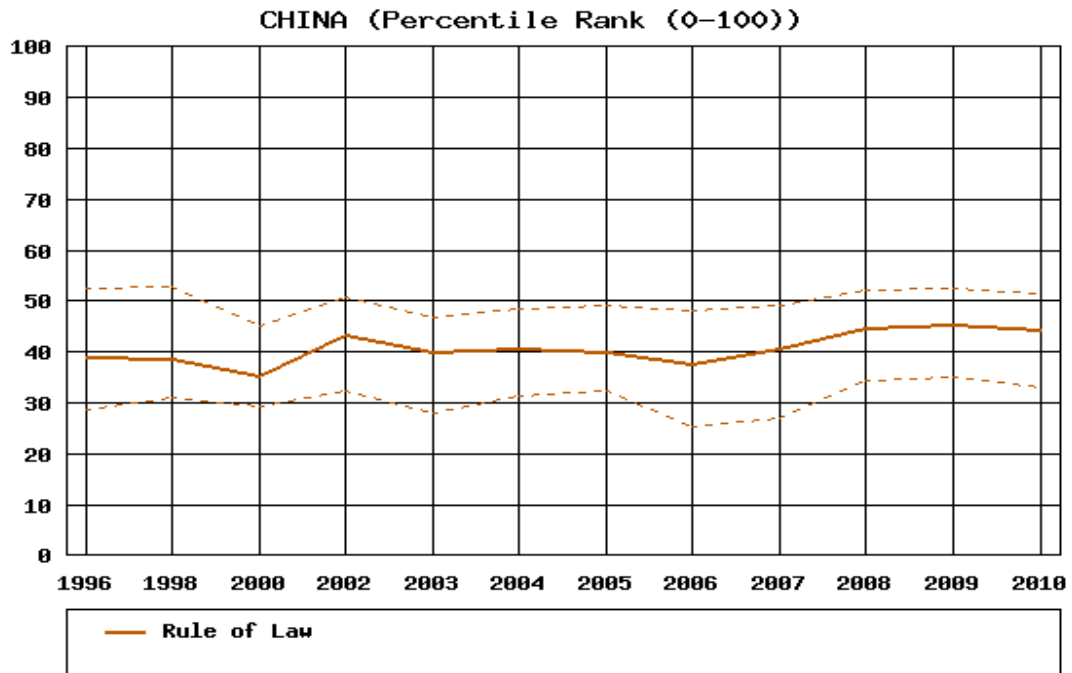
their wealth and social statuses. Chen (2002) found out from his survey that the most important variable for the middle class in China is ‘social stability’.

According to Chen (2002) entrepreneurs see some threats such as political reversal and popular anger due to the economic inequalities, for instance. Therefore, for them some institutional tools such as the “rule of law” are legal protection. Thus, in case of emergency such as the 1989 Tiananmen Square it may provide a legal framework for maintaining social order and to keep the state machine functioning normally.

At the same time, “rule of law” offers a way of constraining party power over the market. That means having rules, which must be respected by the government, even. This indicator has improved slightly as could be seen in the following graph.

Graph 4: China’s governance quality indicator on rule of law





Source: Kaufmann D., A. Kraay, and M. Mastruzzi (2010), The Worldwide Governance Indicators: Methodology and Analytical Issues

Note: The governance indicators presented here aggregate the views on the quality of governance provided by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries. These data are gathered from a number of survey institutes, think tanks, non-governmental organizations, and international organizations. The WGI do not reflect the official views of the World Bank, its Executive Directors, or the countries they represent. The WGI are not used by the World Bank Group to allocate resources.

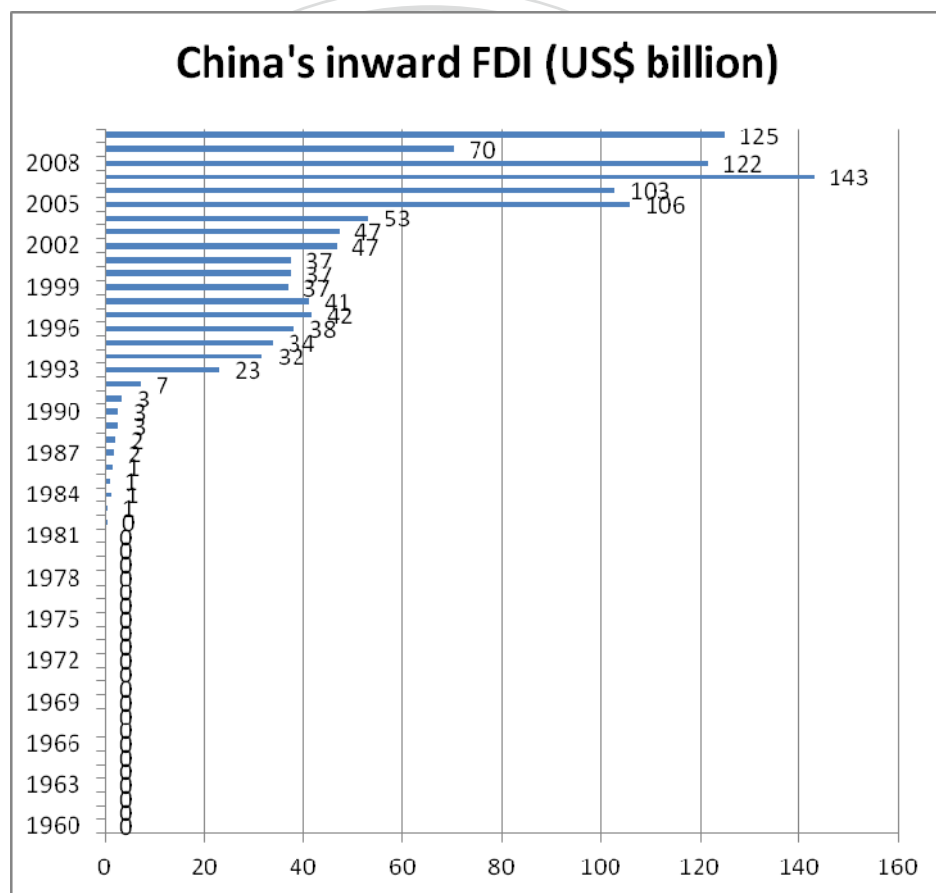
Source: http://info.worldbank.org/governance/wgi/sc_chart.asp#

As already known, China is achieving to catch-up to developed countries, especially in the industrial and technology sectors. For that China has attracted huge amount of foreign investment, and has transferred technology and industrial goods. Among the main sources, there are the United States and Japan. Although China has not had excellent relations with these two powers, but its pragmatic policy has allowed it to get its desired results.

China succeeded in its strategy of promoting inward FDI in certain geographic areas at its eastern coastal regions, offering very high rate of return on investments than other parts of China. The central government established special economic zones, and opened cities and regions along the coasts with the aim of attracting enormous flows of foreign direct investment.

By 2002 China became the world largest recipient of FDI, allowing that by 2006 could accumulate outward FDI for US\$ 90 billion, the largest among all developing countries. According to Ge et al. (2009), there are many institutional perspectives to explain this phenomenon. Openly, this author suggests that institutional theory as the most useful perspective to do that.

Graph 5: Evolution of China's FDI



Source: <http://databank.worldbank.org>

On the other hand, China also has objective on the Third World, being one of them the access of natural resources, and eventually has new markets to sell its own products. China had realized that some developing countries are growing faster than developed

ones. Therefore the formers are potential partners to increase China's economic development.

In the Third World, China's government had signed several 'strategic partnerships' with other developing countries Heginbotham (2007), such as Brazil (1993), Venezuela (2001), Mexico (2003), South Africa (2004), Argentina (2004), India (2005), Kazakhstan (2005), Indonesia (2005), Nigeria (2006), Algeria (2006), additionally had signed regional groupings such as Africa (2000) and ASEAN (2003).

Chinese companies are widely supported by the government, through credit, for instance. More than 23% of transnational Chinese companies exploit natural resources. Thus Chinese companies have taken stakes in oil production facilities in Algeria and Canada as well as mining projects in Peru, Australia, Brazil, Papua New Guinea, Zambia, etc. (Hongmei 2009). Given that China is the largest manufacturing center in the World needs a lot of natural resources.

2.2. China's state strategies and economic goals

For institutional scholars institutional factors have been a key determinant for the economic success in China. There are many achievements, for example the fact that today China is the world's largest manufacturing hub for technology industry and its largest exporter, as well. In the previous part, it was determined how institutional reform and only slightly improvement on institutional quality had allowed considerable economic progress.

To evaluate the mechanism on how institutional factors determine economic development in China, this chapter focuses on three cases: (i) the development of indigenous technology, (ii) the automotive industry and (iii) the internationalization of Chinese companies.

Following (Zhou 2008), one of the most important outcomes of China has been the development of indigenous technological companies. Although local brands such as Lenovo work within the Chinese market and are still smaller than Multinational Corporations (MNCs), it is expected that in the near future they can achieve success at the global market.

According to (Zhou 2008), the success of the creation of indigenous technological companies in China relies on basically two pillars: the external market and the domestic market. Specifically, he holds that the success of indigenous technology Chinese companies is the conjunction of these two pillars. Thus, Chinese companies have had two advantages: (i) an exporting upgrading favorable conditions, and (ii) raising domestic market.

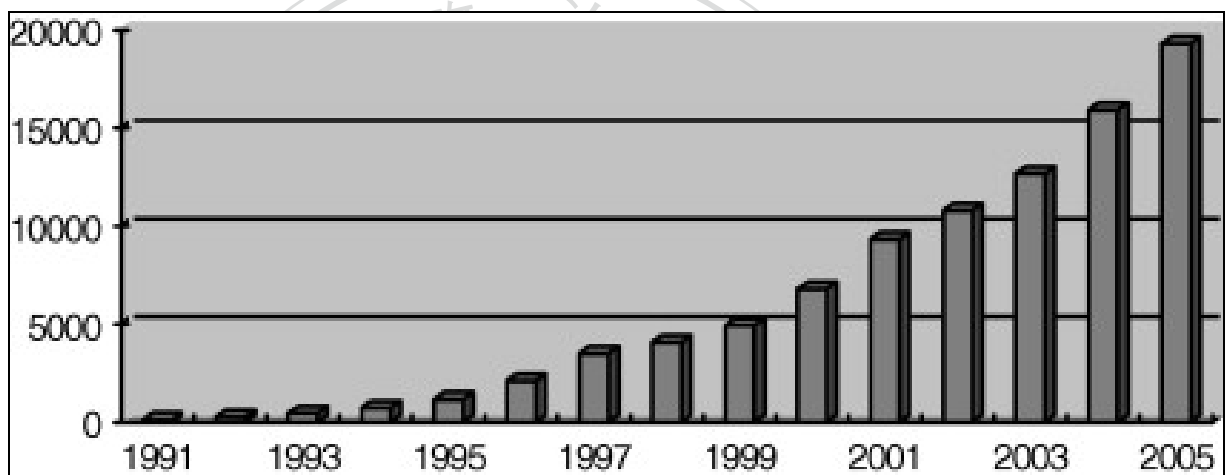
In China, originally indigenous companies did not possess advance technology. But they had taken the chance of advantages such as more knowledge and access to China local markets than Multinational Corporations (MNCs). At the same time, given the huge export industry developed by MNCs, Chinese companies found a fertile ground for technological learning and improving competitiveness.

It is important to highlight that MNCs' main goal is to produce in China and export to advanced countries markets, just taking advantage of low labor costs. In China they only possess lower level offices, while their headquarters are abroad; therefore, their bureaucratic hierarchies do not allow making decision in favor of changing goal toward Chinese market easily. Likewise, their greater involvement in China has been accompanied with a dependence on China's indigenous companies as local suppliers.

For the Chinese case, the conjunction of domestic market and export market, allow the entry of newcomers in areas of mature product manufacturing. Thus newcomers enjoy an existing global supply chain to ensure quality and competitive capabilities. This synchronization between export upgrading and growing domestic market has created some of the fastest learners in the industry such as the Chinese company "Lenovo", a brand that produces computers.

Lenovo started as a supplier for MNCs, but it took all the advantages and became a big Chinese indigenous company who has the majority of the Chinese market of computer and even bought important parts of IMB. There are many more indigenous Chinese companies similar to Lenovo who are related to the technology sector. In the following graphic illustrates the rise of the computer market in China, mainly explained by indigenous Chinese companies.

Graph 6: China's PC domestic market growth



Source: Zhou (2008)

In 2004, IBM announced the selling of its personal computer (PC) business to focus on the more corporate server and technology service. While Lenovo supported by its profits accumulated from the Chinese market could afford and buy the prestigious international company.

Lenovo's experience is in fact not the unique successful case. There are similar cases with other Chinese companies such as ZGC company that was a spin-off from Tsinghua University, that have been the chief sales representative of a Taiwanese scanner manufacturer for eight years, but then developed its own brand of scanners using an array

of internationally competitive vendors located on China's coast, then in the nineties became the number-one in China.

In the same line, the Chinese company Aigo created many fashionable iPod models that will appeal to China's young people. Now Aigo has been among the top-selling brands of MP3 and MP4 music players in China. In the early 1990s, Huawei in Shenzhen, started to make telephone digital switches to sell, in smaller cities as replacements for the far more expensive products of MNCs.

In China indigenous companies succeeded creating their own technology and substituted MNCs' product. This phenomenon is different from the traditional import substitution, when the states used to protect the domestic companies through tariffs. However, being competitive inside China, it does not mean to be competitive abroad, to achieve it, these companies require additional learning. Unless these companies pose the big Chinese market, which is a kind of profit reservoir, showing the key function which represents a domestic market for the success of indigenous companies.

The second successful case in this chapter is the transfer of technology in the industry, for that we will focus in the automobile industry. According to Liu et al. (2004) the Chinese state has had the power to determine this success, where under certain political and economic conditions, the transnational corporations have been shaped to meet the Chinese state's objectives.

Table 1: participation of FDI in China's auto industry by country, 2002

	Assembly	Production
USA	25.3%	21.7%
Germany	18.0%	12.4%
South Korea	11.1%	11.5%
Japan	9.5%	21.8%
France	7.9%	2.3%
Italy	7.3%	0.9%

Hong Kong	7.2%	11.3%
Others	13.7%	18.1%
Total	100%	100%

Source: Liu et al. (2004)

By 2003, all of the leading automobile companies of the world had already established facilities in China. In that context, and under terms dictated by the Chinese state, China's automobile industry achieved integration into the global production network of that sector. The important factor, which explains the bargaining power of the Chinese state is the anxiousness of Transnational Corporations to gain access both to the fast-growing Chinese market and to low cost production locations.

Being a characteristic of the automobile industry inserted in the global network with transnational corporations looking for investment location, the Chinese state, with relative great bargaining power, is able to impose performance requirements. Therefore, the Chinese state tried to capture as much as possible all the technology and values created by transnational in the global market, inside its own territory.

The concrete strategy of the Chinese government has been to promote the entry of foreign direct investment through joint ventures between transnational corporations and state-owned Chinese companies. Thus, China has achieved accumulation in both the assembly and production of components and sub-sectors, even in certain period (1994-96) China stopped approvals of FDI in assembly in order to promote more activities of component production.

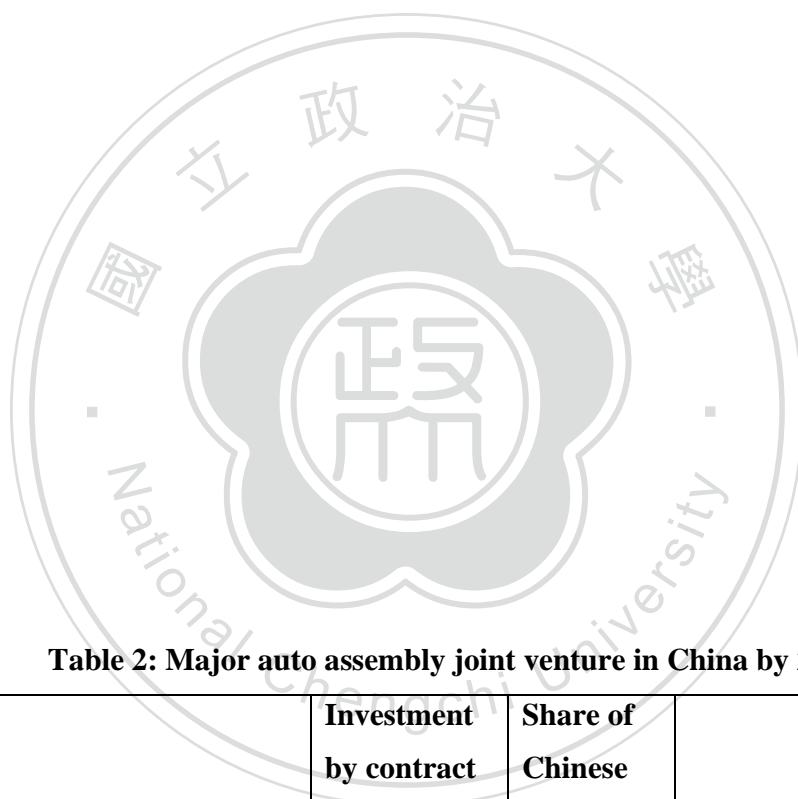


Table 2: Major auto assembly joint venture in China by 2003

	Investment by contract (US\$ million)	Share of Chinese partners (%)	Location
Beijing Jeep(Daimler - Chrysler)	605	50	Beijing
Chang'an – Suzuki	191	51	Chongqing
Dongfeng - Citroen	1202	70	Wuhan
FAW – VW	1857	60	Changchun

Guangzhou - Honda	140	50	Guangzhou
Jinbei - GM	230	50	Shenyang
Nanjing - IVECO	363	50	Nanjing
Shanghai - VW	335	50	Shanghai
Shanghai - GM	1521	50	Shanghai
Chang'an - Ford	98	50	Chongqing
Sichuan - Toyota	67	50	Chengdu
Tianjin - Toyota	100	50	Tianjin
Yueda - Kia (Hyundai)	60	70	Yancheng
Nanjing Fiat	363	50	Nanjing
Beijing - Hyundai	400	50	Beijing
Dongfeng - Nissan	2030	50	Wuhan and Guangzhou

Source: Liu et al. (2004)

The third studied case of China's economic success is the internationalization of Chinese companies, where institutional factor is also a clear explanation. In general, China's institutional environment offers a favorable advantage for the internationalization of Chinese companies; however there are some constrains such as underdeveloped financial market and bureaucracy.

Some studies point out that the motivation for Chinese outward FDI already shifted from being driven by political forces in early stages to market seeking and asset exploitation now. However, institutional studies hold that Chinese MNCs invest in developed countries for having as primary motive a national objective such as obtaining transfer of advanced technologies.

Thus, successfully Chinese MNCs have been able to catch-up with Western counterparts in the technological sector, through technology transfers. This fact challenges neoclassical approaches, which hold that the only way to success in internationalization is when firms follow their best comparative advantage.

Contrary to this, Chinese MNCs are making outward investment to overcome their comparative disadvantages about technology, and regard internationalization as the means to equip themselves to gain competitive strength. Additionally, other studies found out that also host country's market size and natural resources endowments strongly attracted Chinese MNCs.

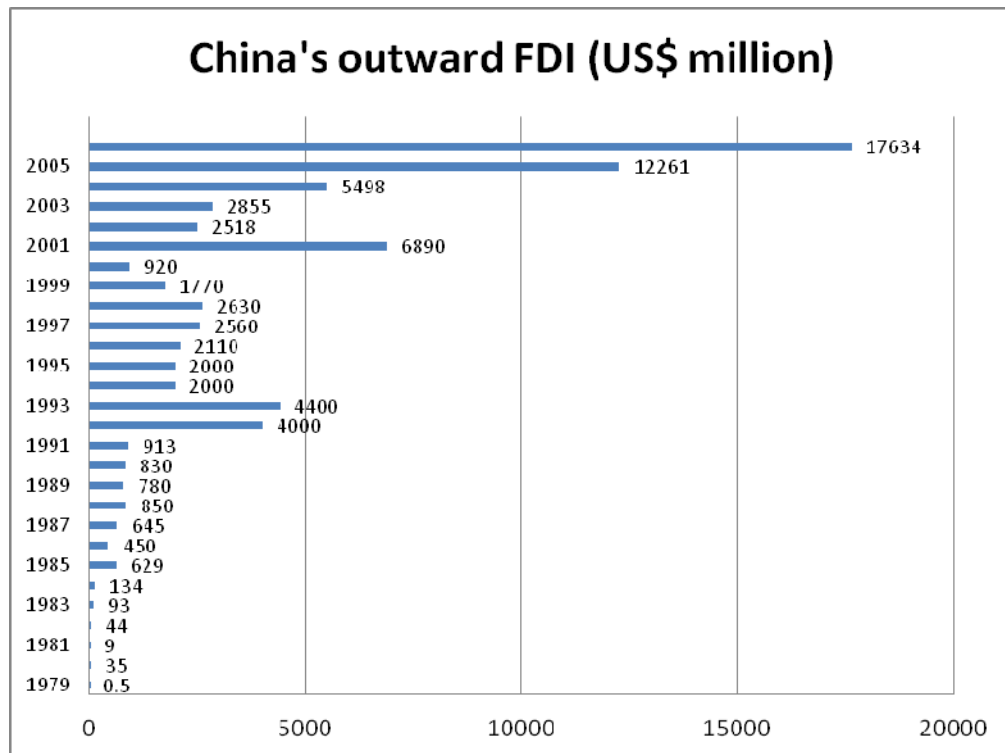
According to institutional theories, systems surrounding organizations affect organizations' behavior and decisions (Ge 2009), this suggests that the Chinese company's internationalization is a result of the organization's response to pressures arising from both a firm's external environment and its internal organizational practice and routines.

China has undergone almost three decades of economic reforms and a rapidly growing private sector contributes more than one-third of economic GDP; however, the state controlled on the Chinese economy is still prevalent. In fact, the Chinese MNCs with the largest amount of outward FDI are majority state-owned Chinese companies.

Likewise, the evolution of outward FDI from China is strongly related to the promulgation and implementation of laws and regulation that govern China's overseas investments. In fact, the beginning of the impetus for FDI was with the adoption of the "open door" policy at the end of 1970s. At that time, the common form of investment was to set up representative trade offices in overseas markets.

The second important impetus was in the middle of 1980s when there was a codification of a body of regulation. Then, for the first time, Chinese government explicitly controlled overseas investment and operations, coinciding with a rapid and diversification growth of Chinese MNCs, including for first time manufacturing firms. By the end of 1997 there were 5 356 overseas enterprises dispersed across more than 140 countries.

Graph 7: China's outward FDI



Source: Ge (2009)

According to the scholar Gloria Ge (2009), the institutional approach explains the surge of Chinese MNCs through three levels: institutional governmental, institutional industry and institutional corporate factors. (Ge 2009) At the government level, there is China's 'going out' policy envisaged in the mid-1990s. Thus, the state explicitly encourages giant state-owned business to become internationally competitive corporations through listing on domestic and overseas stock markets, increasing research and development expenditures, and acquiring other business, public offerings, mergers and acquisitions, restructuring, cooperation, etc.

The Chinese government has been well aware that providing firms with capital or resources is necessary. China actively participated in various bilateral and multilateral arrangements to protect overseas investment, gradually relaxing foreign exchange

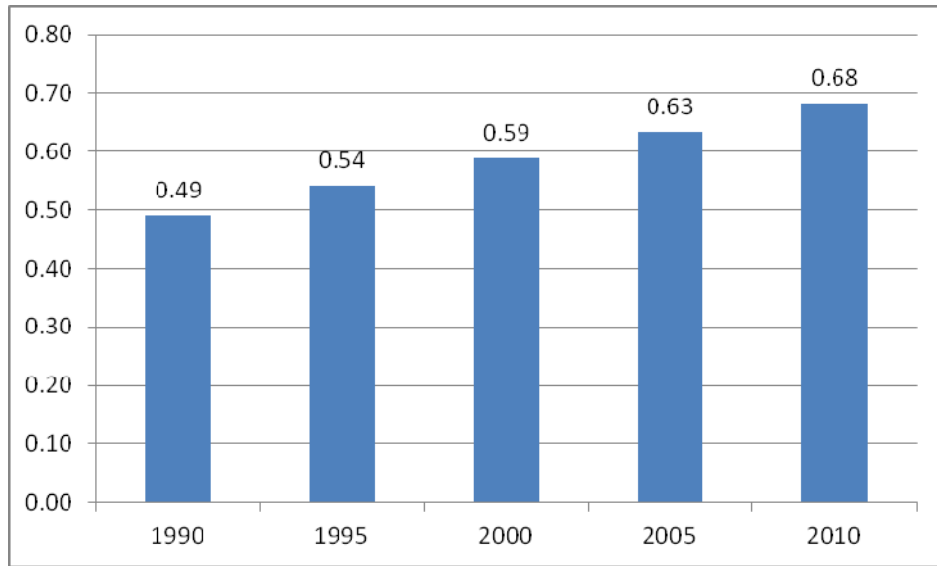
controls and preferential credit such as the ‘Supportive Credit Policy on Key Overseas Projects’.

At the industrial level, the successful implementation of industrial strategies relies on collaborative interaction between governments and business. Now Chinese firms are facing a much more competitive environment, while the intensive competition has driven Chinese firms to go overseas. Furthermore, with the strong support and assistance from local Chinese government, numerous economic development zones and high-tech parks have been established in various coastal cities and provinces.

At the corporate level, Chinese firms have had to overcome many institutional constraints embedded in the Chinese context, using networks and relational assets to overcome the institutional voids, obtaining institutional support from the authorities, etc. Also establishing embedded with foreign firms provides opportunities for Chinese firms to enhance their technological and innovation capabilities, increase their competitiveness and to make use of all personal overseas connections.

The results are widely known, and we can see that in the following graphic. As already known, China has reached high level of economic growth around 10% annually. Therefore, the development in China has had clear determinant institutional factors. The following graph shows the positive evolution of the development in China, measured by the ‘Human Development Index’.

Graph 8: China’s Economic Development measured by the Human Development Index



Source: United Nations Development Program ,
<http://hdr.undp.org/en/statistics/>



3. CHAPTER 3 state institutional quality of Japan, South Korea, Taiwan, Singapore and Hong Kong

This chapter analysis the impact of institutional quality on the development for the most advanced countries in the EastAsian region such as Japan, South Korea, Taiwan, Singapore and Hong Kong. For some scholars, this success has as its determinant the well working of institutions, which allow the satisfaction of necessities such as employment, public services, infrastructure, etc.

3.1. Japan's state institutional quality

In the case of Japan there had been a peaceful adaptation of these institutions toward capitalism. For scholars Japan's success had, in essence, two instruments: (i) the consensus of the entire country to get the necessary changes, and (ii) the reinterpretation of its traditional ideology; for instance the reinterpretation of the Confucian principle on merit to have a successful bureaucratic system.

Japan's economic development has evolved successfully over the time, without great bitterness. This evolution, basically, has gone through three kinds of institutions: (i) a centralized feudalism, (ii) an authoritarian state, and (iii) a democratically ruled industrial society. In all these stages, the role and the necessarily state institutional quality allowed Japan to enjoy its highest standards of life (Pye 1985b).

In this historical view, the samurai class was the most important actors, at the feudalism era. They were the only designated responsible in bringing peace to a war-torn Japan. Once the peace was gotten, they became irrelevant and an unnecessary cost for the landlords. That situation make most of them developed into increasingly well educated, including in Confucian doctrines.

Especially the lower samurais, who were more exposed to unemployment, and who became very worried about how to make the bureaucratic system work well. They had an increasing interest in turning into civilian rulers. Thus their educational improvement evolved a pragmatic Confucianism with a genuine interpretation of the aspect such as merits as a key Confucian instrument to make the bureaucratic system work well.

Consequently, during the Meiji Restoration, the lower samurai recruited new elite according to high standards of meritocracy, but keeping a certain component of loyalty. Thus, although loyalty could be important, it was a not enough criterion of recruitment. There was a new centralized bureaucracy, even over the local authorities. The former elite softly retired giving those bonds and symbolic peerages. Thus, they preserved a kind of status and capital to initiate noteworthy economic enterprises. Thus, Japan executed a smooth transition to a modern bureaucratic state Pye (1985b).

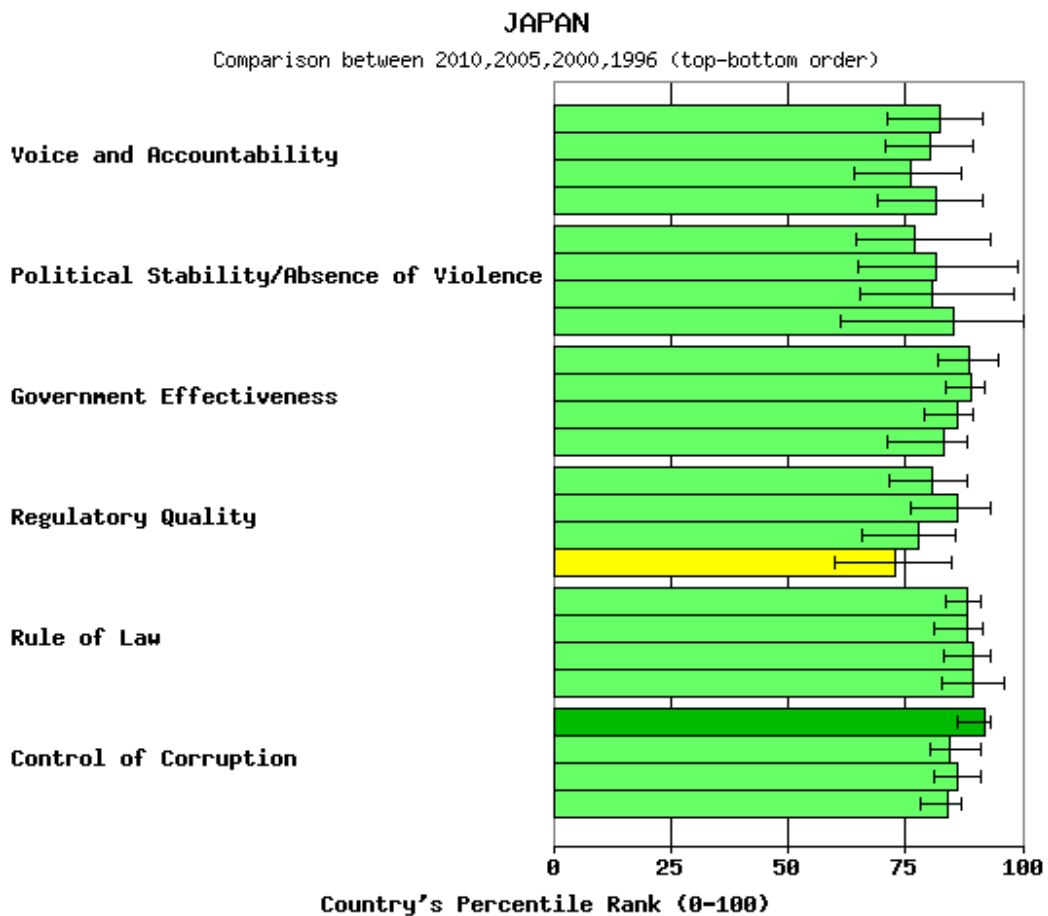
During the time of the American occupation, Japanese society and state responded quickly to the American demands for more liberal institutions, showing a strong sensitive of the entire nation toward the wishes of the authority. It also meant that apart from respond quickly to authorities' wishes, also the capability of responding quickly toward new system in Japan Pye (1985b).

It is important to highlight that although apparently central authority in Japan controls all the country, the bureaucracy and local authorities also have a high space for operation, after the central guidelines. Today's Japanese political system includes a heritage Confucianism, idealism of aggressive capitalism, a pacific form of democracy, a meritocratic system, and so on.

In the case of Japan apparently the well-implemented meritocracy allowed to count with an enough state institutional quality. Among the most important aspect we can mention its democracy system in Japan allows people to have freedom in term of expression and association; therefore an acceptable level 'Voice and Accountability. There is also a political stability now and through all the history. The government effectiveness provides public services in an effective way.

Likewise, the regulatory quality has allowed promoting the development of private sector, which will be described in greater detail later. According to scholar Japan has a kind of democratically ruled industrial society, thus the ‘rule of law’ works well also. Finally, there is an acceptable control of corruption. The following graph shows the high institutional quality for Japan.

Graph 9: Japan’s state institutional quality



Source: Kaufmann D., A. Kraay, and M. Mastruzzi (2010), The Worldwide Governance Indicators: Methodology and Analytical Issues

Note: The governance indicators presented here aggregate the views on the quality of governance provided by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries. These data are gathered from a number of survey institutes, think tanks, non-governmental organizations, and international organizations. The WGI do not reflect the official views of the World Bank, its Executive Directors, or the countries they represent. The WGI are not used by the World Bank Group to allocate resources.

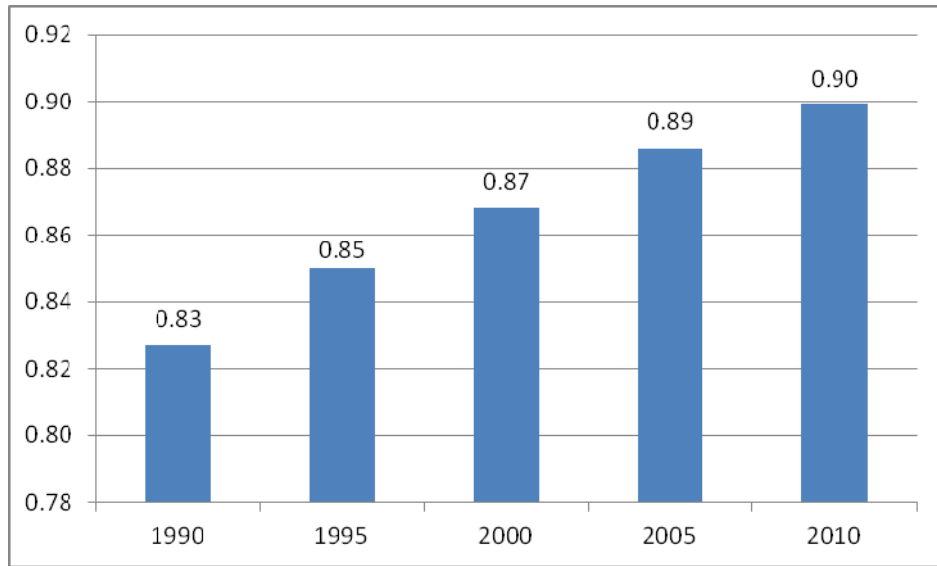
According to Peter Evans, the institutional approach explains the functioning and success of institutions inside the capitalism system such as role-playing by the states. He highlights the category of Japan as the first case of economic success and Development State. About 'Developmental State', in 1982 the scholar Chalmers Johnson introduced the topic of Japan as "Developmental States". At that time, Wade and his colleagues at the Institute of Development Studies at Sussex University were describing Taiwan and South Korea as "Developmental States", as well. (Evans 1995)

In the case of Japan, the Ministry of International Trade and Industry (MITI) is the starting point to understand the structural features of the developmental States. States institutions from the postal saving system to the Japan Development Bank were crucial in getting the needed investment capital to industry. The State's centrality to the provision of new capital also allowed it to implement industrial rationalization and industrial structure policy.

Likewise, official agencies attract the most talented graduates of the best universities in the country and the positions of higher-level officials in these ministries have been and still are the most prestigious in the society. For institutional scholars, the success of the Japanese developmental State is consistent with the European Weberian hypothesis. Also, informal networks give the bureaucracy an internal coherence and corporate identity to support meritocracy. External networks connecting the State and Civil Society are even important.

As shown in the following graph Japan enjoys high levels of economic development, having as determinant the role of State institutions as well as institutional quality.

Graph 10: Japan's Economic Development measured by the Human Development Index



Source: United Nations Development Program;
<http://hdr.undp.org/en/statistics/>



3.2. South Korea's state institutional quality

According to Pye (1985a), in the past Korea has one of the most centralized and uniformly administrative states in Asia. In fact, the Korean bureaucracy is similar to the Japanese one, given its competitive heritage from yangbans (the old bureaucratic Korean class). Another similarity is its type of paternalistic system, where the authority should solve all the problems of the people. However, in the case of South Korea it has been a source of instability, while Japan enjoys a great stability Kim (1993).

When started the Republic of South Korea in 1948, it inherited all authoritarian values from its Japanese colonial, but also incorporated a certain values and institution from the time of the American occupation. South Koreans were supported tremendously by American aid; it represented a big safety net.

According to Pye (1985a) from 1953 to 1962, American aid funded 70% of South Korean imports and 80% of all the fixed capital investment inside South Korea. Also in the time of the American military government, was successfully introduced the Land Reform.

Thus, there was a synergy between the American aid and the state apparatus and bureaucracy inherited by Japanese colonial, as a consequence pattern of close relationship between private entrepreneurs and government was created. Given that the South Korean state became stronger, there was any element of the society with great expectations for the solution of all problems, creating sources of instability, due to all demands of the population.

There were other setbacks in terms of institutional quality; for instance President Rhee was very explicit in expressing his Confucian ideas about the country that should be governed by a superior man and should not be ruled by laws. However, Rhee's government suffered a lot from student demonstrations till he was forced to leave the power and be replaced by President Park Chung Hee.

The bureaucracy was very dependent upon the Blue House as well as ministers and local leaders, while the President Chun tried to project an image of great leadership. According to Pye (1985a), Chun followed a blend of military authoritarianism and Confucian moralist, while the leader felt the need to strive enthusiasm for the national identity.

Despite weaknesses, the bureaucracy could select the foreign direct investment, while improving the exportations and favoring national industries, through loans, and the getting important results as large industrial-financial conglomerates. Actually, this mechanism is similar to the Japanese system supported by its MITI, being also similar the approaches government-business relations and a national and authoritarian guidelines of the capitalist development respecting market forces.

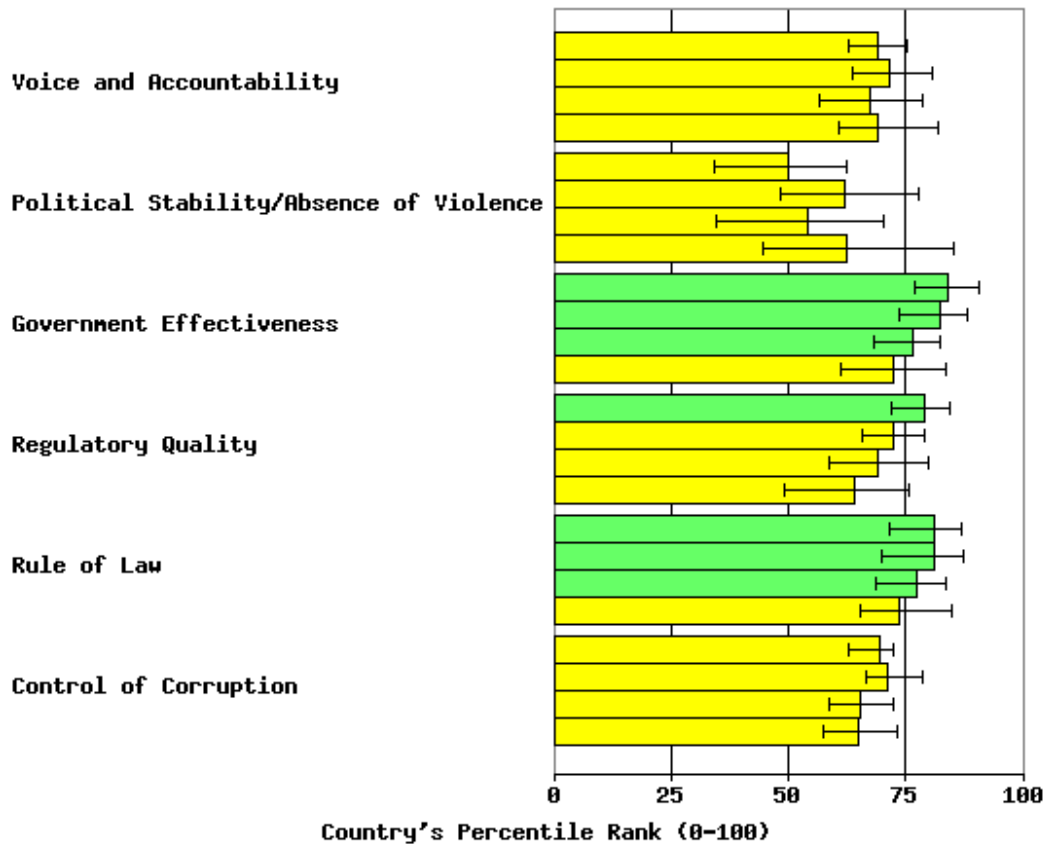
Positively, the conflict between elite and masses had let the improvement of some institutional aspect such as the rule of law, and government effectiveness. Thus, well-educated South Korean asks for several social demands making the government effectiveness provide public services well. Likewise, while the elite could not keep traditional Asian values related to authoritarianism, it would have to strengthen the government's rule of law.

The following graph shows that 'government effectiveness' and 'rule of law' are the best indicators, which are part of set of institutional quality indicators. Therefore, these two indicators would be the main determinants of the economic success for South Korea, similar situation occurred in China. According to the graph, recently there is improvement of the indicator 'regulatory quality', permitting and promoting private sector development.

Graph 11: South Korea's state institutional quality

KOREA, SOUTH

Comparison between 2010,2005,2000,1996 (top-bottom order)



Source: Kaufmann D., A. Kraay, and M. Mastruzzi (2010), The Worldwide Governance Indicators: Methodology and Analytical Issues

Note: The governance indicators presented here aggregate the views on the quality of governance provided by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries. These data are gathered from a number of survey institutes, think tanks, non-governmental organizations, and international organizations. The WGI do not reflect the official views of the World Bank, its Executive Directors, or the countries they represent. The WGI are not used by the World Bank Group to allocate resources.

According to institutional scholars, meritocratic civil service examinations have been used for recruiting incumbents into the South Korean State for over a thousand years. In South Korea, as in Japan, it is fair to say that the State has traditionally been able to pick its staff from among the most talented members of the most prestigious universities. In South Korea, the Economic Planning Board (EPB) is the pilot agency. As in the Japanese case, the existence of a pilot agency does not mean that policies are uncontested within the bureaucracy (EPB and the Ministry of Trade and Industry).

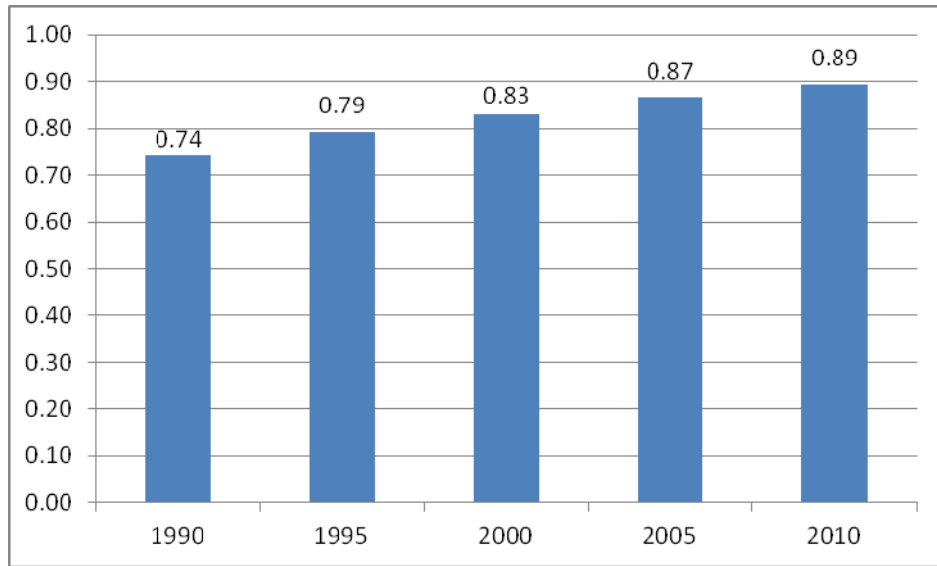
Given the acceptable state institutional quality, in South Korea there was the creation of chaebol, an imitation of Japanese model of conglomerates. The chaebol are composed of numerous large, multidivisional, hierarchical, vertically integrated and legally independent firms, which constituted the engine of economic growth for the national development policy.

Also, as in the case of Japan, the symbiotic relationship between the State and the chaebol was founded on the fact that the State had access to capital in a capital scarce environment, and sometimes assigning them specific projects to carry out. The South Korean state has made the necessary intervention in order to protect the national industry, but in a different way, considering the integration of the country toward the global economic and making some liberal policies such as the close of the EPB.

South Korean embeddedness (State-private network) was a much more “top-down” affair than the Japanese prototype; thus the South Korean State could not claim the same generalized institutional relations with the private sector that the MITI system had. Fortunately, South Korea succeeded in having an embeddedness concentrated in a few ties without degenerating the State-private relationship.

Therefore, the economic engine in South Korea fueled by state intervention allowed getting high standards of economic development. Logically, these positive results required implicitly having an acceptable level of institutional quality to work well. The following graph shows the positive evolution of economic development in South Korea.

Graph 12: South Korea’s Economic Development measured by the Human Development Index



Source: United Nations Development Program,
<http://hdr.undp.org/en/statistics/>



3.3. Taiwan's state institutional quality

The institutional history in Taiwan started with the arrival of defected mainlanders to the island, who had to manage with a much bigger Taiwanese population. Most mainlanders were soldiers, while the minority officers were frozen into bureaucratic low salary jobs in order to clean any bad images about corruption to get legitimacy Pye (1985a).

Taiwan had experienced the introduction of new values in a pluralistic way, given the minority of mainlanders. Actually Taiwan's leaders had tried to have a greater control of all the elements associated with traditional authority, but it was impossible; then there was a downgrading of authorities, while the private sector increased its importance King (1993).

The explanation for the phenomena noted in the previous paragraph is the Taiwanese leaders far from having the normal posture of arrogance associated with traditional Confucianism, because they were the defeated group, they could not. Even worse, as already noted, given officials' low salaries; it was a big contradiction with Confucian system where the authorities used to have a better standard of life than private sector Pye (1985a).

In terms of regulatory quality, the economic process allowed the private sector more participation that it had in a typical situation with a Chinese culture. In fact in a normal Confucian society the authority used to be the most important player in the economic sphere and in each aspect of the life of people. Even, if this is another difference with Japan and South Korea's system, where there was a stronger guide of the central authority in the economic development process.

This level of pluralism experienced in Taiwan allowed for relative political stability, better than in South Korea. This fact began because of the decision by mainlanders to not occupy the island through the use of force; instead there was a process of construction of institutions in the mentioned pluralistic way.

Given that relative political stability, there were not too many problems for the application of the Land Reform. For that, Taiwan's leaders followed its American influence as well as the policies of Land Reform in Japan applied also by Americans. Former landlords were compensated with governmental bonds, helping the economic miracle and making Taiwan the most equal of rural scenes in Asia.

The acceptable level of 'government effectiveness' allowed supplying the necessary infrastructure for the success of new landlords and the new entrepreneur class, who were former landlords. For some scholars, these facts are considered the foundation of the Taiwanese economic miracle.

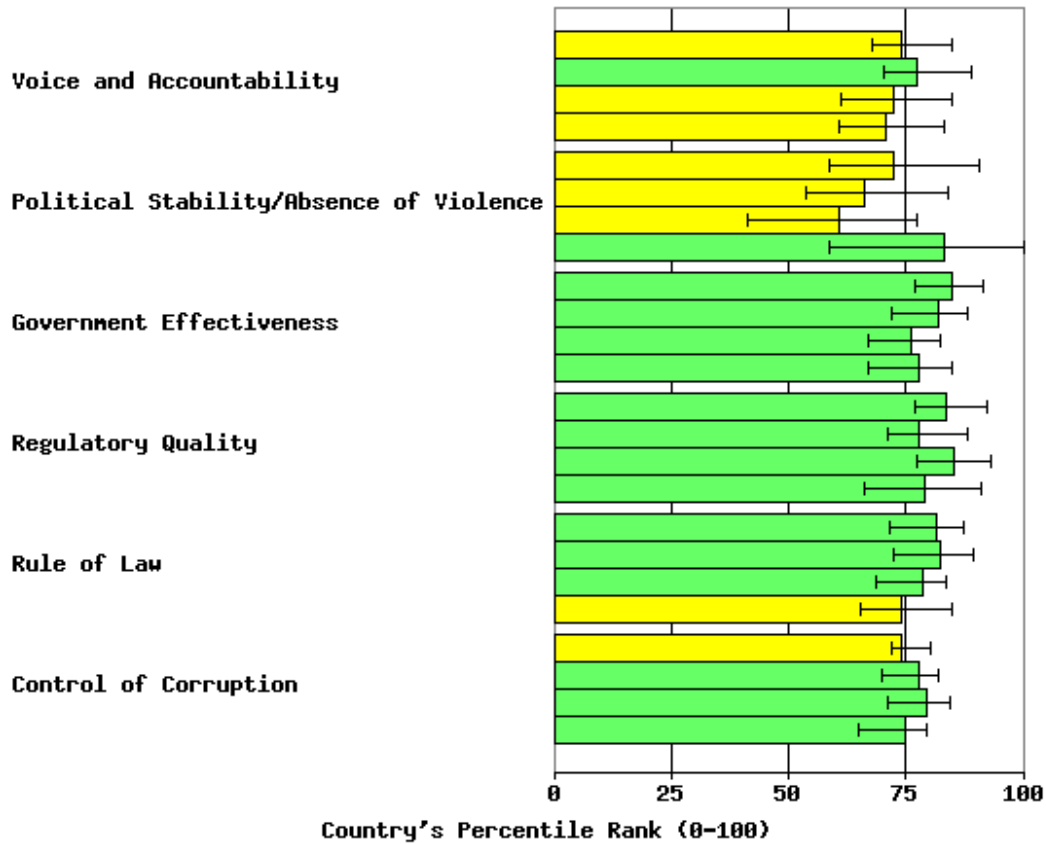
Also the government effectiveness allowed upgrading of human quality in the country. It was a tool to develop the industry sector in the context of the export-oriented policy. Beside, given the liberalization, competition, the open trade enlarges of markets, and other sectors such as the technology one as comparative advantage, the investment in human capital was crucial for the success of the economic development.

The following graph confirms the good performance of Taiwan in terms of some institutional quality indicators, especially about the government effectiveness, regulatory quality, control of corruption, and rule of law. As already noted, although not good enough, the political stability shows a better quality than the South Korean case.

Graph 13: Taiwan's state institutional quality

TAIWAN

Comparison between 2010,2005,2000,1996 (top-bottom order)



Source: Kaufmann D., A. Kraay, and M. Mastruzzi (2010), The Worldwide Governance Indicators: Methodology and Analytical Issues

Note: The governance indicators presented here aggregate the views on the quality of governance provided by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries. These data are gathered from a number of survey institutes, think tanks, non-governmental organizations, and international organizations. The WGI do not reflect the official views of the World Bank, its Executive Directors, or the countries they represent. The WGI are not used by the World Bank Group to allocate resources.

According to institutional scholars, in Taiwan, the institutional quality had also helped for the process of industrial accumulation, channeling capital into transformative risky investment, inducing entrepreneurial decisions, and enhancing the capacity of private firms to confront international markets.

Similar to Japan's MITI or South Korea's EPB; in Taiwan the Council on Economic Planning and Development (CEPD) is the current incarnation of the planning side of the economic general staff. Both CEPD and the Industrial Development Bureau of the

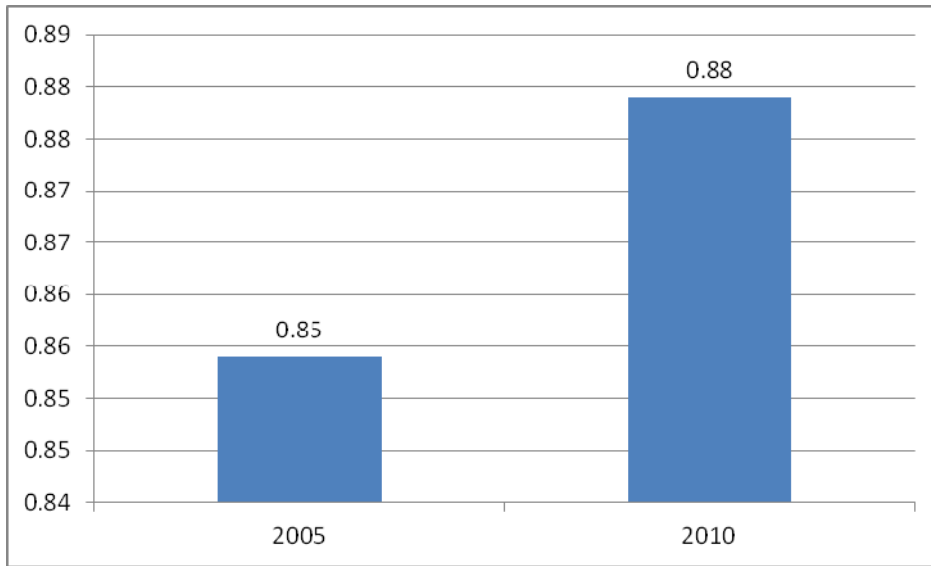
Ministry of Economic Affairs (IDB) have traditionally been successful in attracting the best and the brightest Evans (1995).

Other institutions such as State-owned enterprises (SOEs) were relevant in the industrial development process of Taiwan. In fact, it has the largest state-owned sector in the non-Communist world. For the World Bank Taiwan's extensive set of SOEs, given that each of which has its own set of relations with private firms, helps to compensate the less-developed ties between the central State apparatus and the private sector that Taiwan has in comparison with South Korea and Japan Evan (1995).

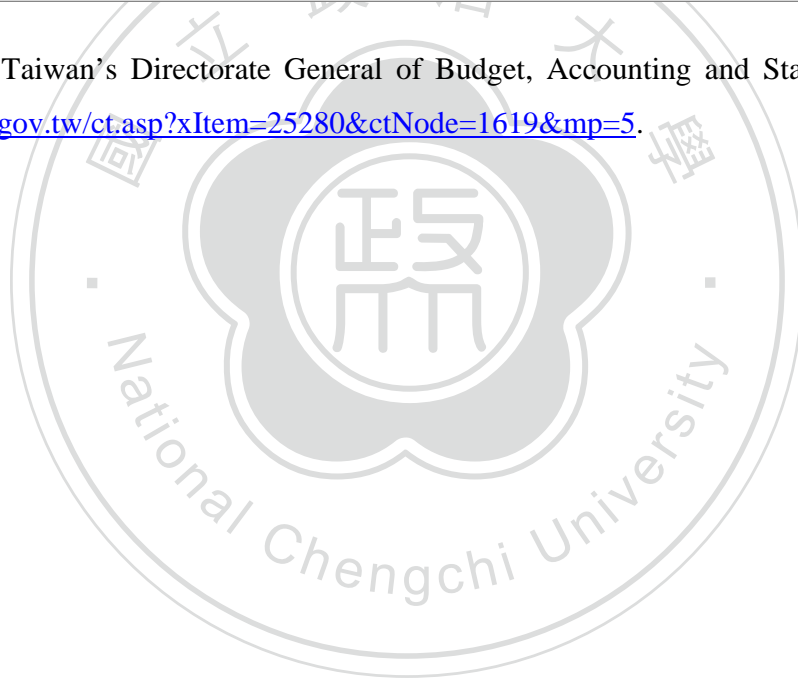
For some institutional scholars such as Dodgson et al. (2008) Taiwan offers a model, which involved a greater role of institutions, called 'Taiwan governs the market'. There are critical institutions such as the Industrial Technology Research Institute (ITRI) and the Hsinchu Science Park (HSP) among others. Thus the nature of industrial and technology sector in Taiwan differ from those in the USA, for instance. In the Taiwan model predominates networks between private sector and the state.

In Taiwan, there had been more effort of networks promoted by the Government such as the Biotechnology Plaza Nankang Software Park, the Chu Pei Biomedical Park, the Chiayi Herbal Medicine Science Park, the Tainan Science Park, Tainan Orchid Plantation, Pint Tung Agricultural Biotechnology Park and so on Dodgson et al. (2008). Other authors such as Wang (2011) also hold that Taiwan offer and alternative model which involved the role of institution, and therefore a proper endowment of institutional quality.

Graph 14: Taiwan's Economic Development measured by the Human Development Index



Source: Taiwan's Directorate General of Budget, Accounting and Statistics (DGBAS), eng.stat.gov.tw/ct.asp?xItem=25280&ctNode=1619&mp=5.



3.4. Singapore's state institutional quality

Singapore and Hong Kong are two city-states with very similar institutional quality and institutional history. Both city-states originated from the colonial British Empire, which gave them similar institutions; both were captured and influenced by the Japanese in World War II, and after experienced slow decolonization. As will be seen later, the process of construction of institutions was similar as well; for instances, in both city-states authoritarian rule is justified by the extraordinary need for political stability.

Singapore's elite has been able to consolidate a great political stability eliminating, practically, all forms of opposition. It is important to highlight that in Singapore the elite use to employ the co-option to face all kinds of potential challengers, trying to involve them into political institutions. Otherwise, in the case that there was no possibility to succeed in co-optation, the elite proceeded to employ contestation and eliminate challenger, through the exclusion Ortmann (2009).

Actually the need for stability came from the beginning of the city-state, when it gained its independence from Great Britain at the 1950s. Since then the authoritarian regime has been able to adapt to the challenges and consolidate the political stability in the city-state.

According to Ortmann (2009), there is active working of 'rule of law' in Singapore, where any aspect of life is control by great flows of laws and regulations, both directly and indirectly. For instance, it is easy to block the formation of group, which is attributed to be against national interest; although there had been liberalization in many aspects such as the arts.

One relevant aspect in the institutional quality of Singapore is the successful 'control of corruption', where the judicial system has an important role, especially in the economic sphere. In that sphere, the judiciary system could be qualified as independent, that

because the elite had made enormous efforts to have a clean and clear judiciary in order to get foreign investment and thus getting economic goal and prosperity for the city-state.

Despite there had been many questions about the independence of the judiciary, the elite had replied quickly in order to demonstrate the real independence. Actually, Singapore has won considerable international acknowledge, given its high position in corruption index. However, in the political sphere there are some questions on the impence of judicial system, about how the laws and regulations could give to the elite a great control.

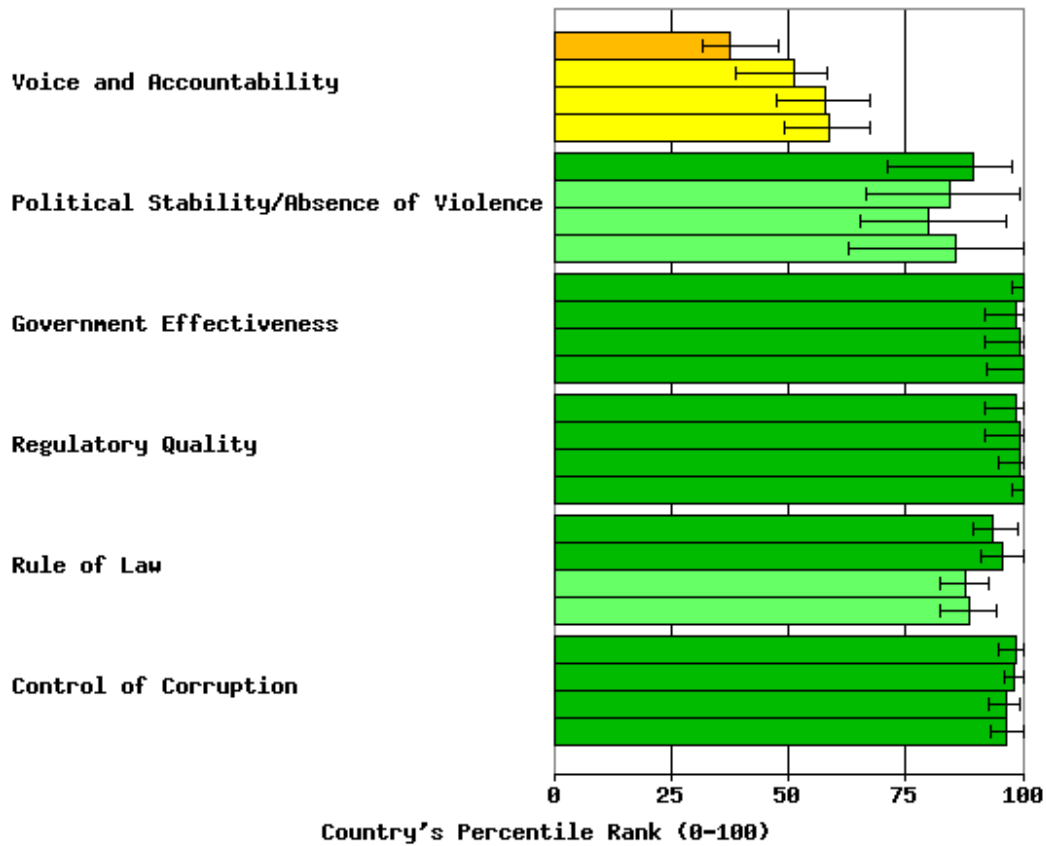
The worst negative aspect in terms of institutional quality in Singapore is the ‘Voice and Accountability’; in fact the population cannot elect government, since there is basically a predominant party called the People’s Action Party (PAP); while there is not total freedom of expression, as already noted given the absence of independence in the judicial system in the political sphere. There is also a control on the Media, through censorship.

Concerning the ‘government effectiveness’, Singapore had been very successful in providing public services such as education and health. Thus the population includes a high level of human capital, which is well-educated. There is also a quality in terms of the implementation of policies. The following graph confirms the strong performance the most institutional quality indicators in Singapore; beside, it is possible to observe the bad one on ‘Voice and Accountability’.

Graph 15: Singapore’s state institutional quality

SINGAPORE

Comparison between 2010,2005,2000,1996 (top-bottom order)



Source: Kaufmann D., A. Kraay, and M. Mastruzzi (2010), The Worldwide Governance Indicators: Methodology and Analytical Issues

Note: The governance indicators presented here aggregate the views on the quality of governance provided by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries. These data are gathered from a number of survey institutes, think tanks, non-governmental organizations, and international organizations. The WGI do not reflect the official views of the World Bank, its Executive Directors, or the countries they represent. The WGI are not used by the World Bank Group to allocate resources.

Clearly, the successful economic development has as a determinant the role of institutions and institutions quality. Actually Singapore has one of the highest per capita Gross Domestic Product rates around the world. The economic system has been a guided economy, where the judiciary has assured flows of necessary foreign investment, but where the laws of market forces have been respected as well.

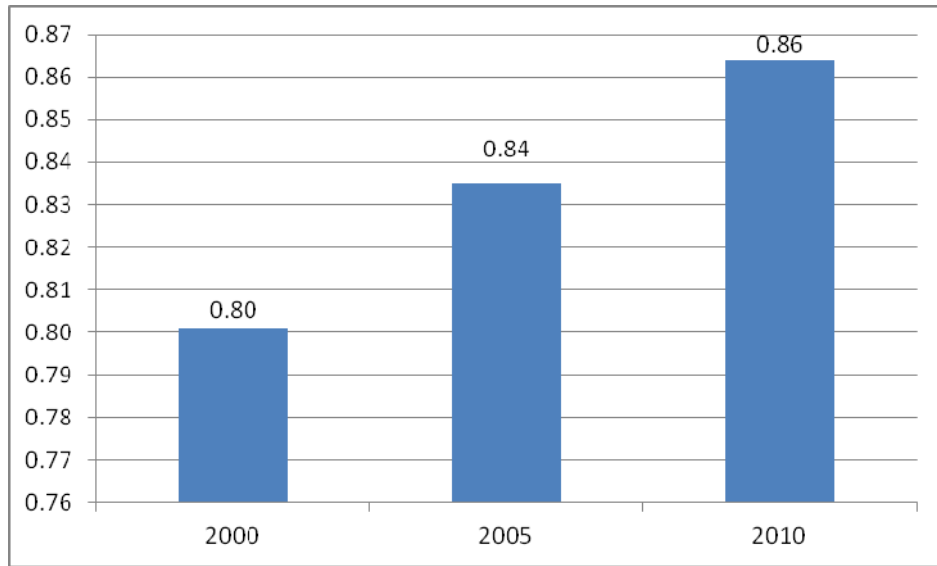
At the moment of the Prime Minister Lee Kuan Yew, he said that there were some problems on the private sector, criticizing the abundant of old family business with rent-seeking behaviors. Therefore, given the acceptable level institutional quality, to speed up economic growth, the state nurtured large state-owned enterprises as well as enticing multinational corporations Tsui-Auch (2003).

After Singapore achieved a process of modernization and great economic development; despite that there still a lack of support from their own home government and the existence of anti-Chinese movement in the region, the new Singaporean firms extended to the region in different lines such as trade, manufacturing, banking, finance, insurances, hotel, property, etc Tsui-Auch (2003).

In fact, the role of institutions and their institutional quality has had a positive impact on the economic development of Singapore. The following graph confirms the high level of economic development achieved by Singapore, thus there is exponential rising on the human development index.

Nowadays, Singapore is probably the best case, in regards to institutional approaches, on how institutional factors are determinant for development. For some institutional scholars, at the present time, Singapore is a model for several countries, including China.

Graph 16: Singapore's Economic Development measured by the Human Development Index



Source: United Nations Development Program;

<http://hdr.undp.org/en/statistics/>



3.5. Hong Kong's state institutional quality

As already noted, today Hong Kong and Singapore show similar institutions, intuitional quality as well as successful results in terms of economic development. In fact, there are few differences; while Hong Kong's laissez faire policy helped in the formation of institutions; the Singapore leader's emphasis on the developmental state closely guided the economy. Thus; despite Hong Kong being more liberal than Singapore, in general, the two city-states have similar kinds of institutions and practices, especially related to the contention of oppositional groups.

Another consideration is a relative better result of Singapore than Hong Kong in this context of similar institutions. For instance, Singapore has been able to consolidate its rule and nearly eliminate all forms of opposition. Thus, public demonstrations in Singapore are a minuscule size in contrasts to the more activists in Hong Kong.

In Hong Kong, the government tried to co-opt potential challenger into government institutions, but its success was lesser in comparison with Singapore. Thus although these both city-states have had low level of Voice and Accountability'; Singapore had gotten successful in co-option and political stability, while in Hong Kong there are potential challengers with less success in co-option. That stability had contributing to the status quo on economic development and low 'Voice and Accountability'.

Ngok (2007) describes how in the post colonial time in Hong Kong, the elite had been fragmented, in fact there was a lack of a governing party and in general a weak governing capacity; however there had been the application of cooption which has hampered oppositional challengers. After that, the administrative state and bureaucracy had transformed itself with more intervention into society, marketization of the state services and so on.

According to Ngok (2007) some institutions, which belong to the political system such as the Legislative Council and parties had weakened themselves and reduced their

influences. In the case of party development, it had been constrained various institutional factors as well as institutional changing. There was gradual detachment between parties and civil society, which weakened their mobilization power. Therefore, weak political parties diminished the bridge between state and society.

As consequence, there a low performance of the aspects related to the institutional quality indicator ‘Voice and Accountability’ due to the encroachment on the media, civil liberties, and other constrains from the state. In spite of a lack of this indicator, there was a flourishing of the industrial sector. Actually, the civil society in Hong Kong is define as a good movement for self-defense, but unable for forming coalitions to further social reforms.

While the city-state had Legislative Council and an Executive Council, neither of these institutions was very powerful. Instead, power rested with the governor and the bureaucracy. In Hong Kong the predominant mentality is that good government is more important than democracy, according to some scholars this mentality is according to Chinese culture.

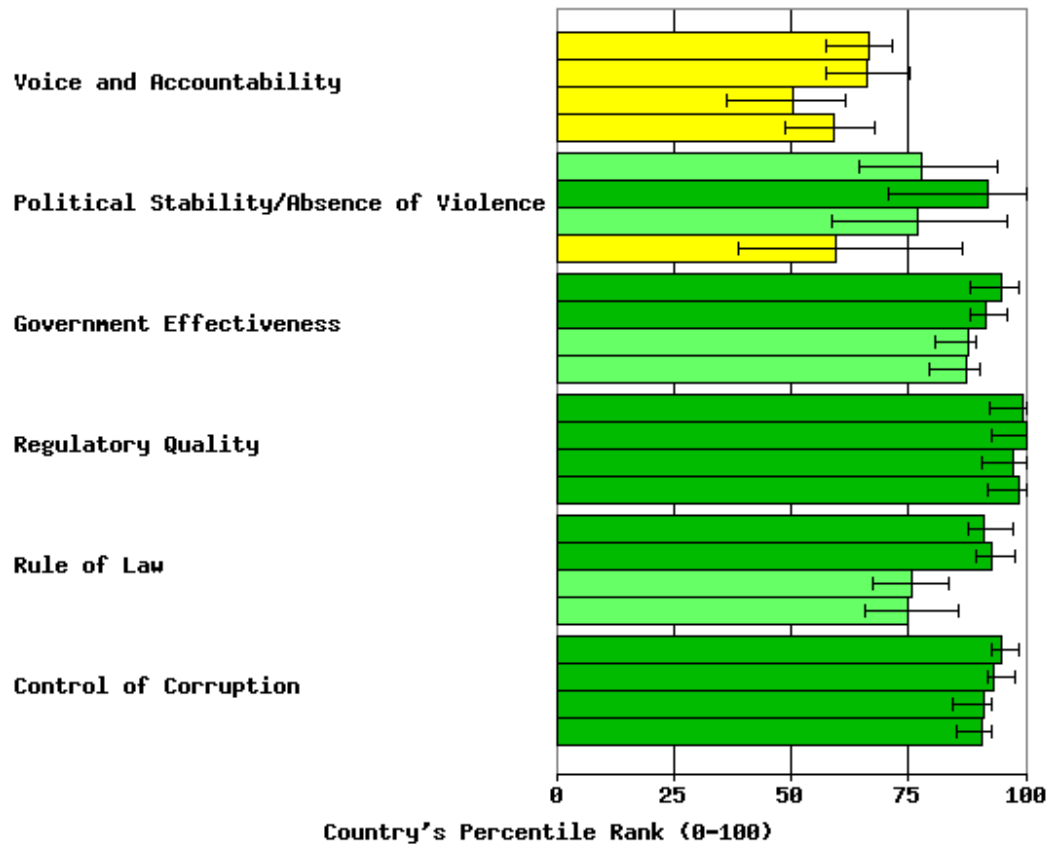
Hong Kong did have only some democracy, in the form of the Urban Council, but unfortunately, it is used to have platform for voicing discontent, by authorities, in order to strength the co-option and then the depoliticization of the society.

Another relevant aspect, also similar to the Singaporean reality, is that fact that although Hong Kong government promoted the independence of the judiciary to the international business community and promoting foreign investment and prosperity, but there were also those who challenge its true independence in the political sphere Ortmann (2009). The following graph confirms our affirmations about the similarity of institutional quality between Hong Kong and Singapore.

Graph 17: Hong Kong’s state institutional quality

HONG KONG SAR, CHINA

Comparison between 2010,2005,2000,1996 (top-bottom order)



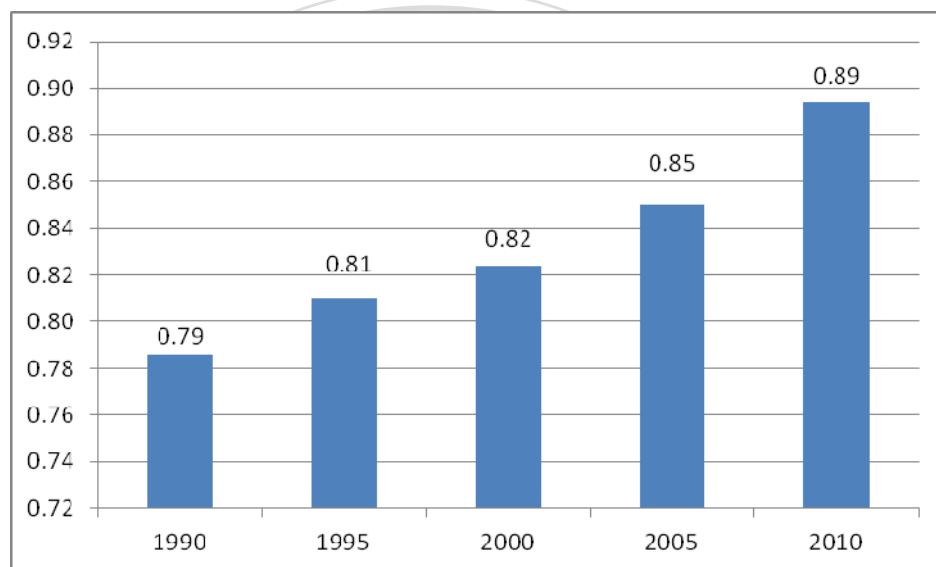
Source: Kaufmann D., A. Kraay, and M. Mastruzzi (2010), The Worldwide Governance Indicators: Methodology and Analytical Issues

Note: The governance indicators presented here aggregate the views on the quality of governance provided by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries. These data are gathered from a number of survey institutes, think tanks, non-governmental organizations, and international organizations. The WGI do not reflect the official views of the World Bank, its Executive Directors, or the countries they represent. The WGI are not used by the World Bank Group to allocate resources.

In the context of Hong Kong's institutional quality and state promotion, the process of modernization started with the modernization the economy was based on trade with China to an export-oriented economy Ortmann (2009). Although Kong Hong had its component of laissez-faire policy foundation, the role of institutions was also and determinant for its success in its economic development in the way that the previous analyzed economies.

Given the similarities already noted, the most important consideration is that Hong Kong had achieved the high standard of life and economic development now known. The graph shows the positive evolution of its economic development, which put this society to the first position on the world, where people enjoys of the satisfaction of their necessities.

Graph 18: Hong Kong's Economic Development measured by the Human Development Index



Source: United Nations Development Program,

<http://hdr.undp.org/en/statistics/>

4. CHAPTER 4 Lessons of Asian countries' state institutional quality for Latin America

4.1. China's state institutional quality and Latin America

China could provide some appropriate models on institutional quality for Latin America; and therefore how the role of institutions in the region could allow to catch-up certain sets of economic development goals. Due to that, there are some similar characteristics among them; for instance both are developing economies with big populations and big low-educated people, high level of inequalities and so on.

On the basis of these similar characteristics it is reasonable to consider that some successful goals already achieved in China, could be also achieved in Latin America. In fact, there are many differences about the policies and measures between these two economies. Being both are developing economies, China had achieved recognizable economic development; indeed for some institutional scholars nowadays China represents a new model of development especially for the developing world.

According to previous analysis about China their three economic successes such as the development of indigenous technology, automotive industry and the internationalization of Chinese companies had had as one their relevant determinants the role of institutions, where improvements and a certain minimum level of institutional quality is an essential requirement.

In contrast, Latin America has poor institutional quality; particularly state institutions. It is logical to assume that in a context of low institutional quality the state would not be able to fulfill its functions effectively. This is the situation in Latin America, under a long term observation the states of Latin American countries are characterized by being ineffective, through historical stages.

In the last twenty years, this region had implemented and applied the ‘Washington Consensus’. These were a set of ten policies about liberalization in order to get sustainable economic growth. Initially, the liberalization process allowed important rates of economic growth as well as strengthening the private sector in most countries of the region; but it had not been sustainable and solved other social problems such as inequality and poverty, either.

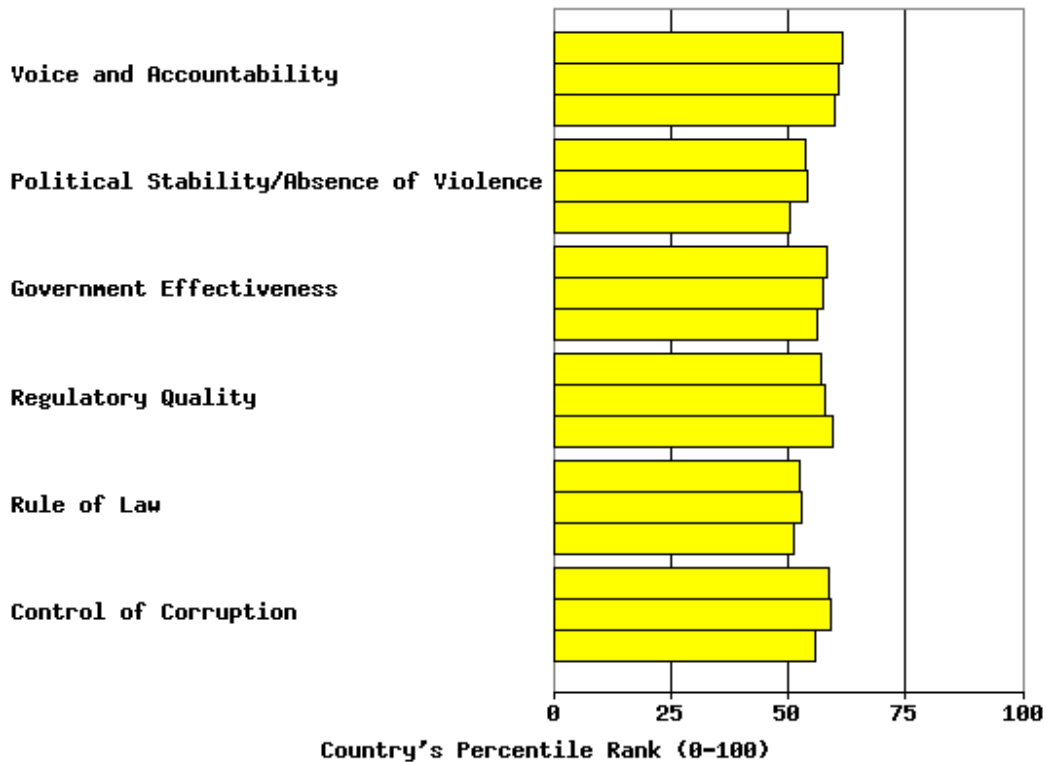
It is important to highlight that the ‘Washington Consensus’ does not include policies to foster state institutional quality, focusing basically in the promotion of the private sector. Therefore, it is imperative in Latin America to complement the previous progress in the private sector with the improvement of state institutional quality. In particular, countries from the region could achieve some development targets.

The following graph shows the low institutional quality in the region. This is an average of all countries from Latin America and the Caribbean, which has a level lesser than 75%; therefore, not enough good according to the criteria of the World Bank. Besides, it could be appreciated that there is almost not improvements through the time, since the countries of the region had neglected long-term policies to advance institutional quality.

Graph 19: Latin America’s state institutional quality

Latin America

Comparison between 2010,2005,2000 (top-bottom order)



Source: Kaufmann D., A. Kraay, and M. Mastruzzi (2010), The Worldwide Governance Indicators: Methodology and Analytical Issues

Note: The governance indicators presented here aggregate the views on the quality of governance provided by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries. These data are gathered from a number of survey institutes, think tanks, non-governmental organizations, and international organizations. The WGI do not reflect the official views of the World Bank, its Executive Directors, or the countries they represent. The WGI are not used by the World Bank Group to allocate resources.

‘Government effectiveness’ indicator.-

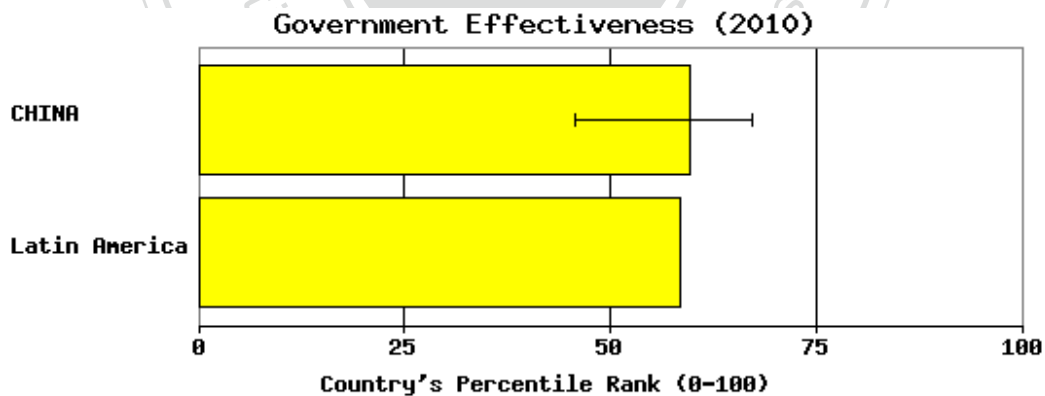
Previously, it had been determined that, among the six indicators, China’s most progress in institutional quality was on the ‘government effectiveness’ one; in fact it was highlighted that the improvement on the credibility of the China Government’s commitment to its policies and how that had allowed to upgrade the China’s institutional context, supporting a better environment for private agents and economic development.

In consequence, among the six indicators of institutional quality, the ‘government’s effectiveness’ represents the best model for Latin America. The following graph shows a comparison between China and Latin America’s government effectiveness indicators, apparently China has a slightly higher level, but one important fact is that while Latin America practically had no had improvement in institutional quality, China had had a higher positive evolution.

Additionally, as already noted, China’s advantages such as big internal market, low production cost and so on, had made that slight institutional reform and improvement of state institutional quality supported the fast economic growth, which is observed in China since few decades ago.

Even, given that Latin America has not had such advantages, it is expected that similar levels of institutional quality would not have the same result in terms of economic growth and economic development; therefore the region would need additional efforts to get the economic growth observed in China.

Graph 20: comparison between China and Latin America’s government effectiveness indicator



Source: Kaufmann D., A. Kraay, and M. Mastruzzi (2010), *The Worldwide Governance Indicators: Methodology and Analytical Issues*

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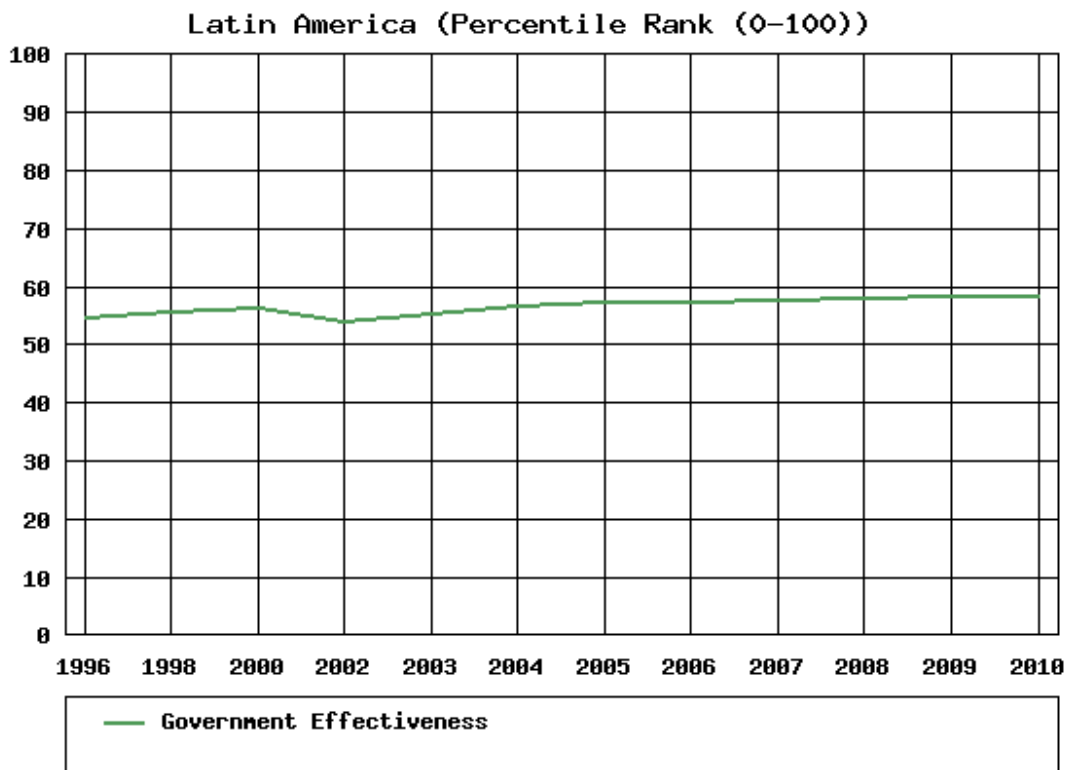
Currently, while China already achieved levels higher than 60%, Latin America still under this level (see graph 20). In fact, in Latin America improvement on state institutional quality is an absent policy, efforts are more concentrated in short-term policies such as the promotion of private investment in the context of liberal legal framework implemented at the beginning of the nineties via the 'Washington Consensus. Thanks to these reforms, the private agents could start business, but the reality seems to say that it is not enough.

Concerning the aspects related to 'government effectiveness', in Latin America there is a inefficient quality of public services, while China had achieved important accomplishment in this fields, especially in the urban areas, in the region the population lack of adequate health and education services. About civil service in the region, basically, there is not recruitment on the basis of professional merit as proven by competitive examination, while for tradition; China has a better consideration of meritocratic component than the region.

About the quality of policy formulation and implementation, there is big and clear difference between China and Latin America. The first one, via the CCP, has a relative stable elite, which formulates and implements the policies, since the 'open policy', following the goals of modernization and economic growth, having recognized success. On the other hand, the countries of the region have very weak capacity of formulation and implementation of policies. The elites come from very weak parties, while the bureaucracy, far from having a meritocratic recruitment, follow criteria to absorb the maximum quantity of people, mainly members of political parties.

Finally, about the credibility of the government's commitment to its policies, there is also a good lesson for the region. In fact, China has made an important effort in getting international credibility, especially in the economic sphere. This credibility perceived by foreign investors, for example, has allowed getting high level of FDI. On the other hand, the Latin American countries had not had the enough credibility yet, given some defaults with its commitments; neglecting to be gaining credibility through the time. In this sense, the region has an important aspect to learn from China.

Graph 21: Evolution of Latin America’s government effectiveness



Source: Kaufmann D., A. Kraay, and M. Mastruzzi (2010), *The Worldwide Governance Indicators: Methodology and Analytical Issues*

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To have a greater detail about the analysis of institutional quality in the region, a sample of the ten biggest Latin American countries in terms of population was analyzed. This kind of analysis is relevant, since the region also has a lack of integration in economic or political blocks. In fact it is not so possible that the region could perform as a unique economy. More realistic is to think that each country will implement its own specific policy.

The biggest economies are Brazil and Mexico, which also have the biggest population of 190 million and 110 million, respectively. Both numbers are much lower in comparison with the near China's 1.3 billion population. Therefore, the Latin America countries with the biggest internal markets, have a lower potential than China. It is expected that with the same level of institutional qualities, economies with higher internal market could enjoy better benefits, such as those achieved by China.

The remaining Latin American countries have lower internal markets, thus would have different results. In fact, countries such as Argentina and Colombia with population of 40 millions and 45 millions are considered to have important advantages in terms of internal market inside the region; while others have a population lower than 30 million. However, institutional scholars hold that internal market is key even for the smallest countries. They qualified it as profit reservoir for entrepreneurs and recommend that countries with small internal market should have a more open economy as well as an exported-oriented policy to commercialize with the rest of the world and have a bigger market for their products.

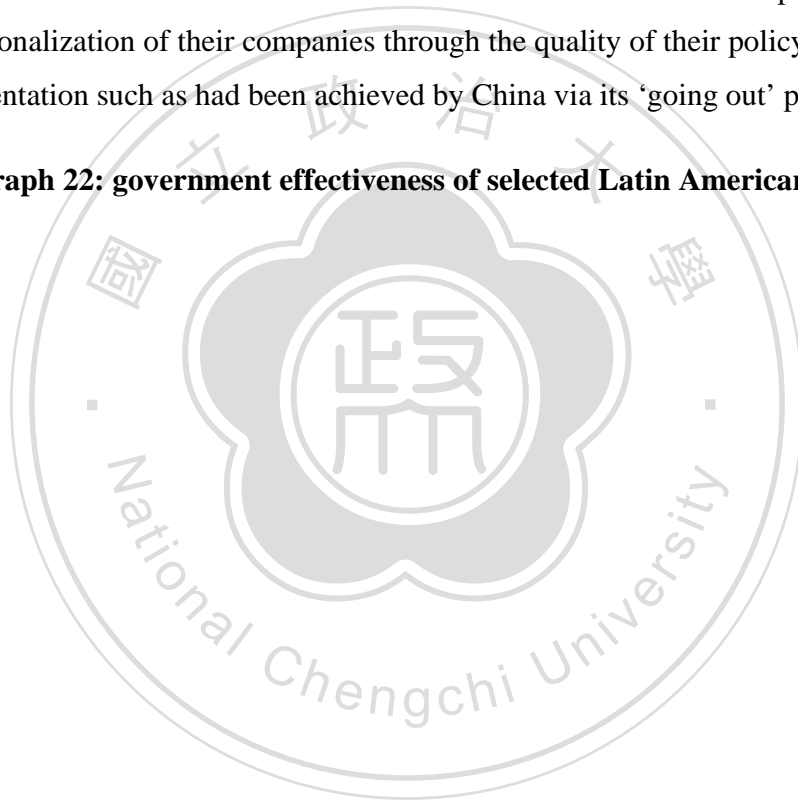
In general, almost all countries have low levels of institutional quality lower than 75% (see graph 22). Another perspective to analyze our topic is through an empirical observation about the relationship between the institutional quality and economic development. For example, Chile and Mexico have the highest level of institutional quality, while at the same time are among the countries with the highest level of 'human development index'.

However, this relationship is not totally clear in the region, since other countries with highest level of human development such as Argentina and Venezuela, especially Argentina which has had the first position for many years, are not among the first positions in terms of institutional quality as shown in the graph 22. As mentioned, in the last twenty years the progress of the economic development has come from the private impulse, basically.

In the region there is a lack of economic goals such as the shown in China; instead there have been projections inside the bureaucracy of Latin America countries. Actually the predominant explanation of the development is the market forces. In consequence, there have not been goals such as development of indigenous technology, automotive industry, internationalization of Latin American companies or any other target.

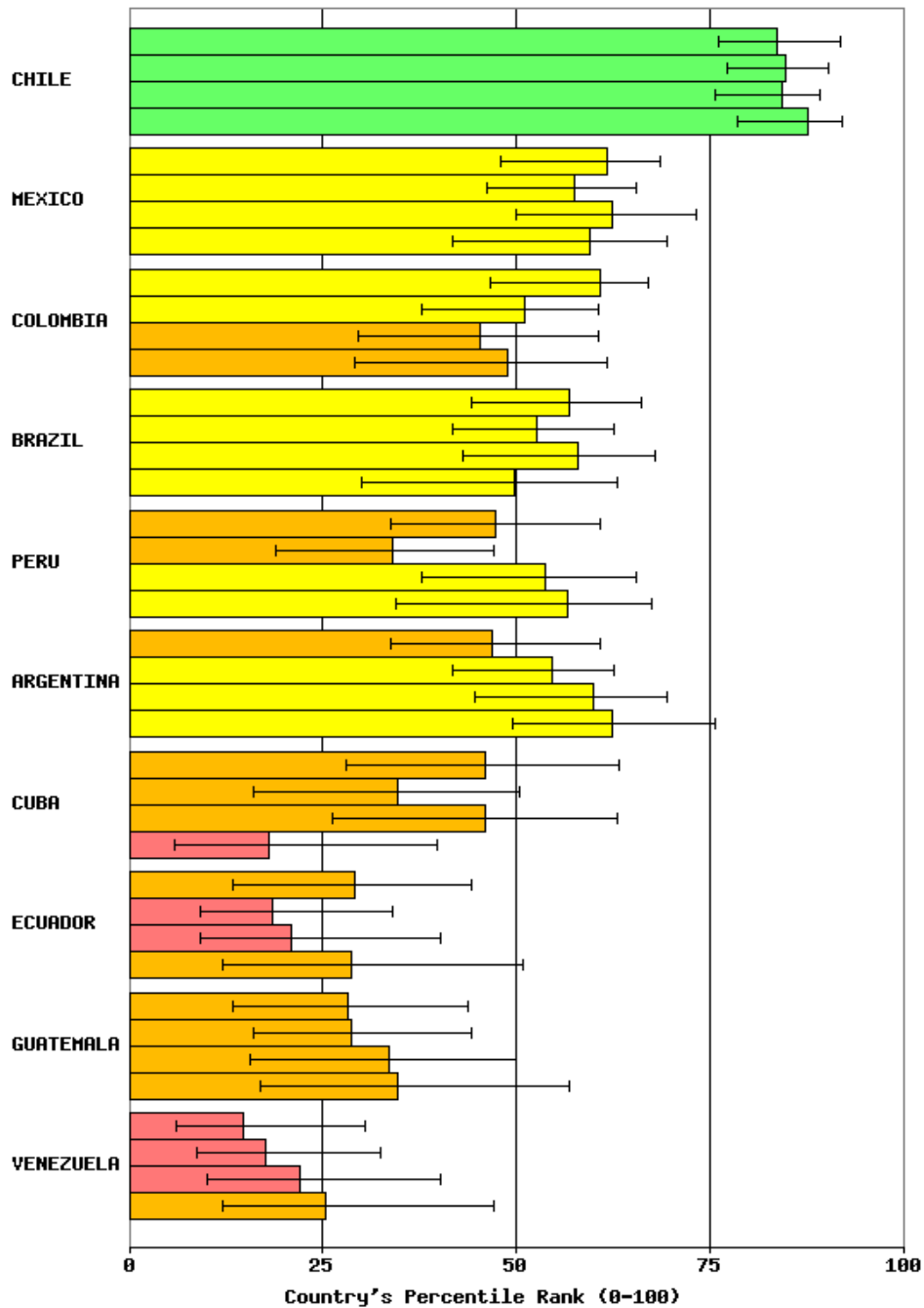
In fact a scene where Latin America countries could catch-up determined development goals requires strong state institutions in term of institutional quality; for instance it is important to ask ourselves if Latin American countries could catch-up desired levels of internationalization of their companies through the quality of their policy formulation and implementation such as had been achieved by China via its 'going out' policy.

Graph 22: government effectiveness of selected Latin American countries



Government Effectiveness (2010)

Comparison between 2010,2005,2000,1996 (top-bottom order)



Source: Kaufmann D., A. Kraay, and M. Mastruzzi (2010), The Worldwide Governance Indicators: Methodology and Analytical Issues

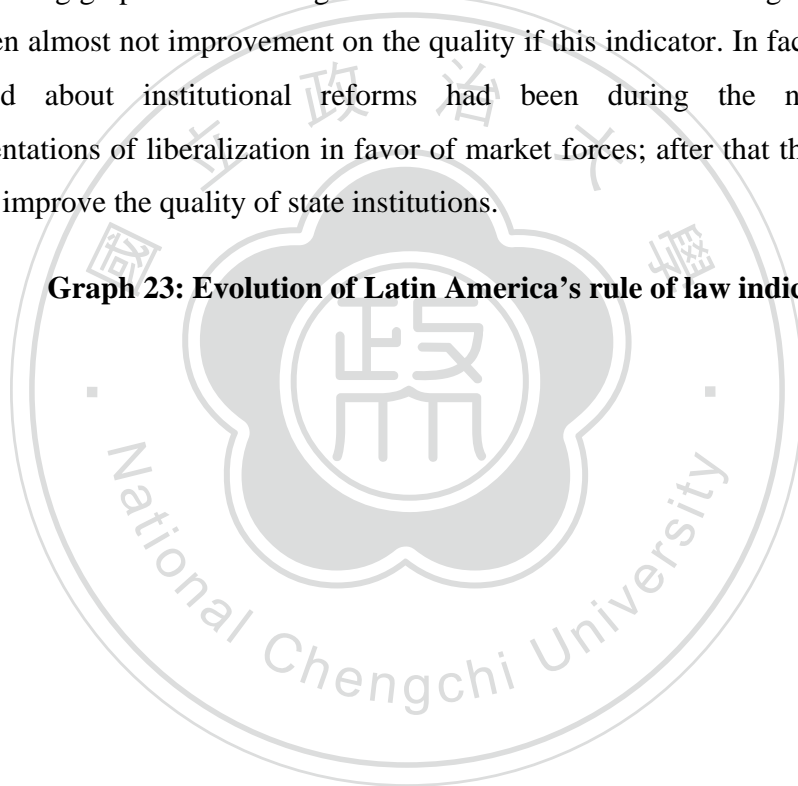
Note: The governance indicators presented here aggregate the views on the quality of governance provided by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries. These data are gathered from a number of survey institutes, think tanks, non-governmental organizations, and international organizations. The WGI do not reflect the official views of the World Bank, its Executive Directors, or the countries they represent. The WGI are not used by the World Bank Group to allocate resources.

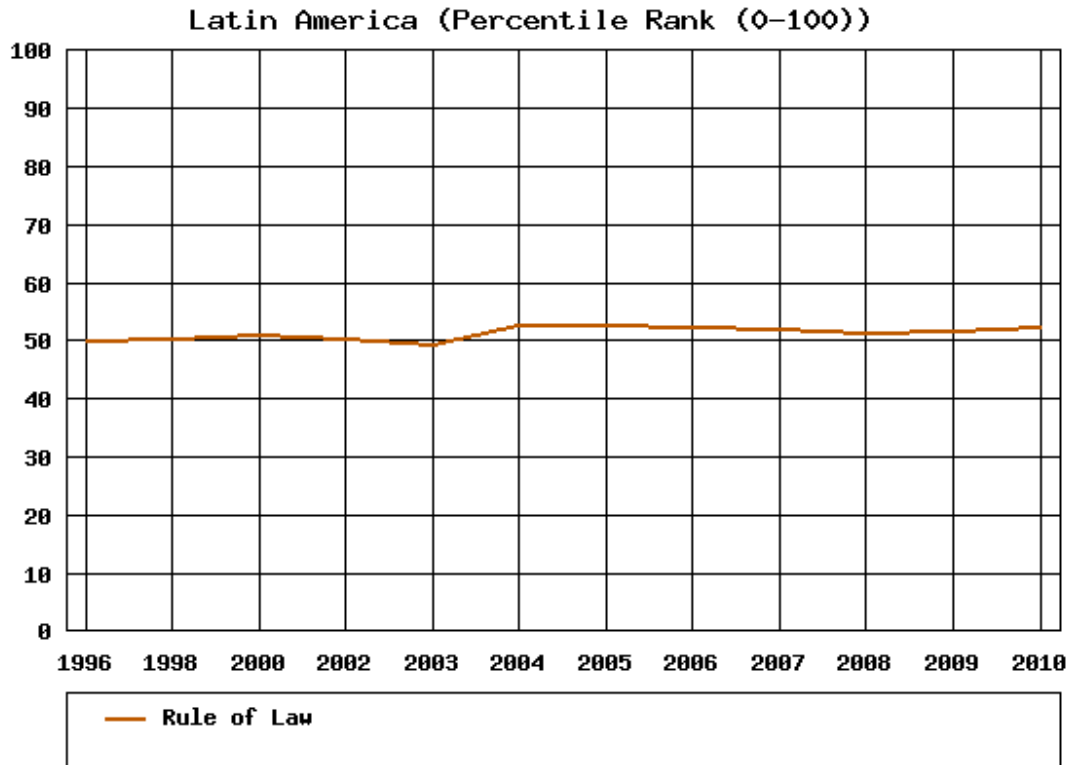
‘Rule of law’ indicator.-

The second and last institutional quality indicator relevant on the contribution to the China’s economic development is the ‘rule of law’. For institutional scholars, in there, the ‘rule of law’ has been successful in maintaining social stability, and certain restrictions to discretionary actions of the politicians against the development of the private sector.

The following graph show the stagnation of the ‘rule of law’ in the region, it means there have been almost not improvement on the quality if this indicator. In fact the only efforts registered about institutional reforms had been during the nineties for the implementations of liberalization in favor of market forces; after that there had not been effort to improve the quality of state institutions.

Graph 23: Evolution of Latin America’s rule of law indicator





Source: Kaufmann D., A. Kraay, and M. Mastruzzi (2010), *The Worldwide Governance Indicators: Methodology and Analytical Issues*

Note: The governance indicators presented here aggregate the views on the quality of governance provided by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries. These data are gathered from a number of survey institutes, think tanks, non-governmental organizations, and international organizations. The WGI do not reflect the official views of the World Bank, its Executive Directors, or the countries they represent. The WGI are not used by the World Bank Group to allocate resources.

The ‘rule of law’ has not worked well in Latin American countries; in fact in the region people who do not abide the rules of the society, therefore suffer a high level of criminality and violence. The region is recognized as one the worst places in terms of insecurity; some institutional approaches hold that this kind of context discourages the start of economic transactions. Meanwhile, some state apparatus such as polices, court and so on are very weak and unable to control this situation, given their permanent very low institutional quality.

For Latin America, the China's progress in term of institutional quality of the 'rule of law' represents an important aspect to be considered. In the region there is more social instability; it is more frequently to find facts such demonstrations, strikes and so on; beyond being democratic facts, they are intention to destabilize national laws or goals, in that context where there is not national consensus.

In the economic sphere, there has been a permanent instable context for entrepreneurs, especially for big projects and for the foreign direct investors. Contrary to China, in the region the private sector does not consider the 'rule of law' as an effective instrument to invest in the long term. Likewise, the middle class feels the this legal instrument would be unable to control a situation where the big poor populations starts anxious social demand for egalitarian, in the region cataloged as the most unequal on the world.

There diverse studies from international organizations such as Inter-American Development Bank (IADB) on the weak and small size of states of Latin American countries. To evaluate that, these organizations analyzed the indicator tax pressure (tax collection divided by the gross domestic product), having a ratio of 18%, in average for the region. The interpretation and conclusion is that Latin American states with such a ratio are very small and unable to fulfill their functions, in comparison with state from developed countries, which have a ratio above 30%. Actually, there has been a deep debate about weak and small sizes of states in the region.

The following graph shows the low level of institutional quality of the 'rule of law' indicator for a selected group of Latin America countries. In most cases, the levels are under 50%. In countries rich in natural resources such as oil and minerals, the states had been unable to exploit and subtract resource and invest in the development of their people and population. There is an irreconcilable divergence between masses and elite. Apparently, the rule approved by the government does not have legitimacy of the population.

In the graph 24, Venezuela, Ecuador and Peru are among the countries with the lowest level of 'rule of law'. They also have abundance endowment of natural resources, which

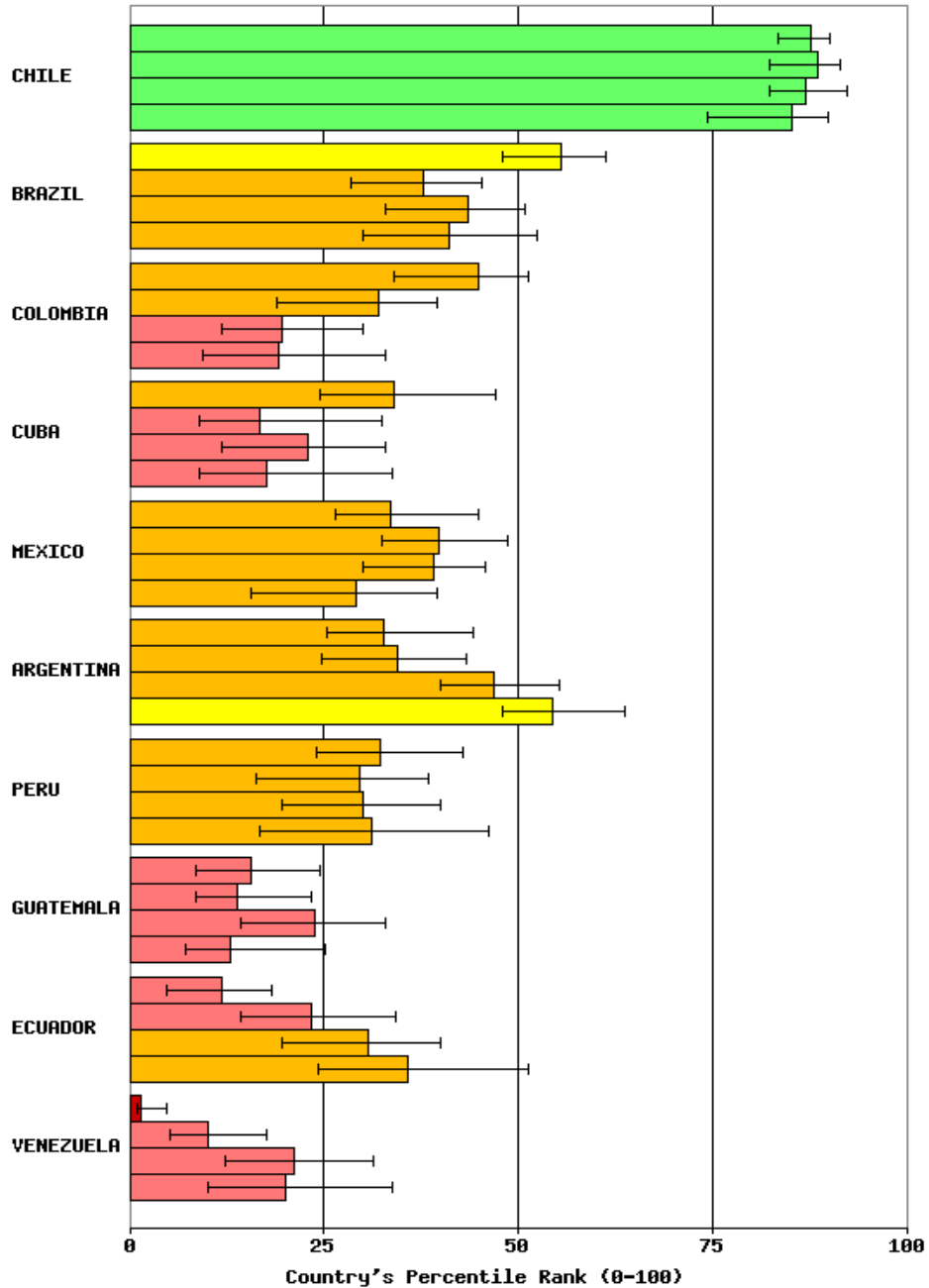
have been the causes of clashes between the elite and masses, which had not been solved by the ‘rule of law’. Therefore, it is common to observe demonstration against the exploitation of these natural resources and ignore concessions granted by the states, in a context, where the states need to fund public services, for instance.

Graph 24: rule of law of selected Latin American countries



Rule of Law (2010)

Comparison between 2010,2005,2000,1996 (top-bottom order)



Source: Kaufmann D., A. Kraay, and M. Mastruzzi (2010), The Worldwide Governance Indicators: Methodology and Analytical Issues

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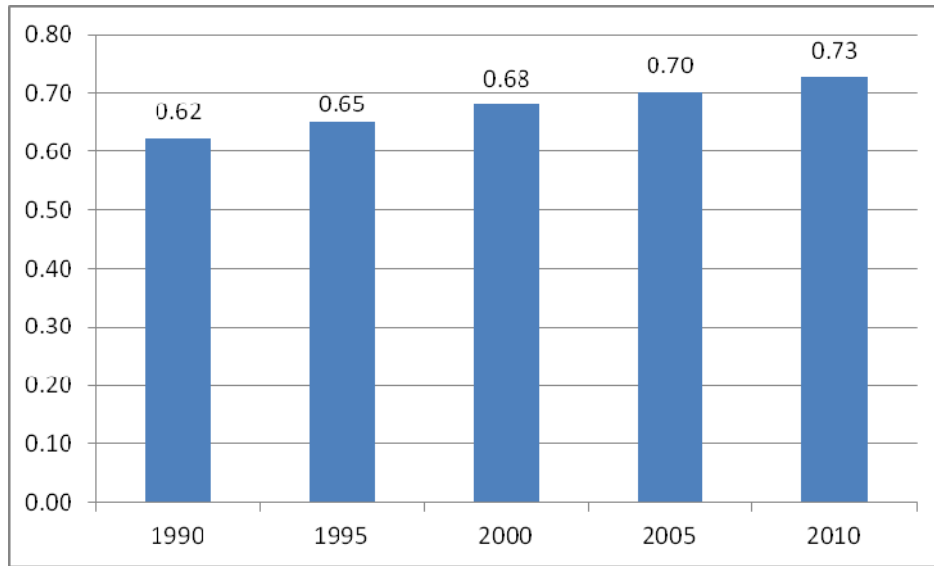
Given the low level of institutional quality in the Latin American countries it is hard that the state institutions could be effective in the application of some intervention, in a context that there would be national development goals such as China has. Relying only on the forces of markets does not guarantee achieved results such as indigenous technology. Indeed, the region lacks technology, being mainly producers of raw materials.

About the industry sector, in the past, before the implementation of 'Washington Consensus', around the seventies there were enormous efforts to develop the industry in most countries of the region along with considerable support and state intervention. The failures of these actions made that all types of state interventions became demonized, consolidating the exclusion of long term policies in favor of strengthen the state capacity.

The studied case on internationalization of companies allows finding a key difference between China and Latin America. As already noted, the former challenges the neoclassical theory on comparative advantages, establishing target of internationalization of its companies to catch-up desired levels of technology. Contrary, following the comparative advantages, the Latin American countries practically do not support the internationalization of their companies.

In general the economic development process in Latin America has been slow. In contrast, since few decades ago China had started with very low level of development; however until now has experience a fast growth; as consequence the China's human development index presents a growth of 39% from 1990 till 2010. On the other hand, the region has a much lower growth of 17%.

Graph 25: Latin America's Economic Development measured by the Human Development Index



Source: United Nations Development Program,
<http://hdr.undp.org/en/statistics/>

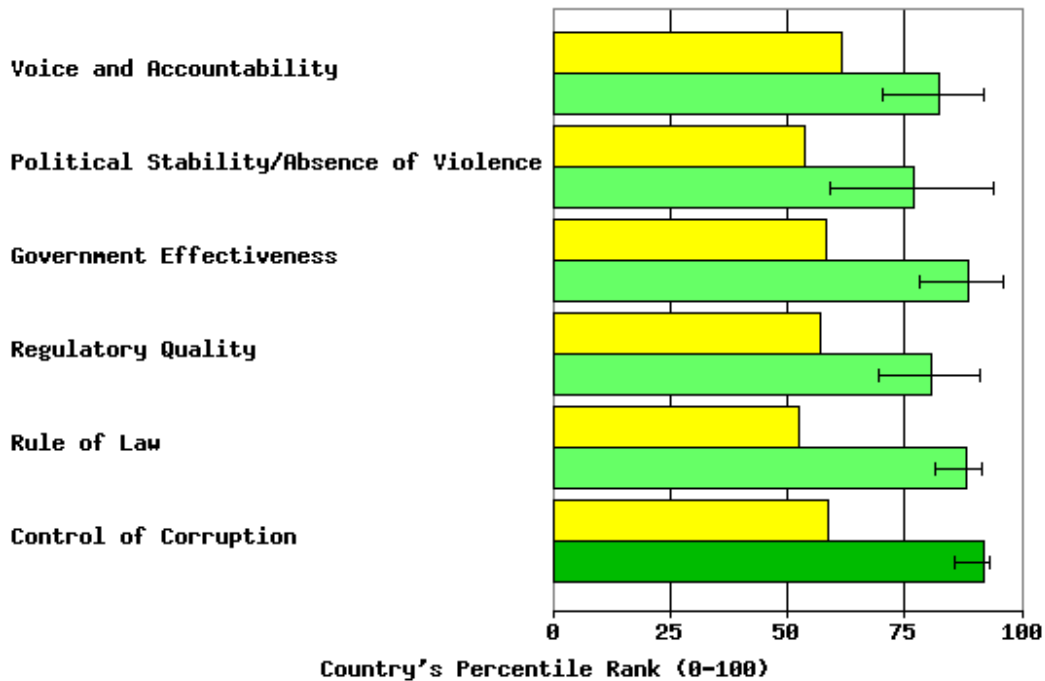
4.2. Japan's state institutional quality and Latin America

Japan has been a model even for other Asian countries. The best lesson for Latin America is the peaceful adaptation of modern institutions; where the process of reform and modernization could be achieved without great bitterness. For that there should be general consensus about national goals, having an enough sensitive of the entire nations toward national goals and authority. In that context, Japan offer to catch-up all of the state's institutional quality indicator as could be seen in the following graph. Japan is the only Asian success case about how the 'Voice and Accountability' indicator support the economic development, via the freedom of expression and association.

Graph 26: Comparison between Japan and Latin America's state institutional quality

Latin America

Comparison with JAPAN (lower bar)



Source: Kaufmann D., A. Kraay, and M. Mastruzzi (2010), *The Worldwide Governance Indicators: Methodology and Analytical Issues*

Note: The governance indicators presented here aggregate the views on the quality of governance provided by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries. These data are gathered from a number of survey institutes, think tanks, non-governmental organizations, and international organizations. The WGI do not reflect the official views of the World Bank, its Executive Directors, or the countries they represent. The WGI are not used by the World Bank Group to allocate resources.

Another important aspect about Japan is the recruitment of the member of the state according to the high standard of meritocracy. In fact, the meritocracy is not a long-term policy; instead it needs a long term process as well as the construction of networks among states, universities and other institutions. Since the time of the Meiji Restoration low class samurais have re-interpreted some Confucian-values highlighting the principle of merit to get a successful bureaucratic system.

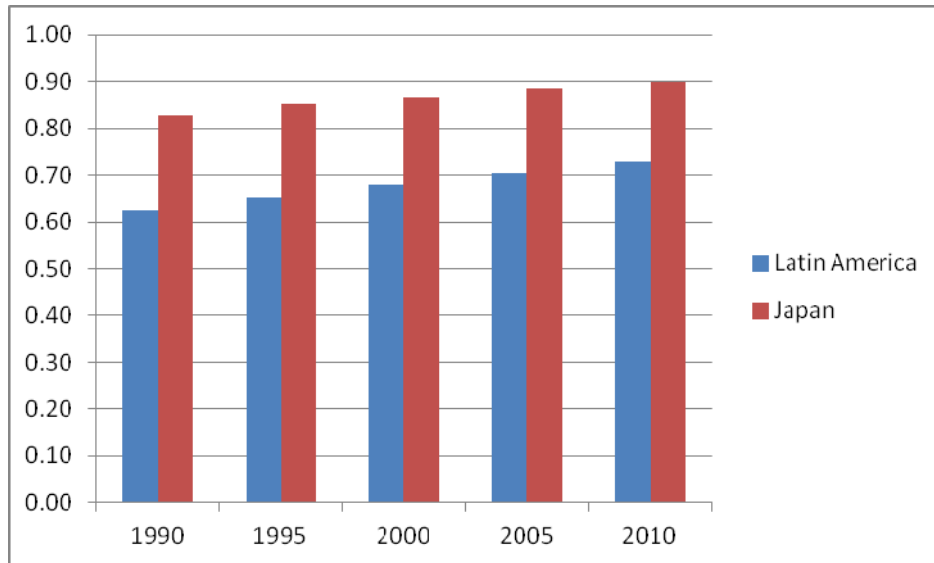
Indeed, Latin American countries have tried and failed to implement a meritocratic system. Evan (1995) holds that Latin American States have a lot of workers as their source of job and not meritocracy. Furthermore, there is a bureaucratic fragmentation and

changing of agencies every four or five years. Therefore, restriction in internal State apparatus and no stable bureaucratic structure make it impossible for the creation of networks between States and private sector as long as the creation of embeddedness (private and state networks) as was the case in Japan.

For cases of national goals it is necessary the power of a centralized bureaucracy, especially when there are some very low levels of development and huge necessities for infrastructure. However, while Japan has had this important component during its economic process, Latin American states have a lack of it. There is no evidence about the existence of institutions in Latin America with the effectiveness and quality of the MITI.

The following graph shows the differences in terms of economic development between Japan and the average of Latin America. Probably this is the most clear case of how institutional factors contribute considerable to the development such as it is established by the institutional approaches. A part from the already mentioned high quality of 'Voice and Accountability' of Japan, there rest of indicators, also provide a model such as the control of corruption, government effectiveness and so on.

Graph 27: Comparison between Japan and Latin America's Human Development Index



Source: United Nations Development Program,
<http://hdr.undp.org/en/statistics/>

4.3. South Korea's state institutional quality and Latin America

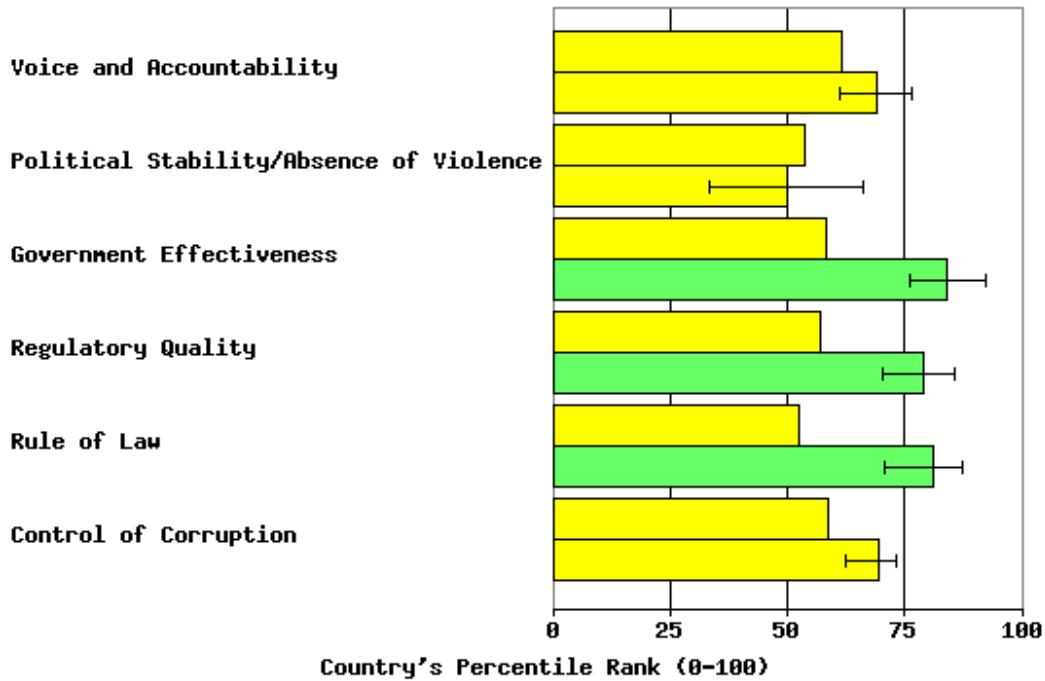
Similar to the case of China, South Korea shows that 'government effectiveness' and 'rule of law' are the best indicators among the total set of indicators, which represent the state institutions. Consequently, these two indicators would be proposed as a future policy for the Latin American countries, reinforcing the proposal made in the previous chapter.

Additionally, according to the following graph, there is good performance of the indicator 'regulatory quality', which indicates the ability of the government to specifically promote the development of the private sector. In fact, in the region there is a lack of this ability, especially to promote local private development, which is not enough to contribute to the whole development.

Graph 28: Comparison between South Korea and Latin America's state institutional quality

Latin America

Comparison with KOREA, SOUTH (lower bar)



Source: Kaufmann D., A. Kraay, and M. Mastruzzi (2010), The Worldwide Governance Indicators: Methodology and Analytical Issues

Note: The governance indicators presented here aggregate the views on the quality of governance provided by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries. These data are gathered from a number of survey institutes, think tanks, non-governmental organizations, and international organizations. The WGI do not reflect the official views of the World Bank, its Executive Directors, or the countries they represent. The WGI are not used by the World Bank Group to allocate resources.

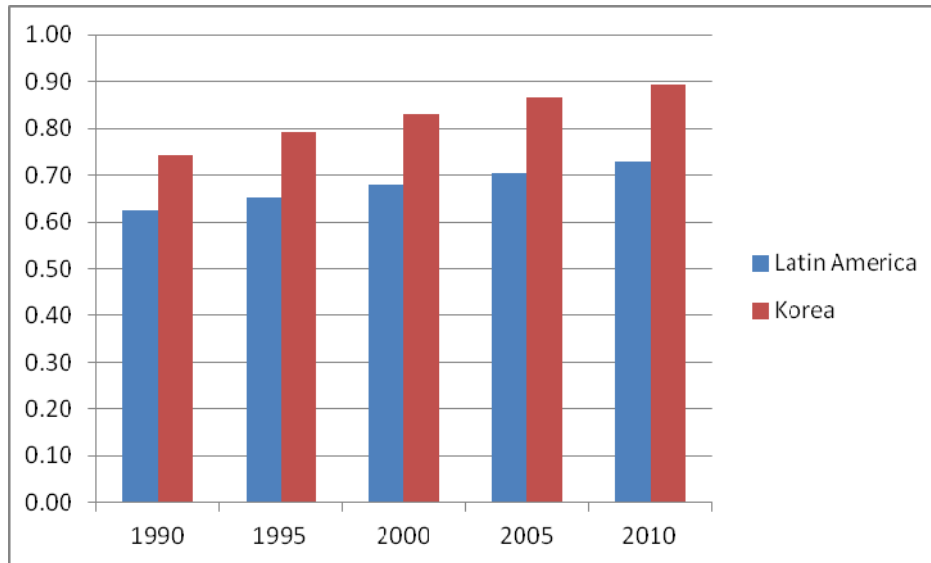
Similar to the case of Japan, South Korea also offers lessons on the implementation of the meritocracy inside the bureaucracy, where there had been meritocratic civil service examination. However, according to these evidences if Latin American countries want to be successful in the implementation of meritocracy it is necessary to count with networks among the state universities and other institutions of the civil society, even if it requires informal networks to support a larger network.

Another similarity between South Korea and Japan, and an absent aspect of Latin America, is the relationship between the state and the private sector. This kind of symbiotic offers policies for the support of the creation big conglomerates, and promotion of the national industry and exportation, through of measure such as providing of capital, loans, etc. For that it would be necessary the creations of pilot agencies such as the MITI or EPB.

One difference between South Korea and Japan could be useful for the Latin America is about the political stability. Japan has enjoyed a very stable political system, while South Korea has not. The last case is similar to the region's reality, where there are still conflicts among the elites and masses. To solve social demands, the region could emulate the South Korean case, where the improvement of "government effectiveness" helped to provide better public services.

One important fact is that, in the middle of the 20th century, South Korea had a level of development lower than Latin America, which was even the second lowest in the world; however nowadays its economic development is much bigger than the average of Latin America, having one of the most important industries in the world. The following graph shows that current South Korea's higher development.

Graph 29: Comparison between South Korea and Latin America's Human Development Index



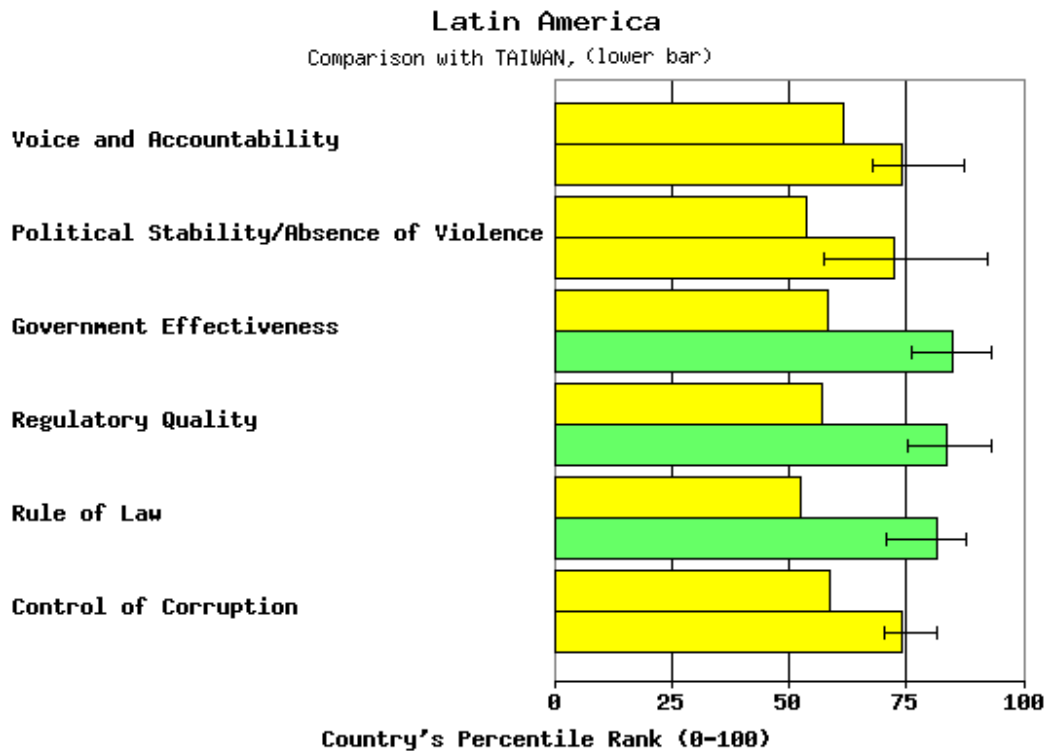
Source: United Nations Development Program,
<http://hdr.undp.org/en/statistics/>

4.4. Taiwan's state institutional quality and Latin America

Similar to South Korea, Taiwan offers to Latin America mainly examples of institutional quality on 'government effectiveness', 'regulatory quality' and the 'rule of law'. About the first indicator, as Taiwan, the region should be able to supply the necessary infrastructure for the success of the current and new entrepreneurs; contrary the region has an enormous deficit; likewise, to upgrade the human capital.

Concerning the 'regulatory quality', the region also, after a process of catch-up in this indicator, will have more quarantine for its private sector. Taiwan experienced an abandoned of its traditional Chinese values, where authorities used to be more important player than private sector. In that line, the region could abandon extremist ideologies, which currently restrict the development of the private sector.

Graph 30: Comparison between Taiwan and Latin America’s state institutional quality



Source: Kaufmann D., A. Kraay, and M. Mastruzzi (2010), The Worldwide Governance Indicators Methodology and Analytical Issues

Note: The governance indicators presented here aggregate the views on the quality of governance provided by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries. These data are gathered from a number of survey institutes, think tanks, non-governmental organizations, and international organizations. The WGI do not reflect the official views of the World Bank, its Executive Directors, or the countries they represent. The WGI are not used by the World Bank Group to allocate resources.

Taiwan is an illustrative example about how the implementation of an aggressive export-oriented policy is convenient when countries need bigger markets to develop its industry and products. In the same way, as proposed by institutional scholars, Latin American countries with the smallest internal market have Taiwan’s model to get more markets.

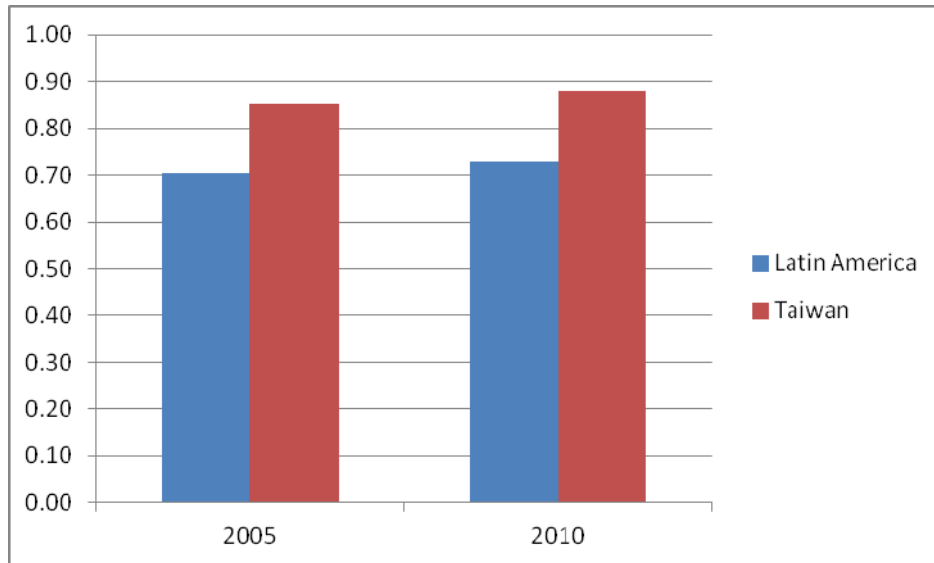
The region has not registered this kind export-oriented policy, instead they have closer economies than Asian ones.

Apart from the export-oriented policy, other measures should accompany it such as the supplying of public infrastructure and the upgrading of human capital. Actually, in the economic history of Taiwan they two instrument had been key for the economic success of Taiwan. Therefore, in a context of an export-oriented policy for the Latin American countries with the smallest economic markets, they have to ensure acceptable level of infrastructure and human capital. Then they can ensure more markets.

Another lesson from Taiwan to the region is the creation of a plurality system. Latin America has a diverse array of cultures and social problem such as discrimination, segregation and exclusion; especially against native people. Countries such as Mexico, Peru, Bolivia, Guatemala and Ecuador have a considerable native population, which often generates sources of political instability. The region has not had a plurality system such as Taiwan achieved.

One important fact to highlight is the initiative and ability of the state to create private conglomerates such as the Industrial Technology Research Institute and the Hsinchu Park. Latin American countries have a lack of technology. In the region, it is thought that only the forces markets for itself can provide of that; however the empirical evidence of Taiwan suggest that it is required more than that, instead it should be complemented with state interventions already noted. In consequence, Taiwan shows a higher level of economic development has could be show in the graph.

Graph 31: Comparison between Taiwan and Latin America's Human Development Index



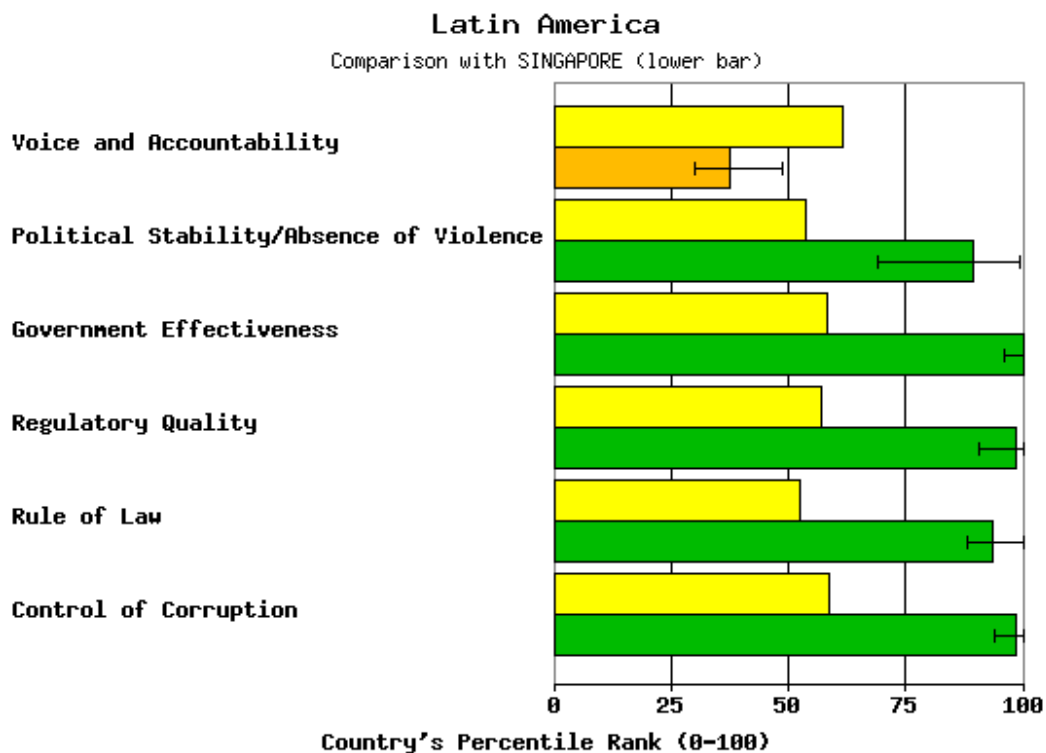
Source: United Nations Development Program,
<http://hdr.undp.org/en/statistics/>

4.5. Singapore's state institutional quality and Latin America

Singapore's economic success has as determinants the role of institutions. The following graph shows the high quality institutions of all indicators, except the 'Voice and Accountability' one. Therefore, Latin America counts with an acceptable model to catch-up. In fact, for institutional studies points out that Singapore represent a model of development on the world, including for China's leaders.

This Asian city-state is recognized internationally by its clean state about corruption. Its 'government effectiveness' provided enough public services, while they enjoy a stable political system. The 'rule of law' is effective, although it controls practically all the aspect of the life of people. Likewise, the 'regulatory quality' indicator had allowed the development of the private sector.

Graph 32: Comparison between Singapore and Latin America's state institutional quality



Source: Kaufmann D., A. Kraay, and M. Mastruzzi (2010), *The Worldwide Governance Indicators: Methodology and Analytical Issues*

Note: The governance indicators presented here aggregate the views on the quality of governance provided by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries. These data are gathered from a number of survey institutes, think tanks, non-governmental organizations, and international organizations. The WGI do not reflect the official views of the World Bank, its Executive Directors, or the countries they represent. The WGI are not used by the World Bank Group to allocate resources.

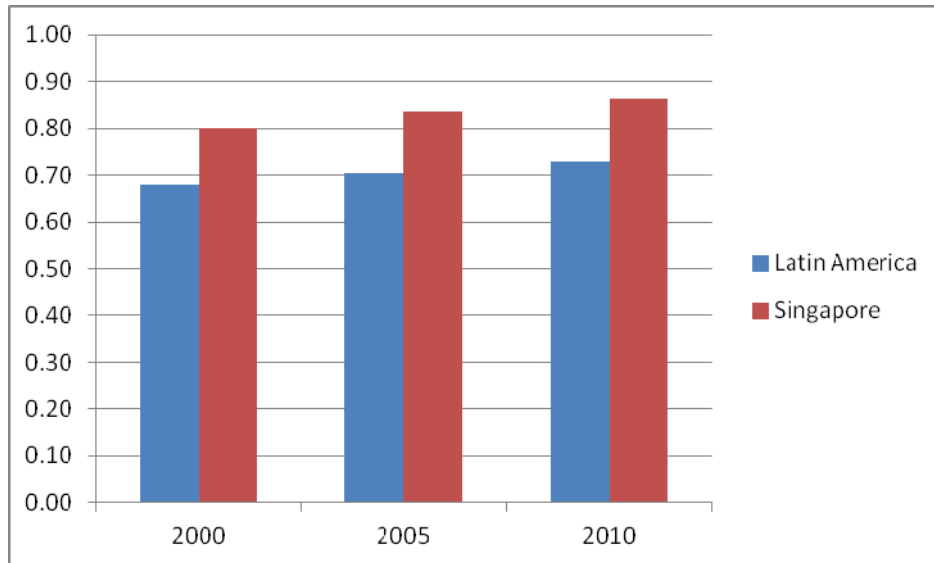
Probably, the most important lesson for Latin America is the measure taken by the Singapore's former Primer Ministry Lee Kuan Yew. Different from Japan, South Korea and Taiwan, which counted with private sector engines, Singapore's private sector was compound by old family-business with rent-seeking behavior; then the government had to appeal to the promotion of multinational corporations and large state-owned enterprises, getting to speed up economic growth.

According to diverse institutional studies in Latin America there are strong symptoms of rent-seeking behavior, especially in natural resource-rich countries. There is not enough development of entrepreneurial capabilities, innovation and technology. Also, in the region there are still restrictions against both foreign investment and state owned enterprises; basically due to ideological reasons. Therefore, this strategy represents a much more pragmatic measure for the region.

One important instrument taken for Singapore permanently is the high reputation of its judiciary system, with that it has achieved to attract the desired level of foreign direct investment. In fact, in Latin American there is a long way to clean the judiciary system of its countries; actually there have been many efforts without success. This constitutes, perhaps, an essential step for getting a general acceptable high quality of state institutions in Latin American countries.

About other institutional indicators, application for Latin America could not be necessarily exactly; for example the fact in Singapore the 'rule of law' control any aspect of life of people could not work well for western countries without Confucian values; but the essence of strong 'rule of law' if so. As a result of having high quality institutional quality, Singapore has one of the highest of standard of life on the world as can be appreciated in the following graph.

Graph 33: Comparison between Singapore and Latin America's Human Development Index



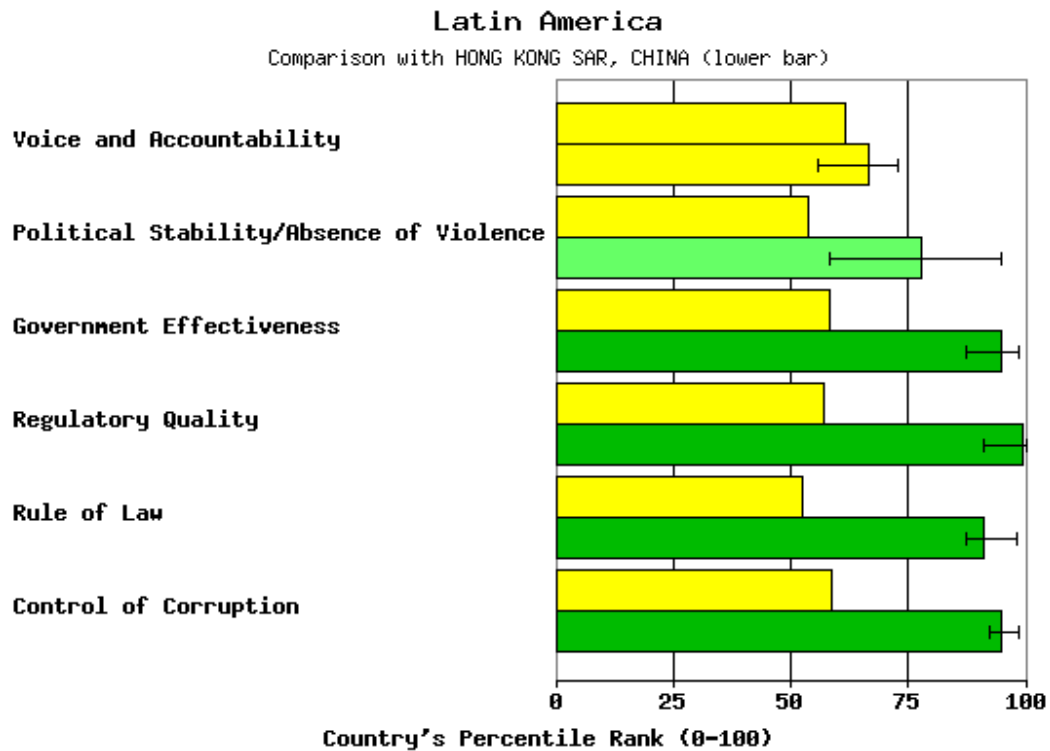
Source: United Nations Development Program,
<http://hdr.undp.org/en/statistics/>

4.6. Hong Kong's state institutional quality and Latin America

The levels of institutional quality are quite similar to the Singaporean case, as already noted, except for the indicator 'political stability', where the performance of Hong Kong is worse off. In spite of that, this city-state offers important lesson about the other indicators such as 'government effectiveness', 'regulatory quality', 'rule of law' and 'control of corruption'.

As how will be described later, Hong Kong could be an important study case for Latin America, given that having a liberal foundation its leaders had tried to emulate some institutional aspect from Singapore, having successes in most cases. In fact, the 'Washington Consensus' gives the region liberal foundations, while the present thesis tries to propose the implementation of institutional factors.

Graph 34: Comparison between Hong Kong and Latin America's state institutional quality



Source: Kaufmann D., A. Kraay, and M. Mastruzzi (2010), The Worldwide Governance Indicators: Methodology and Analytical Issues

Note: The governance indicators presented here aggregate the views on the quality of governance provided by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries. These data are gathered from a number of survey institutes, think tanks, non-governmental organizations, and international organizations. The WGI do not reflect the official views of the World Bank, its Executive Directors, or the countries they represent. The WGI are not used by the World Bank Group to allocate resources.

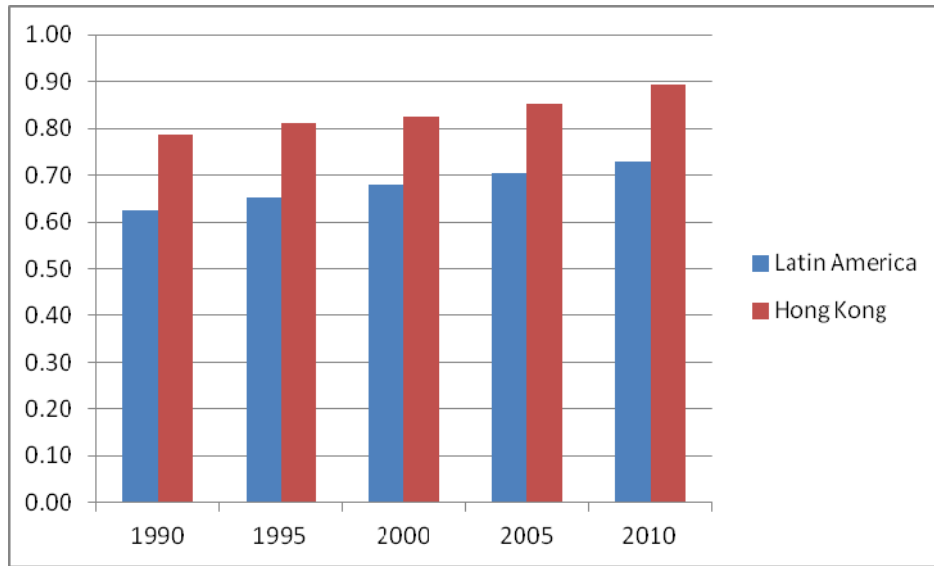
In Hong Kong, its institution's liberal foundations were inherited from the British. On this basis of 'laissez faire' institutions, this city-state implemented some reforms following the Singapore model, where state interventions are considered an important component of the development process. This situation has a similarity with our aim to propose the implementation of some institutional Asian aspect in Latin America, a region, which currently has a liberal foundation.

Among the successful emulations, Kong Hong had achieved an improvement of institutional quality in aspects related to the control of corruption. Similar to Singapore, Hong Kong enjoys an international recognition about the independence of its system, thereby supporting the credibility for the attraction of foreign investment. Latin American countries also should start a long-term policy in improving this kind of institutional quality to support a long-term economic development.

Among the not successful cases about Hong Kong's emulations, there is the less 'political stability' in the city-state, which could not catch-up better standards of Singapore. That due to the liberal values in Hong Kong, there is a contestable civil society, an even some fragmented institutions. For Latin America could be expected similar result in terms of 'political stability', instead a pluralistic system, as already mentioned, would be more appropriate.

In conclusion, this case brings useful facts about the potential result after the implementation of institutional reforms to give more leadership to the role of institutions, through the proposal of improvement of institutional quality. As done for the other cases, the following graph shows the high levels of economic development achieved by Hong Kong.

Graph 35: Comparison between Hong Kong and Latin America's Human Development Index



Source: United Nations Development Program,
<http://hdr.undp.org/en/statistics/>



5. CHAPTER 5 econometric regression

This chapter allows making the falsification process as well as presenting arguments that support this paper's hypothesis in a quantitative way through an analysis of econometric regression. Thus it is determined that institutional quality is a relevant variable, which explains the economic development in both Asian countries and Latin American countries. However, for the Asian case the contribution of institutional quality on the development is higher; as will be described later in greater detail.

As already noted, for the regression, we are using a Panel Data of Random Effect, through the program Stata version 12.

$$HDI = \beta_0 + \beta_1 * QGI + \beta_3 * V + \varepsilon$$

Where:

HDI = Human Development Index

QGI = Quality State Index

V = Control variables

The control variables are a set of variable which along with state institutional quality theoretically also affect on the economic development (here measured via the Human Development Index). Conventionally, these control variables are the gross domestic product per capita, population, trade, etc.

Additionally according to human development theory the freedoms are the main explanation on the progress of human development. Therefore, the main freedoms are relevance explanation or independent variables; according to literature freedoms related to health are among the most important support for human development; in consequence the variable government health expenditure resulted relevant in our regression, as will be showed in the following tables.

To make the regression, previously two samples were selected. The first one was a compound of 12 Asian countries; while the second one consisted of 17 Latin American countries (including the Caribbean). For each country there are available the same dataset

of indicators. To measure the economic development, it is used the human development index as the dependent variable. Likewise, we have the independent variable (greater detail is described in the methodology part of the first chapter).

About the independent variables, the first one is the variable of interest: the state institutional quality; while the others are control variables selected in order to get the most accurate measure of the institutional quality's impact on the economic development. To get one indicator of the institutional quality it was used the 'factor analyses' technique. This allows getting only one indicator, which represents the six institutional quality indicators of the World Bank. In each regression this "representative indicator" has the name "state institutional quality".

The other independent variables are the control variables selected under some criteria. Diverse regressions about development studies consider GDP per capita, population, level of trade, etc. as explanations of development. Also given that the observation are compound by countries, these kind of variable and characteristic of each country. In the process of selection the most relevant control variable was the GDP per capita.

Likewise, the literature on human development (our dependent variable) establishes that the variables which provide more freedom to people would be the best explanatory one. The same literature holds the freedoms related to the health of people are which provide more human development. Coherently, the other control variable is the government expenditure on health in percentage of the GDP (health expenditure).

There are other regressions where the human development index is the dependent variable and institutional quality is the independent one, such as who attempts to analyze the impact taking for world cross countries analysis. (Foa 2008) On the other hand, in our study, we compare two regions.

The regression consisted in a panel data of random effects. This means that there are reasons to believe that differences across countries have some influence on the dependent variable (human development index), being that the main criteria to apply random effects technique.

In general the model has a probability of rejection of 0% indicated by the test $\text{Prob} > \chi^2$; it means that the whole model is significant. Likewise the three independent variables explain more than 75% of the dependent variable, which is positive.

In the following table it could be found that the institutional quality variable (state institutional quality) is significant and relevant. It has a positive sign, which means that it was determined a direct relationship between the human development index and the institutional quality. Therefore, improvement of the last one will have positive impact on the economic development.

Besides, it is important to highlight that the value of the coefficient of the institutional quality for the Asian sample (0.064) is higher than the coefficient for the Latin American one (0.014). This fact means that improvement in institutional quality in the Asian countries had had a higher impact on the economic development than in the Latin American case. Thus, it verified the positive benefits gained by the Asian countries due to the good application of institutional measures.

Table 3: the impact of state institutional quality on the economic development of Asian countries

Random-effects GLS regression		Number of obs	=	43		
Group variable: country1		Number of groups	=	12		
R-sq: within	= 0.5506	Obs per group: min	=	2		
between	= 0.7947	avg	=	3.6		
overall	= 0.7549	max	=	4		
corr(u_i, X) = 0 (assumed)		Wald chi2(3)	=	64.72		
		Prob > chi2	=	0.0000		
hdi	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
State institutional quality	.0644678	.0231543	2.78	0.005	.0190862	.1098494
Health Expenditures	.9386506	.7010078	1.34	0.181	-.4352993	2.312601
GDP per capita	2.30e-06	1.33e-06	1.73	0.084	-3.06e-07	4.90e-06
_cons	.6209195	.0420155	14.78	0.000	.5385707	.7032683
sigma_u	.07147642					
sigma_e	.02546158					
rho	.88739403	(fraction of variance due to u_i)				

The samples include a period of time from 1995 to 2010, every five years. This is convenient since institutions cannot change dynamically easily; instead it lasts a long time. Keeping coherence, the dependent variable (human development index) has the same nature of institutional quality in terms that both require long term process to change.

In fact, the period of institutional quality and its impact on the development analyze (1995 to 2010) has as foundation the previous historical construction of institutions, norms and values, as established by institutional scholar. For that reason the present thesis includes a historical analysis of Asian institutions in order to clearer lessons to Latin America.

One important aspect to consider is the relationship between institutional quality and specific institutional strategies. Institutional quality is as a part of the institutional approaches, which indicate the level of quality that institutions have to fulfill their functions. For example, the provision of public services would be better supplied in case of high-level institutional quality than in a case of poor-institutional quality.

Likewise, it is expected that countries with high level of state institutional quality can have a higher more leadership and success on the economic development process, especially in a context of developing economies, which need to growth. Thus, strong institutions could have the potential to catch-up specific national goals of development. On the other hand, poor-institutional qualities not only will be unable to catch-up higher standards of live, even would fail permanently to fulfill ordinaries functions such as the provision of education and health.

It is important to highlight that for neoclassical approaches institutions are not a relevant determinant of the economic development. Therefore, under neoclassical approaches institutional quality would not be an independent variable in an economic model or econometric regression. This is just the reality in Latin America, where policy-makers does not consider long-term policies related to the improvement of institutional quality.

By us, under institutional approaches, institutional quality is a relevant determinant for economic development and thus incorporated in the econometric model as an independent variable. The both regressions confirm our hypothesis; thus institutional quality variables are significant. As already noted, Asian countries have experienced a higher the impact of institutional quality on their development process.

Meanwhile, although the following table shows that state institutional quality is significant for Latin America, the region has experienced a lower impact than the Asian studied cases. Thus, the former has a coefficient of 0.014, while the latter of 0.064, as already well known.

This difference suggest that there is space in the region to implement policies about the improvement of institutional quality to catch-up higher levels of economic development, having as references the experiences given by the most developed Asian countries analyzed in this thesis. However, there could be an exact replica, instead a proper adaptation considering the values and historical aspects of the region.

Among the most important lessons are the ‘government effectiveness’ and ‘rule of law’ first. These two institutional quality indicators are the only ones with a positive evolution

in China. This country and Latin America both are developing economies with certain similarities. Therefore, considering China's strategic for the region is relevant. Additionally, all other Asian analyzed countries have high level of quality of these two indicators.

Table 4: the impact of state institutional quality on the economic development of Latin American countries

Random-effects GLS regression		Number of obs	=	67		
Group variable: country1		Number of groups	=	17		
R-sq: within	= 0.7256	Obs per group: min	=	3		
between	= 0.8325	avg	=	3.9		
overall	= 0.7981	max	=	4		
corr(u_i, X) = 0 (assumed)		Wald chi2(3)	=	181.62		
		Prob > chi2	=	0.0000		
hdi	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
State institutional quality	.0137849	.0065596	2.10	0.036	.0009284	.0266415
Health Expenditures	.1765018	.1859584	0.95	0.343	-.1879699	.5409736
GDP per capita	.000013	1.08e-06	12.08	0.000	.0000109	.0000152
_cons	.5677109	.0157131	36.13	0.000	.5369138	.5985081
sigma_u	.02854952					
sigma_e	.01802961					
rho	.7148893	(fraction of variance due to u_i)				

The next most relevant indicator is 'regulatory quality'. All analyzed Asian countries have a high level of quality of this indicator, except China. The implementation and efforts to improve the quality of this indicator would allow, for the region, promoting considerably the private sector, key engine for the economic growth.

The implementation of policies to improve the institutional quality of the other indicators is more ambiguous. Economies such as South Korea and Hong Kong have developed with low 'political stability'. On the other hand, Taiwan and Singapore had achieved more 'political stability' via different strategic. The first through a pluralistic system,

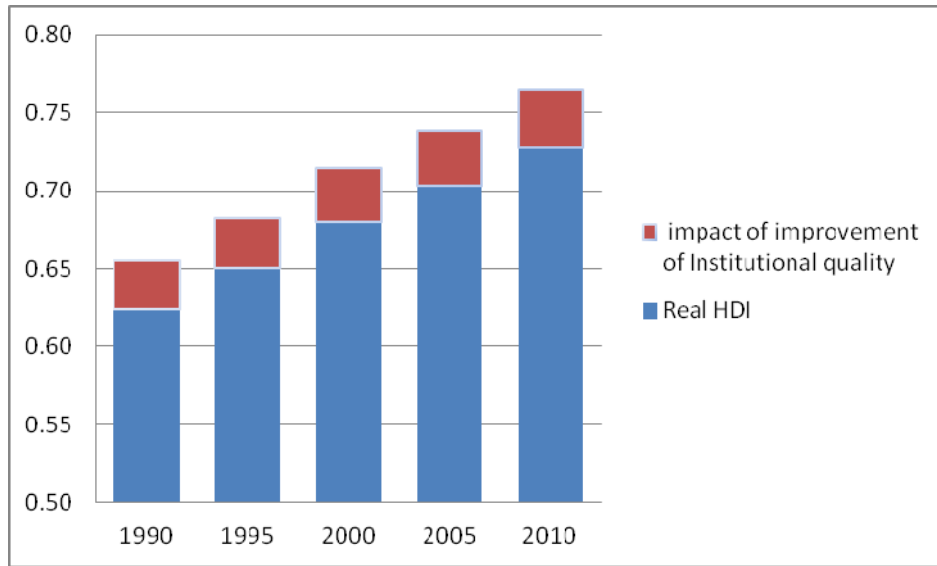
while the second through the applications of co-option and exclusion. For Latin America the Taiwanese case result more appropriate.

The ‘control of corruption’ by Singapore and Hong Kong offers to the region a good strategic to attract foreign investment to speed-up the economic growth. Finally, only Japan offers a good application of the ‘Voice and Accountability’ to enjoy freedom of expression as well as of association; it would achieved if there is national consensus of both masses and elites.

In general, a higher level of quality of the set of indicators provides to the Latin America a better institutional context to catch-up certain national goals as wells as higher standard of life, such as the already achieved by the Asian developed economies; and such as is showed currently in the China economic development process.

In the following graph is presented a simulation of the potential impact on economic development of the improvement of institutional quality. To calculate that, it was considered the differences between the coefficients of institutional quality of the two regressions (0.064 for the Asian case and 0.014 for the Latin American case). Then proportionally it is calculated the contribution on the economic development in the case that Latin America catch-up the levels of institutional quality of the analyzed Asian countries.

Graph 36: potential impact due to an improvement in state institutional quality in Latin America



Conclusion

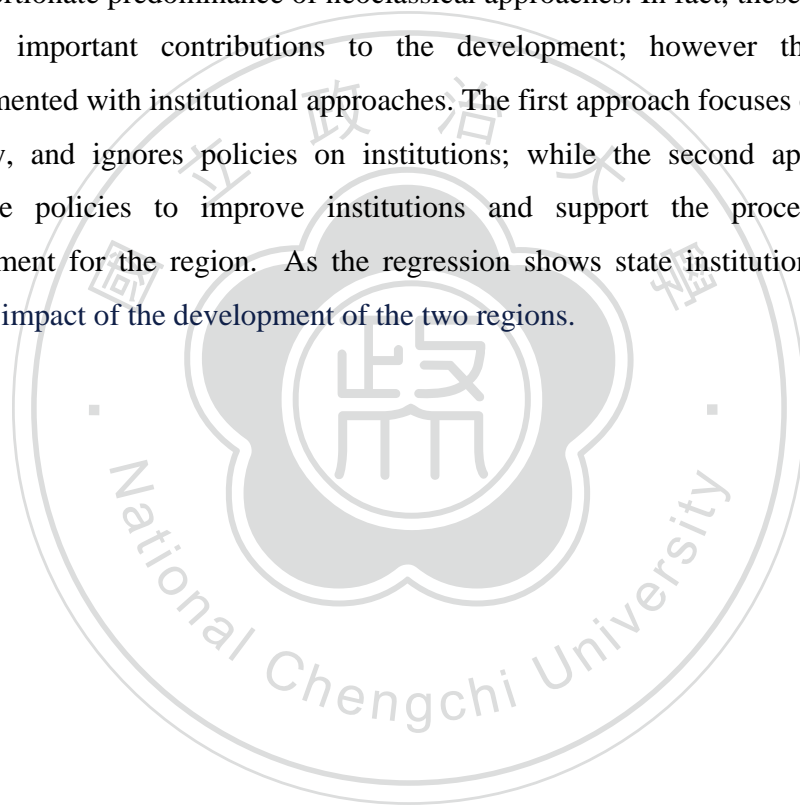
The main conclusion of the present thesis is that the implementation of policies to improve the quality of state institutions would increase the economic development of Latin America countries. The analyzed Asian countries offer appropriate lessons for the region, since their development process started with level of development lower than Latin America. Besides, for them the role of institutions had been a key instrument, for that it had been necessary to count with acceptable level of institutional quality as well as upgrade it. Therefore, the region should catch-up some institutional aspect of the most developed Asian countries, via long-term policies.

There isn't a simple and clear way to prioritize which aspect should be selected for an efficient path. However, the evidences from Asia suggest that Latin American countries could consider the indicators of 'government effectiveness', 'rule of law' and 'regulatory quality'. The first indicator will provide better public services, human capital, and implementation of the meritocracy and credibility of the government's commitment. The second indicator made a safer context for Latin American societies and people via the respect of laws of the society and the enforcement of institutions such as the police. The third indicator will permit to promote the private sector in the region. The other three indicators ('political stability', 'control of corruption' and 'voice and accountability'; apparently have less contributions to the development process in the East Asian region. According to the statistics, the Asian countries, historically, show high level of 'government effectiveness', 'rule of law' and 'regulatory quality' indicators.

It is not necessary to have high levels of institutional quality for all indicators to have strong enough state institutions to catch-up to national development goals. This has practically been the case of all Asian countries during their developing time; however it is clear now in the case of China. China has ambiguous institutional contexts, with some problems such as long bureaucracy; according to the criteria of the World Bank, China only has positive evolution of few indicators ('government effectiveness' and 'rule of

law’). However, China had reached some goal such as creation of indigenous technology, development of automotive industry and the internationalization of Chinese companies; in fact China’s state institutions are more effective than Latin American ones in term of reaching development target. Therefore, the Latin America countries could count and reach development goals with the improvement of some state quality indicators, as the Chinese case.

Finally, long-term institutional policies have been neglected in Latin America due to the disproportionate predominance of neoclassical approaches. In fact, these approaches have allowed important contributions to the development; however they need to be complemented with institutional approaches. The first approach focuses on market forces, basically, and ignores policies on institutions; while the second approach offers to designate policies to improve institutions and support the process of economic development for the region. As the regression shows state institutional quality has a positive impact of the development of the two regions.



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Appendix 1

Country	year	HDI	Voice and Accountability	Political Stability and Absence of Violence/Terrorism	Government Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption
Argentina	1990	0.7						
Argentina	1995	0.73	0.60	0.47	0.62	0.74	0.55	0.49
Argentina	2000	0.75	0.57	0.45	0.60	0.62	0.47	0.47
Argentina	2005	0.77	0.57	0.47	0.55	0.28	0.34	0.42
Argentina	2010	0.79	0.57	0.45	0.47	0.27	0.33	0.40
Bolivia	1990	0.56						
Bolivia	1995	0.59	0.54	0.38	0.48	0.59	0.46	0.22
Bolivia	2000	0.61	0.51	0.35	0.42	0.55	0.40	0.46
Bolivia	2005	0.65	0.41	0.19	0.28	0.25	0.27	0.26
Bolivia	2010	0.66	0.47	0.33	0.39	0.22	0.13	0.38
Brazil	1990	0.6						
Brazil	1995	0.63	0.55	0.34	0.50	0.66	0.41	0.56
Brazil	2000	0.67	0.54	0.50	0.58	0.63	0.44	0.61
Brazil	2005	0.69	0.63	0.38	0.53	0.54	0.38	0.51
Brazil	2010	0.72	0.64	0.48	0.57	0.56	0.55	0.60
Canada	1990	0.86						
Canada	1995	0.87	0.99	0.88	0.95	0.91	0.96	0.97
Canada	2000	0.88	0.97	0.88	0.96	0.93	0.95	0.96
Canada	2005	0.89	0.94	0.74	0.98	0.94	0.94	0.94
Canada	2010	0.91	0.94	0.81	0.97	0.96	0.96	0.97
Chile	1990	0.7						
Chile	1995	0.72	0.68	0.64	0.88	0.97	0.85	0.90
Chile	2000	0.75	0.74	0.64	0.84	0.91	0.87	0.92
Chile	2005	0.78	0.89	0.76	0.85	0.91	0.89	0.91
Chile	2010	0.8	0.82	0.67	0.84	0.91	0.88	0.91
Colombia	1990	0.59						
Colombia	1995	0.63	0.30	0.06	0.49	0.55	0.19	0.32
Colombia	2000	0.65	0.30	0.08	0.45	0.56	0.20	0.42
Colombia	2005	0.68	0.38	0.03	0.51	0.55	0.32	0.52
Colombia	2010	0.71	0.41	0.09	0.61	0.60	0.45	0.43

Costa Rica	1990	0.66							
Costa Rica	1995	0.68	0.83	0.69	0.61	0.71	0.67	0.74	
Costa Rica	2000	0.7	0.84	0.75	0.63	0.71	0.68	0.78	
Costa Rica	2005	0.72	0.73	0.68	0.59	0.67	0.64	0.67	
Costa Rica	2010	0.74	0.81	0.68	0.65	0.69	0.65	0.73	
Cuba	1990	0.68							
Cuba	1995	0.65	0.09	0.49	0.18	0.11	0.18	0.71	
Cuba	2000	0.68	0.05	0.50	0.46	0.11	0.23	0.72	
Cuba	2005	0.73	0.03	0.58	0.35	0.07	0.17	0.64	
Cuba	2010	0.77	0.06	0.55	0.46	0.05	0.34	0.72	
Ecuador	1990	0.64							
Ecuador	1995	0.66	0.47	0.21	0.29	0.45	0.36	0.21	
Ecuador	2000	0.67	0.37	0.25	0.21	0.29	0.31	0.10	
Ecuador	2005	0.7	0.35	0.23	0.19	0.23	0.23	0.28	
Ecuador	2010	0.72	0.38	0.25	0.29	0.11	0.12	0.20	
El Salvador	1990	0.52							
El Salvador	1995	0.58	0.45	0.36	0.26	0.52	0.21	0.21	
El Salvador	2000	0.62	0.47	0.54	0.36	0.57	0.29	0.37	
El Salvador	2005	0.65	0.51	0.45	0.46	0.53	0.39	0.41	
El Salvador	2010	0.67	0.50	0.49	0.56	0.61	0.23	0.51	
Guatemala	1990	0.46							
Guatemala	1995	0.49	0.40	0.15	0.35	0.43	0.13	0.23	
Guatemala	2000	0.53	0.38	0.22	0.34	0.46	0.24	0.28	
Guatemala	2005	0.55	0.36	0.21	0.29	0.42	0.14	0.33	
Guatemala	2010	0.57	0.35	0.22	0.28	0.47	0.16	0.35	
Honduras	1990	0.51							
Honduras	1995	0.54	0.38	0.27	0.20	0.26	0.21	0.13	
Honduras	2000	0.57	0.45	0.37	0.33	0.37	0.19	0.19	
Honduras	2005	0.6	0.38	0.25	0.30	0.30	0.28	0.27	
Honduras	2010	0.62	0.33	0.27	0.30	0.46	0.23	0.21	
Mexico	1990	0.65							
Mexico	1995	0.67	0.50	0.18	0.60	0.64	0.29	0.37	
Mexico	2000	0.72	0.55	0.39	0.62	0.63	0.39	0.51	
Mexico	2005	0.74	0.55	0.33	0.58	0.61	0.40	0.48	
Mexico	2010	0.77	0.52	0.23	0.62	0.59	0.34	0.44	
Nicaragua	1990	0.47							
Nicaragua	1995	0.5	0.50	0.26	0.23	0.37	0.35	0.32	
Nicaragua	2000	0.53	0.43	0.41	0.30	0.46	0.20	0.11	
Nicaragua	2005	0.57	0.40	0.37	0.24	0.42	0.33	0.35	
Nicaragua	2010	0.59	0.33	0.26	0.16	0.40	0.24	0.23	

Panama	1990	0.66							
Panama	1995	0.69	0.52	0.46	0.58	0.68	0.48	0.42	
Panama	2000	0.72	0.66	0.53	0.62	0.70	0.46	0.44	
Panama	2005	0.74	0.62	0.44	0.58	0.58	0.49	0.45	
Panama	2010	0.77	0.62	0.47	0.60	0.64	0.51	0.45	
Paraguay	1990	0.57							
Paraguay	1995	0.6	0.44	0.25	0.16	0.35	0.22	0.22	
Paraguay	2000	0.61	0.29	0.17	0.10	0.19	0.17	0.03	
Paraguay	2005	0.64	0.35	0.27	0.25	0.22	0.15	0.05	
Paraguay	2010	0.66	0.45	0.19	0.18	0.41	0.19	0.25	
Peru	1990	0.61							
Peru	1995	0.64	0.32	0.15	0.57	0.72	0.31	0.51	
Peru	2000	0.67	0.38	0.16	0.54	0.66	0.30	0.39	
Peru	2005	0.69	0.50	0.20	0.34	0.55	0.30	0.47	
Peru	2010	0.72	0.50	0.20	0.47	0.67	0.32	0.50	
Uruguay	1990	0.69							
Uruguay	1995	0.71	0.72	0.63	0.69	0.77	0.65	0.78	
Uruguay	2000	0.74	0.78	0.74	0.69	0.75	0.66	0.77	
Uruguay	2005	0.75	0.74	0.73	0.69	0.62	0.61	0.81	
Uruguay	2010	0.78	0.86	0.77	0.71	0.64	0.71	0.86	
Venezuela	1990	0.63							
Venezuela	1995	0.65	0.42	0.23	0.25	0.42	0.20	0.20	
Venezuela	2000	0.66	0.47	0.23	0.22	0.35	0.21	0.34	
Venezuela	2005	0.69	0.27	0.14	0.18	0.13	0.10	0.18	
Venezuela	2010	0.73	0.22	0.10	0.15	0.04	0.01	0.07	

Appendix 2

Country	year	HDI	Voice and Accountability	Political Stability and Absence of Violence/Terrorism	Government Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption
Brunei Darussalam	1990	0.78						
Brunei Darussalam	1995	0.81	0.307692	0.870192	0.829268	0.941176	0.679426	0.721951
Brunei Darussalam	2000	0.82	0.264423	0.9375	0.804878	0.803922	0.660287	0.687805
Brunei Darussalam	2005	0.83	0.1875	0.923077	0.697561	0.759804	0.593301	0.629268
Brunei Darussalam	2010	0.84	0.293839	0.929245	0.77512	0.822967	0.734597	0.784689
Cambodia	1990	..						
Cambodia	1995	0.41	0.235577	0.139423	0.185366	0.490196	0.15311	0.170732
Cambodia	2000	0.44	0.25	0.216346	0.185366	0.421569	0.22488	0.214634
Cambodia	2005	0.49	0.197115	0.326923	0.165854	0.348039	0.114833	0.097561
Cambodia	2010	0.52	0.246445	0.259434	0.22488	0.354067	0.127962	0.076555
China	1990	0.49						
China	1995	0.54	0.120192	0.389423	0.453659	0.485294	0.392344	0.434146
China	2000	0.59	0.115385	0.317308	0.526829	0.362745	0.354067	0.502439
China	2005	0.63	0.072115	0.293269	0.497561	0.504902	0.401914	0.317073
China	2010	0.68	0.052133	0.240566	0.598086	0.449761	0.445498	0.325359
Hong Kong, China (SAR)	1990	0.79						
Hong Kong, China (SAR)	1995	0.81	0.591346	0.596154	0.873171	0.985294	0.751196	0.907317
Hong Kong, China (SAR)	2000	0.82	0.504808	0.769231	0.878049	0.97549	0.755981	0.912195
Hong Kong, China (SAR)	2005	0.85	0.663462	0.918269	0.917073	1	0.92823	0.931707
Hong Kong, China (SAR)	2010	0.89	0.663507	0.778302	0.947368	0.995215	0.909953	0.947368
India	1990	0.41						
India	1995	0.44	0.620192	0.177885	0.536585	0.377451	0.617225	0.395122
India	2000	0.46	0.572115	0.182692	0.521951	0.509804	0.602871	0.458537
India	2005	0.5	0.620192	0.1875	0.541463	0.470588	0.569378	0.42439
India	2010	0.54	0.592417	0.108491	0.550239	0.392344	0.545024	0.358852

Indonesia	1990	0.48						
Indonesia	1995	0.53	0.230769	0.134615	0.4	0.568627	0.449761	0.307317
Indonesia	2000	0.54	0.346154	0.028846	0.439024	0.397059	0.277512	0.2
Indonesia	2005	0.57	0.423077	0.091346	0.409756	0.313725	0.248804	0.204878
Indonesia	2010	0.61	0.483412	0.188679	0.478469	0.397129	0.312796	0.272727
Israel	1990	0.8						
Israel	1995	0.82	0.701923	0.105769	0.819512	0.843137	0.875598	0.902439
Israel	2000	0.86	0.6875	0.129808	0.868293	0.867647	0.832536	0.843902
Israel	2005	0.87	0.653846	0.120192	0.834146	0.754902	0.755981	0.780488
Israel	2010	0.89	0.677725	0.09434	0.866029	0.84689	0.763033	0.722488
Japan	1990	0.83						
Japan	1995	0.85	0.817308	0.850962	0.834146	0.730392	0.894737	0.839024
Japan	2000	0.87	0.759615	0.807692	0.863415	0.779412	0.894737	0.858537
Japan	2005	0.89	0.802885	0.817308	0.887805	0.862745	0.880383	0.843902
Japan	2010	0.9	0.824645	0.768868	0.885167	0.808612	0.881517	0.91866
Korea (Republic of)	1990	0.74						
Korea (Republic of)	1995	0.79	0.692308	0.625	0.721951	0.642157	0.736842	0.64878
Korea (Republic of)	2000	0.83	0.673077	0.543269	0.765854	0.691176	0.77512	0.653659
Korea (Republic of)	2005	0.87	0.716346	0.620192	0.82439	0.72549	0.813397	0.712195
Korea (Republic of)	2010	0.89	0.691943	0.5	0.842105	0.789474	0.810427	0.69378
Kuwait	1990	0.71						
Kuwait	1995	0.74	0.456731	0.504808	0.6	0.563725	0.688995	0.780488
Kuwait	2000	0.75	0.413462	0.6875	0.512195	0.490196	0.69378	0.809756
Kuwait	2005	0.75	0.331731	0.528846	0.609756	0.642157	0.669856	0.721951
Kuwait	2010	0.76	0.322275	0.608491	0.588517	0.555024	0.658768	0.669856
Lao	1990	0.38						
Lao	1995	0.41	0.206731	0.552885	0.278049	0.107843	0.215311	0.356098
Lao	2000	0.45	0.129808	0.25	0.204878	0.068627	0.244019	0.24878
Lao	2005	0.48	0.057692	0.3125	0.097561	0.093137	0.129187	0.068293
Lao	2010	0.52	0.056872	0.363208	0.167464	0.177033	0.21327	0.138756
Malaysia	1990	0.63						
Malaysia	1995	0.67	0.519231	0.605769	0.765854	0.70098	0.684211	0.712195

Malaysia	2000	0.71	0.418269	0.466346	0.82439	0.647059	0.617225	0.658537
Malaysia	2005	0.74	0.432692	0.615385	0.839024	0.686275	0.660287	0.634146
Malaysia	2010	0.76	0.312796	0.518868	0.822967	0.712919	0.654028	0.61244
Myanmar	1990	0.3						
Myanmar	1995	0.34	0.014423	0.086538	0.063415	0.039216	0.076555	0.029268
Myanmar	2000	0.38	0.004808	0.0625	0.082927	0.029412	0.086124	0.043902
Myanmar	2005	0.44		0.216346	0.034146	0.014706	0.023923	0.009756
Myanmar	2010	0.48	0.009479	0.113208	0.023923	0.009569	0.033175	0.004785
New Zealand	1990	0.83						
New Zealand	1995	0.86	1	0.899038	0.970732	0.990196	0.985646	0.980488
New Zealand	2000	0.88	1	0.942308	0.897561	0.936275	0.961722	0.980488
New Zealand	2005	0.9	0.985577	0.894231	0.941463	0.97549	0.971292	0.985366
New Zealand	2010	0.91	0.966825	0.90566	0.971292	0.976077	0.981043	0.995215
Philippines	1990	0.57						
Philippines	1995	0.59	0.567308	0.307692	0.502439	0.598039	0.526316	0.507317
Philippines	2000	0.6	0.548077	0.091346	0.517073	0.568627	0.373206	0.395122
Philippines	2005	0.62	0.485577	0.125	0.536585	0.514706	0.416268	0.356098
Philippines	2010	0.64	0.469194	0.066038	0.516746	0.440191	0.345972	0.22488
Russian Federation	1990	..						
Russian Federation	1995	0.68	0.394231	0.110577	0.326829	0.387255	0.239234	0.156098
Russian Federation	2000	0.69	0.336538	0.139423	0.263415	0.29902	0.162679	0.156098
Russian Federation	2005	0.73	0.278846	0.139423	0.380488	0.5	0.196172	0.239024
Russian Federation	2010	0.75	0.208531	0.183962	0.416268	0.382775	0.260664	0.129187
Singapore	1990	..						
Singapore	1995	..	0.586538	0.855769	1	1	0.885167	0.965854
Singapore	2000	0.8	0.576923	0.798077	0.995122	0.995098	0.875598	0.965854
Singapore	2005	0.84	0.514423	0.846154	0.985366	0.995098	0.956938	0.980488
Singapore	2010	0.86	0.374408	0.896226	1	0.985646	0.933649	0.985646
Taiwan	1990							
Taiwan	1995		0.706731	0.831731	0.780488	0.789216	0.741627	0.75122
Taiwan	2000		0.725962	0.605769	0.760976	0.852941	0.784689	0.795122
Taiwan	2005	0.85	0.774038	0.663462	0.819512	0.779412	0.822967	0.77561
Taiwan	2010	0.88	0.739336	0.726415	0.84689	0.837321	0.815166	0.741627

Thailand	1990	0.57							
Thailand	1995	0.6	0.610577	0.572115	0.629268	0.578431	0.674641	0.497561	
Thailand	2000	0.63	0.639423	0.600962	0.609756	0.656863	0.674641	0.556098	
Thailand	2005	0.66	0.447115	0.221154	0.658537	0.647059	0.54067	0.531707	
Thailand	2010	0.68	0.303318	0.127358	0.583732	0.564593	0.49763	0.4689	
Viet Nam	1990	0.44							
Viet Nam	1995	0.49	0.153846	0.576923	0.341463	0.284314	0.397129	0.390244	
Viet Nam	2000	0.53	0.120192	0.567308	0.395122	0.220588	0.421053	0.317073	
Viet Nam	2005	0.56	0.086538	0.586538	0.487805	0.279412	0.45933	0.24878	
Viet Nam	2010	0.59	0.085308	0.514151	0.440191	0.311005	0.388626	0.330144	

