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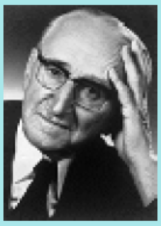

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Economic Models for New Industrializing Countries in Comparative Perspective

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Abstract

The last decades are characterized more and more by the catching-up of former communist and developing countries especially in Central and Eastern Europe as well as in East Asia. But which economic system is able to develop an economic successful catching-up combined with human development and poverty reduction? In this paper the author argues that especially New Industrializing Countries (NICs) can learn a lot from developed market economies, not only in the positive sense but also from their mistakes. NICs are already quite developed and reached a level of functioning institutions which allow focussing on developed role models. Therefore, in this paper first catching-up strategies of Less Developed Countries (LDCs) and NICs in the past are described briefly. Then, common experiences from OECD countries and different role models are discussed. As possible role models for NICs five country groups were established: (1) Anglo-Saxon Free Market Economy, (2) Nordic Welfare State, (3) Social Market Economy, (4) Mediterranean Capitalism, and (5) Asian Capitalism. As can be shown, emerging economies can use the experiences of these countries to improve their catching-up strategies. Therefore, advantages and disadvantages of the role models are discussed in comparative perspective. It results, that no single peak economy exists. But the role models can give political deciders an impression which model may be helpful to find adaptive institutions for the own catching-up process.

Keywords:

New Industrializing Countries, Catching-up Strategies, Varieties of Capitalism,

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1. Introduction

The last decades are characterized more and more by the catching-up of former communist and developing countries especially in Central and Eastern Europe as well as in East Asia. Nowadays, most of the Central European countries are members of the European Union. Therefore, their role model was determined by the acquis communautaire of the EU. However, other countries catch up without a clear role model. Especially in East Asia different models are discussed. While Malaysia focuses on Singapore for instance, South Korea is starting to discuss the German model. Furthermore, China defines its Market Socialism as a step on its way to a market economy, but does not clarify its final development goal. But which economic system is able to develop an economic successful catching-up combined with human development and poverty reduction? Does any “Single Peak Economy” exists which can act as a role model for New Industrializing Countries (NICs)?

Economists like Jeffrey Sachs or Paul Collier have argued that free market will not work for the development of the “bottom billion” in the poorest countries of the world. Instead, they offer technocratic, administrative solutions to the poor (e.g., Sachs, 2005; Collier, 2007). In the author’s opinion this solution is wrong. Reality shows that the richest societies in the world are market economies. As we know - contrasting to a socialist central planning system - that every kind of market economy is favourable (see, e.g., as classics in this sphere von Mises, 1936; Hayek, 1982). Market economies are able to attain a higher GDP per capita by functioning market incentives and freedom of entrepreneurs and consumers. Therefore, it is not the question if market systems should be implemented in poor societies but only which kinds, how and by which strategies. A lot of developed market economies are available as role models and can be studied to search for better functioning market economic institutions: Following several varieties of capitalism approaches Liberal Market Economies (Laissez Faire, like in the Anglo-Saxon countries) have to be distinguished from Coordinated

Market Economies like the Nordic Welfare State [Scandinavia], Mediterranean Capitalism [France and Southern Europe], or a Social Market Economy [Germany]. Together with the Asian development model all these economic systems are competing with each other in the current competition of systems in the globalised world.

Therefore, emerging economies can use the experiences of the developed market economies to improve their catching-up strategies, not only in the positive sense. They can also learn from their mistakes. NICs are already quite developed and reached a level of functioning institutions, which allow focussing on developed role models from the Western World or East Asia. Therefore, first catching-up strategies of Less Developed Countries (LDCs) and NICs in the past will be described briefly. Afterwards, common experiences from the Western world and different developed market economies as role models will be discussed. Additionally, the comparative perspective shows the advantages and disadvantages of these models. Of course, when analysing catching-up or transformation processes key attention has also be given to an understanding how institutions of a society change and evolve. For that reason, basic problems like path dependency, cultural constraints, necessity of political entrepreneurs, etc. have to be taken into consideration, too. But to discuss these problems is not purpose of this paper.

2. Catching-up Strategies and Institutions

After independence from the colonial powers in the 20th century a lot of African, Asian and Latin-American countries oriented their institutional framework to socialism and communism. (Besters / Boesch 1966: 1537 – 1545) Beside all differences common goal was an independence from economic exploitation by the former colonial powers and their remaining enterprises. The socialist models were characterized by central planning of the economy, a high degree of state property and cooperatives in the fields of production, credit and consumption. To refuse market models the specific condition in the LDCs and political-ideological aspects were given as reasons. Especially the assumed lacks of reaction to incentives by the very poor people and functioning enterprises as well as abilities to save and invest money were main arguments. Additionally, weaknesses of the institutional and real infrastructure were emphasized. (Clapham, undated)

Till the beginning of the 1970s, the Western development policy focused on the goal of economic growth, assuming a trickle-down of the welfare to the poorest people in the LDCs. This strategy was characterized by the target of an industrial catching-up with focus on large industrial or infrastructural projects as well as import substitution policy. (Schnabl 2010: 6) This policy also focused on central planning and a lot of state interventions that were seen as indispensable for the industrialization. In several countries the selection of projects, financed by bilateral or multilateral aid, and enforcement of the projects were mainly organized by central governments. In contrast, individual responsibility and initiative were neglected. In the 1970s the focus of developmental aid changed to the fight against mass poverty. Basic needs of the poor had to be satisfied at first. This should lead to better possibilities of the poor people to participate in the economic system by a higher productivity of work. But also during this time the main role of the state was emphasized. The poor people were treated like “objects” and not like “subjects” of the development process. Both, the growth-oriented as well as the basic-needs oriented strategy failed. Underdevelopment and poverty could not be overcome as it was expected. A fundamental change took place in 1987 with the Brundtland report “Our Common Future” which focused primarily on sustainability in connection with development of LDCs and environmental problems. The new conception concentrated predominantly on the domestic institutional framework of the LDCs as well as on the international framework. Both should be changed to improve the conditions for governmental development policy and initiative of the poor themselves. Additionally, the idea of the necessity of a long-term policy establishing a free basic order, which is characterized by human rights, rule of law, democratization, good governance, and efficient market institutions, evolved. At all, it can be emphasized that the importance of institutions for the development of LDCs and NICs came on the top of the agenda. (Clapham undated)

During the 1970s and 80s a few countries – especially in East Asia – were able to catch up by the establishment of market institutions. Therefore, the term “New Industrializing Countries” or “Newly Industrializing Economies” was established to name those countries which did not fit any more all characteristics of LDCs, but were not fully industrialized. First, the term was applied to the “Asian Tigers” (or “Dragons”), South Korea, Taiwan, Singapore and Hong Kong, while nowadays we find a lot of NICs respective tigers in the East Asian region. Malaysia, Thailand, the Philippines, and Indonesia count as Small Tigers since the 1980s. Most of the Asian Tigers followed Japan in its strategy of an anticipatory industrial policy enforced by public controlled banks. Some also speak about a “development dictatorship”. When public directed investments failed like in Malaysia or South Korea with respect to heavy industries in the 1970s, mistakes could be retracted quite fast because of a non-ideological pragmatism. (Seliger 2009: 263 - 265)

Additionally, these countries demonstrated that welfare gains cannot be attained by protectionism and industrial policy. An export based development model is needed instead. (Schnabl 2010: 6) The basic idea of this model is to finance growth of investments and progress in productivity by revenues from exports. Conditions for such a strategy are a rising international trade and the creation of an export position by comparative advantages within the catching-up country. (Knogler 2010: 10) Likewise, the opening to technology transfer from abroad supported the fast development of the Asian Tigers. In the Asian case, it was mainly an import of know-how from Japan which started by FDIs and production of low-labour-cost-products in the Tiger Countries. The so-called wild geese model was characterised by innovation in Japan, production in the Large Tiger Countries during the growth stage and in the Small Tigers in the maturity stage. Fixed exchange rates – in combination with under-evaluated domestic currencies – and voluntarily high saving ratios in the Small Tiger Economies supported their catching-up massively, too. (Seliger 2009: 265) While Prasad / Rajan / Subramanian (2007) emphasised that LDCs focusing only on external financial sources, consequently, do not grow as fast as those which focus on domestic savings, we know that the importance of international capital flows for NICs are obvious. In contrast to domestic capital accumulation international capital flows improve and defragment capital markets. The degree of liquidity rises while interest rates decrease, provided that political and macroeconomic stability is given. By rising FDIs old structures of production and low marginal productivities can be overcome. Thereby, foreign capital flows improve the efficiency of capital allocation and production. In such a process implemented expectations are self-fulfilling. A rising growth stabilizes economic policy. Public deficits and inflation rates decline. Improved credit ratings attract additional FDIs. But also weaknesses of the export based development model have to be mentioned. The Asian crisis in 1997/98 already showed that strategies of fixed exchange rates lead to speculative capital inflows and excessive monetary expansion while the banking systems were fragile and the political and economic framework questionable. (Schnabl 2010: 6 – 7) Nowadays, an additional wave of East Asian countries – China and Vietnam – penetrates into the international markets. Especially China is seen as the new challenge of the West. Obviously, all these countries were able to introduce well working institutions supporting entrepreneurship and markets.

Till the end of the 1980s most “Western” economic reform packages were quite neglecting the importance of institutions. The best example to be mentioned is the Washington Consensus. As Stiglitz (2002: 53) pointed out the Washington Consensus was “designed to respond to the very real problems in Latin America and made considerable sense". Later it became a universal formula for transformation problems. The term Washington Consensus was coined in 1989 by Williamson (1989) and describes a set of ten relatively specific economic policy prescriptions, which constituted the "standard" reform package promoted for crisis-wracked developing countries. Origin was the policy of Washington, D.C.-based organizations like the International Monetary Fund or the World Bank. The prescriptions encompassed policies in various areas like macroeconomic stabilization, economic opening with respect to both trade and investment, and the expansion of market forces within the domestic economy. The main problem of the Washington Consensus was the inobservance of institutions. For instance, Sachs (1991: 236), who was mainly responsible for the design of the Polish reform programme, suspected that basic institutions of a market economy could be established in the country within one year. But it has proven to be false: transformation has to be seen as time-taking process with complex necessities of innovation, imitation and adaptation. (Wrobel 2000: 153 – 155)

Fortunately, when transformation in the Central and East European Countries (CEECs) started most of them focused on European integration, i.e. political and economic integration with the EU, and exports. In this way, an export oriented development strategy was combined with an institutional imitation process. The result of that was a growing trade in both directions, from East to the West but also from West to the East, as well as a rise of international capital flows, first of all as FDIs from Western Europe into the transformation states. In this way, during two decades most of the CEECs were integrated into the European division of labour. Low labour costs, small distances to the West European markets and a qualified working force enabled these countries to attain respectable growth rates. (Knogler 2010: 11) At the same time political as well as economic institutions were stabilized and basically harmonized. The integration strategy of most CEECs was quite successful. Already, the EBRD Transition Report 2009 showed that in the European transformation states a positive relation between FDIs and growth rates could be observed. (EBRD 2009) But growth financed with outside capital led also in this case to macroeconomic imbalances and fragile financial sectors. One result was not only a fast growing current account deficit which was only partly compensated by FDIs, but also a growing foreign indebtedness of the banking sector as well as other enterprises. In this way, the integration and export based strategy development brought a long-term growth and institutional stability as well as a consumption boom, a debt overload and a financial dependence from foreign financial markets. (Mirow 2010: 3 – 4) The sharp decline of growth rates in a lot of CEECs and in several Asian NICs between 2008 and 2010 illustrate this problem impressively. All these countries suffered from the crisis by two channels mainly: firstly, by a sharp decline of exports and, secondly, by a drop of net capital flows from the industrialised countries. (Gern 2010: 13 - 14)

Therefore, especially institutional stability characterized by copying and adaptation of West European institutions, has to be emphasized as an anchor of the CEECs catching-up process. (Wrobel 2000, North 2005) West Europe became the leading role model for all transformation states. While some of them focused on more liberal models (like the Czech Republic and Estonia) others preferred more coordinated models of market economies. Finally, all new members of the EU accepted the acquis communautaire and thereby all basic political and economic institutions of the West European countries. This was – for sure – the main reason of their success. In contrast, East Asian countries followed the Large Asian Tigers by adaptive copying of their institutions while most of the LDCs failed in finding adequate institutions for a better development. Therefore, it must be asked which institutions support prosperity and development.

3. Economic Role Models

3.1. Common Experiences from the Western World

While the Geography Hypothesis, the Culture Hypothesis and the Ignorance Hypothesis failed to explain prosperity versus poverty in the world, we can follow Acemoglu /Robinson (2012: 73) that "countries differ in their economic success because of their different institutions, the rules influencing, how the economy works, and the incentives that motivate people." Obviously, especially Western institutions were able to support the development of prospering societies in the past. As Acemoglu / Robinson (2012: 46) already pointed out, also one hundred or one hundred and fifty years ago nearly the same Western countries were characterized by high prosperity like nowadays. But also Japan and most of the Large Tiger Economies were able to copy and adapt these basic principles of prosperity. Insofar, the East Asian Tigers became successful when they adopted the "basic rights" of Western OAOs like corruption-free public administration and market-enhancing instead of market-distorting interventions. (World Bank 1993) But which institutions make the difference? The reason for the developmental gap between developed market economies and LDCs can be described by the new approach of North/Wallis/Weingast (2009), for instance. They distinguish so-called limited access orders (LAOs) and open access orders (OAOs). While the first-mentioned orders are growing slowly and are vulnerable to shocks, the latter ones enjoy a mainly positive political and economic development. LAOs, also called natural states, are characterised by polities without consent of the governed, a relatively small number of organisations and the predominance of social relationship organised along personal lines, including privileges and social hierarchies. As North/Wallis/Weingast (2009: 12) pointed out, most of the societies in the world are LAOs. In contrast, OAOs are characterised by a bigger, but more decentralised government, a rich civil society with lots of organisations and widespread impersonal social relationships including rule of law, secure property rights, fairness and equality. Already Eucken (1952/90) brought these ideas into the scientific discussion, calling them "interdependencies of orders". Also Panther (1997: 111) has to be mentioned, because he characterised the Latin West of Europe by a high degree of "civicness" what he defines as "a set of values and norms requiring actors to treat each other as equals, to be tolerant of each other and encouraging mutual solidarity."

Nevertheless North/Wallis/Weingast (2009) do not limit their analysis to the differentiation of new ideal types of social orders. They also make some detailed investigation into the transformation process from a LAO to an OAO. Concretely, they define two steps for natural states to become an open access order. At first, personal relations within the dominant coalition have to be transformed into impersonal ones. Then, three doorstep conditions have to be fulfilled. These conditions are, first of all, the implementation of the rule of law for the elites. The second condition is the existence of continuously lived forms of public and private elite organisations. This means a civil society where many organisations exist and develop. And the third one describes that the military has to be come under consolidated political control, for instance the Ministry of Defence. However, this process will only occur if the members of the dominant coalition find it advantageous to transform their privileges into general, impersonal rights (North/Wallis/Weingast, 2009: 150-166) While the conditions for a development from a LAO to an OAO are described in detail, the emergence of the monopoly of power during the transition process is hardly dealt with. (Zweynert 2010: 5) Therefore, also the success of a political development is depending on the willingness and success of political entrepreneurs to implement the rules of an OAO. It can only be supposed that globalisation – understood concrete as an institutional competition process (see Hodgeson 2007) – will reinforce these processes.

3.2. Different Role Models in Comparison

3.2.1. Categorizing Economic Systems

After the fall of the Berlin wall market economy and democracy became the main goal for most of the former socialist countries. Japan and the large Asian Tiger Countries introduced market institutions, too. But this is not the "end of history" as Fukuyama (1992) had declared it two decades ago. Nowadays, competition between several types of market economies is strengthening. For instance, Mueller (1996: 33) already wrote: "Human history up to the present day can be seen as a process of wealth creation by individual efforts within given sets of economic and political institutions, and wealth transference (rent seeking). A kind of Darwinian process is at work that selects for survival those institutional structures that are best at creating and protecting wealth." But which institutions are worth to be copied and adapted by the NICs to catch-up successfully, nowadays?

Several models of capitalist variety were established during the last decades. Especially, in the late 1990s, capitalist diversity had become the subject of a broad literature, culminating in a number of widely read books (e.g. Stallings 1995, Crouch/Streeck 1997 or Coates 2000). However, the most influential approach was presented as collective volume edited by Peter Hall and David Soskice (2001): “Varieties of Capitalism: the Institutional Foundations of Comparative Advantage”. Especially in the book’s introduction both developed a conceptual model of capitalist variety, which distinguishes two different coordination regimes that vary systematically across countries. At one end of the spectrum there are Liberal Market Economies (LMEs) and on the other end Coordinated Market Economies (CMEs). While the LMEs use markets as their main means of coordinating economic activity, CMEs rely more on non-market institutions to solve coordination problems of society. While the LMEs consist of the six Anglo-American countries including Ireland, CMEs include Germany and its smaller neighbours (the Netherlands, Belgium, Switzerland, and Austria) as well as Scandinavia and Japan. Thereby, Germany is the paradigmatic case of CME for Hall / Soskice. But this binary classification of national forms of market systems leaves many countries in an ambiguous position, because they cannot be clearly categorized. For instance, France, Italy, Spain, Portugal and Greece are classified as “ambiguous”, or as an alternative they constitute a third “Mediterranean” type. (Streeck 2010: 24) Another one-dimensional approach was presented by the French author Michel Albert. In his “Capitalism against Capitalism” Albert (1993) distinguished Rhineland capitalism, led by Germany and Japan, and the Anglo-American model, with France sitting on the fence. Also in this case the main differentiation between the Anglo-Saxon model and the German Social Market Economy becomes obvious.

However, the dualist approaches are too simple to form concrete groups of countries as role models for NICs. Several “ambiguous” countries in Europe and the neglecting of the East Asian uniqueness don’t allow an application to the search for a role model for NICs, nowadays. Therefore, in this paper the author follows the most sophisticated approach by Amable (2003), who is using factor-analytical econometric techniques on a large set of macroeconomic variables to distinguish five types of market economies. As Crouch (2005: 448) emphasises Amable’s quantitative data are on a vast range of characteristics, e.g. product and labour markets, financial, social and educational system, etc. The results of his analysis are five groups of countries: Market-Based Economies, Social Democratic Economies, Continental European Capitalism, South European Capitalism and Asian Capitalism. Amable (2003) analysed OECD countries only. But his ideal types can be used to set up the following geo-cultural groups of countries as role models, also taking in consideration the results of other authors:

(1) **Anglo-Saxon Free Market Economy (Market-Based Economies):** This group consists of the six English-speaking countries including Ireland which are characterized by a non-involvement of the state in product markets and coordination through price signals. They are open to foreign investment and competition. Financial markets are highly sophisticated. Here exists only a low employment protection but flexible labour markets. The social protection systems are weak and public expenditures for education are low.

(2) **Nordic Welfare States (Social-Democratic Economies):** To this group belong all Scandinavian countries which are characterized by a high involvement of the state in product markets and a high degree of coordination through channels other than market signals, but also by openness to foreign investment and competition. The financial markets are not sophisticated. Employment protection is moderate and wage bargaining is centralised coordinated. Social protection is on a high level, also public expenditure for education.

(3) **Social Market Economy (Continental European Capitalism):** Germany and its direct neighbours build an additional group. In this case public authorities are involved into the product markets and the non-price coordination is on a high level. A low degree of protectionism against foreign competitors and investors is discriminatory, too. Financial markets are only low sophisticated. High employment protection is combined with low labour market flexibility and active employment policy. Social protection is on a high level, also public expenditure for education.

(4) **Mediterranean Economies (South European Capitalism):** While Amable (2003) describes France as ambiguous, others add it to the Mediterranean group which – as a result - consists of the Romance and Greek speaking countries as well as Malta. This model consists of involvement of the state into the product markets and a little non-price coordination. Protectionism against foreign competitors and investors is moderate. Small firms are dominating.

Sophistication of financial markets is low. Furthermore, a moderate level of social protection is combined with low public expenditures for education.

(5) **Asian Capitalism:** Amable's group of Asian capitalism consisted of the OECD countries Japan and South Korea, only, but also the other Large East Asian Tiger Countries can be added. This model is characterized by a high involvement of the state in the product markets and a high degree of non-price coordination. Protectionism against foreign competitors and investors is on a high level. Large firms are dominating. Employment protection is moderate. Sophistication of financial markets is low. Also the level of social protection is low as well as public expenditures for education.

Therefore, fife economic systems – four from the Western world and one Asian – are available as role models for NICs to be studied. But what are the advantages respective disadvantages of these economic systems?

3.2.2. Concrete Economic Systems as Role Models

Main role model from the West is the Anglo-Saxon Free Market Economy. Here, the role of the state is traditionally described as "night watchman" implementing only a minimum of regulations and levying only low taxes. In such kind of a market economy, incentives to work are high. Additionally, efficiency is on a high level because the price signals can work without distortions. But on the other hand, a rising social inequality, a monopolization of the product markets and non-internalization of negative externalities characterize such a system. The advantages of a neo-liberal reform can be illustrated by the rise of Thatcherism in the UK, for instance. Since the late 1960s, the British economy had begun to experience unprecedented economic recession. Reasons were the bad incentives caused by an overwhelming welfare system and the results of the Keynesian demand management policy. Britain's economic growth rate fell into one of the lowest among Western nations of that time. Therefore, the major practical foundation of the British consensual ideology was ruined and a new model was presented by the Conservative Party and its new leader, Margaret Thatcher, in the end of the 1970s. The core idea of her conservative and neo-liberal ideology was the return of the free market as the only means to promote economic prosperity through greater efficiency in allocating and using scarce resources. She also emphasized the maintenance of sound money as a critical underpinning of the market system and the rolling back of state intervention that was largely responsible for the economic inefficiencies. To carry through these ideas it was necessary for Thatcher to bring the union's power under her control. As a result of her consequent policy, Britain faced a new decade of prosperity in the 1980s. Growth rates rose while unemployment rates fall consequently. (Hoon 2001: 63 – 65, see also Brendan 1999) But nowadays, the picture of Britain is mixed. Britain suffers from quite bad social welfare systems, but was not able to rise its economy into a top position in the long run.

For NICs the model of a Free Market Economy is attractive because less state coordination is necessary than in the cases of coordinated market economies. Therefore, it is quite simple to implement. As the Britain experience has shown high growth rates and less unemployment can be reached, too. But the neo-liberal model did not succeed everywhere. Within the last 20 years, especially transformation economies and emerging societies have been threatened by wrong reform programs neglecting the needs of market regulation. One was the failure of price liberalization and privatization in the Russian Federation due to a lack of market-oriented regulatory framework, a second one was dissatisfaction with economic reforms in South America following the "Washington Consensus" and neglecting the importance of safety nets and social insurance. Further the Asian banking crisis revealed that financial liberalization without prudent regulation can have disastrous consequences. (Ahrens, 2009: 114 – 115) These failures of the free market approach in developing societies have now been followed by the financial and economic crisis caused by a failing regulation of the international financial markets and an inflationary monetary policy in different Western states. But these disparate developments helped reinforce the efforts to put institutions on the reform agenda of policy makers. Today, it is widely recognised that privatization, price liberalisation and macroeconomic stabilization are necessary components of transformation but are insufficient without implementation of adequate economic rules and regulations. (Wrobel 2012: 54)

Therefore, more coordinated market economies may be the better decision. Here, three Western models – the Nordic Welfare State, Social Market Economy and the Mediterranean Capitalism – as well as the Asian Model of Capitalism have to be compared. In the Nordic Welfare State the state acts successfully as a protector and a promoter of economic and social well-being as well as a distributor of income and wealth. So, a high degree of social security and welfare can be attained. For instance, in the Legatum Prosperity Index 2012 all Scandinavian countries hold the first ranks: Norway (1), Denmark (2), Sweden (3) and Finland (7). (Legatum Institute 2012: 1) In this way, the question about the "best economic system" or a "Single Peak Economy" (Gries 2001: 469) seems to be answered. But the social systems are very expensive for citizens who have to pay either high taxes or to suffer from rising public debts. Reduced incentives for all economic actors have to be mentioned, too. This can be illustrated by the Swedish Welfare State model. Traditionally, it was characterised by a high degree of state involvement in the life of all citizens – from the cradle to the grave! Public financed social services were provided for and were used by everyone. A universal pension system was already introduced in 1913. But taxes are among the highest in the world. Consequently, in the early 1990s, when there was a turbulent period for welfare states in general, also Sweden suffered. With its high taxes, the public budget of a welfare state is extremely sensitive to fluctuations in economic activity. When growth in Sweden was negative for three years 1991 – 1993, the budget deficit rose to an alarming 13% of GDP. Therefore, during the 1990s, the Swedish model has been altered and reformed in several ways. (Bergh 2010: 110 - 112) For NICs the model seems to be attractive at first sight, but the establishment of a welfare state requires a lot of financial resources and moreover, it is fragile to economic disturbances as the Swedish case shows.

For that reason, the German conception of Social Market Economy may be the right alternative to a Nordic Welfare State on the one hand and a Free Market Economy on the other hand. The idea of the Social Market Economy is based on the principles of economic order by the German economist Walter Eucken and was introduced in West Germany after WW II by Minister of Economic Affairs Ludwig Erhard (Wünsche 2001: 72-84). It combines private enterprise with measures of the state to establish fair competition, low inflation, and social welfare. The basic theoretical approach is the competition order in the sense of Walter Eucken (1952/90). It includes not only a regulatory framework of a functioning price system, monetary stability, freedom of contract and private property, open markets, but also the principle of liability and the principle of constancy and coherence of economic policy. In contrast to a free market economy, the idea of the Social Market Economy accepts the existence of weaknesses and deficits within the market order, which require correction. It should combine the principle of freedom with social security. While the freedom of the individual is manifested in competition, social problems that cannot be mastered through the market are to be solved by an appropriate social security policy. (Tuchtfeldt 1973/82: 65)

Walter Eucken's ideals (including modifications) drove the creation of the post-World War II German Social Market Economy and its attendant economic miracle. Additionally, West Germany implemented an export-oriented strategy supported by an under-evaluated currency within the Bretton-Woods-System. But, it must be emphasized, that Germany developed into direction of a welfare state during the last decades. Also here the social budged exploded. (Wünsche, 2001: 108 - 111) Thereby, even Germany is marked by a too tight network of regulations (especially in the fields of taxes and social measures), equal to other welfare states in Europe. For NICs the approach of Social Market Economy seems to be attractive because it combines openness of development in freedom and responsibility with the peace-making social measures. At the same time, the role of the state includes competency as well as responsibility for the establishment of market economic institutions. Therefore, the Social Market Economy gains a maximum of "welfare for everyone", without neglecting incentives of the market system. On the other hand, an immanent tendency to a Nordic Welfare State has to be emphasized, too.

In contrast to these three models, the South European model of capitalism is ambiguous. Most of these states prefer price coordination as well as low levels of employment protection and public expenditure like free market economies. In contrast, financial markets are not sophisticated and the levels of protectionism and social protection are moderate. The largest of these countries, France, has implemented even a kind of indicative planning in the past. Till the 1990s it had developed the most comprehensive framework for national economic planning in the non-communist world. (Hansen 1964: 11) Later – because of the introduction of the European Single Market – France had to privatize public enterprises and to liberalize its economic structure. Therefore, till nowadays France seems to be capitalism in transition, halfway between two models of regulation. Additionally, its macroeconomic performances continue to be quite poor in terms of growth and unemployment. (Coriat 2006: 95)

In contrast to France, especially Greece, Cyprus, Portugal and Spain are characterized by a high importance of tourism instead of industry. Sepp (2010: 172) calls them “tourism countries”, therefore. As he points out, these countries suffered from unequal distribution of income and wealth as well as from high public debts already before the current debt crisis. Therefore, the Mediterranean Capitalism seems to be more an ambiguous kind of capitalism, somehow more close to the transformation states in Central and Eastern Europe then to the role models of Western and Northern Europe. As the current debt crisis in Europe shows all these Mediterranean countries – including Italy and partly France – are suffering from the high public debts and its incapability to establish structures supporting growth enormously. Therefore, the Mediterranean Capitalism can be neglected as role model for NICs.

The East Asian model – characterized by developmental dictatorships as well as rise of employment and FDIs – is worthy to discuss. In this case it must be questioned if it is really a challenge to the old industrialized countries. Still ten years ago several European countries focused the Large Tigers and Japan as role models while the Small East Asian Tigers do it nowadays, too. In these countries, the typical overlapping of economy and state was assumed as an advantage in two fields: In the first place, the state can be strengthened because it can confide in the power of its mostly large enterprises. And secondly, the enterprises do not compete as single enterprises in the international markets but as a group, for instance as “Japan Inc.”. But nowadays, exactly this overlapping of economic and political system is seen as a disadvantage. Responsibilities are unclear and the liability principle does not work. Therefore, all these states suffer from too much regulation and are recommended to deregulate and to divide economic and political subsystem of society. (Starbatty, undated) Already Krugman (1994) argued that “The Myth of Asia’s Miracle” was basing on quantitative rise of production factors only. He emphasized especially the rise of employment and high saving ratios. At that time, the limits of this kind of growth were obvious in Japan as well as in South Korea. But his formula of “perspiration instead of inspiration” did not match the whole reality. Indeed, the quantitative rise of production factors is one main fact describing the East Asian development process, but it is not the only one. Additionally, the high ability to adapt technologies, e.g. by FDIs, has to be mentioned. (Seliger 2009: 268) Therefore, the results of the Asian model are mixed. Not only, the Asian crisis in 1997/98 exposed the weaknesses of this model.

Nowadays, Japans looks back to two decades of stagnation and deflation. On the other hand, Asia's growth cannot be set aside as quantitative only. Even in China R&D expenditures are on the rise, topping Japan's expenditures in absolute terms several years ago. (Herrmann-Pillath 2008: 487) Even, especially China and the East Asian Tigers overcame the last crises quite well whereas the Western countries suffered from them massively. But structural distortions in these countries are obvious. (Schnabl 2010: 7) Therefore, at the moment it is quite unclear if the Asian model of development will work as role model for NICs in the future, also.

4. Conclusion

Not only LDCs want to catch-up with the top industrialized states but also NICs, especially in Central and Eastern Europe as well as in East Asia. While the latter combined an export-oriented strategy with some kind of "developmental dictatorship", the CEESs brought together export-orientation with adaptive institutional imitation of Western European institutions. Also LDCs learned the importance of basic institutions as necessary conditions for a successful development process. The rule of law ("good governance"), a civil society of equal individuals and a consolidated control of the military represent the doorstep conditions to become an OAO supporting growth and prosperity. Additionally, as possible role models for NICs (but also LDCs) five country groups were defined: (1) Anglo-Saxon Free Market Economy, (2) Nordic Welfare State, (3) Social Market Economy, (4) Mediterranean Capitalism, and (5) Asian Capitalism.

As a comparison of these models shows most of them have advantages as well as disadvantages, too. Only the Mediterranean Capitalism as an ambiguous form of capitalism cannot fit as role model for NICs. While a Free Market Economy is quite simple to implement and sets strong incentives but leads to social inequality a Welfare State offers a high level of social care for everyone but is fragile and expansive as well. In contrast, the fast developing Asian model - focussing on exports and a "developmental dictatorship" – is threatened by sticking in quantitative growth. Additionally, the overregulation by overlapping public and economic sectors is a disadvantage in the long run, too. Therefore, from the author's point of view, the conception of the Social Market Economy seems to be the right alternative approach of capitalism in our times because it brings together the main advantages of Free Market

Economies and the Nordic Welfare State. Especially for transforming and emerging economies the approach seems to be interesting because it allows societies to transform into direction of a market economy without neglecting regulative as well as social aspects. In less developed countries which have to do large efforts in poverty reduction the Social Market Economy may be a superior approach than the Free Market Economy on the one side or the hybrid system of a Socialist Market Economy on the other, too. But at all, this analysis doesn't imply the absolute predominance of one role model. There exists no "Single Peak Economy". Additionally, NICs cannot copy the whole set of institutions from other countries. According to North (2005) the direction of change processes is determined by path dependence. Therefore, role models shall give political deciders an impression which model may be helpful to find adaptive institutions for the own catching-up process.

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