As far as I can tell, there are only two fundamental and enduring topics in the whole of social sciences: conflict and cooperation (or, war and peace in lay terms), and economic development or long-run growth (which can also be referred to as the rise and fall of nations). Economic development is the more pressing one now, because the world has gradually evolved into a more peaceful system (Tang 2013).

Born in 1967, I grew up in a tiny, mountainous, and poor village of about a dozen households in Hunan Province in southern China. My mother is my grandparents’ only surviving child, and my grandfather passed away in 1960 during the Great Famine, before my mother got married in 1965. Not too long after the beginning of the Cultural Revolution in early 1968, my father, who was a high school teacher of Chinese, was jailed as a counterrevolutionary when I was just 14 months old. My father remained in jail from 1968 to 1974. Thus, for six long years, my mother and grandmother brought me up through their sheer stamina and hard labor. Back then, however, I had no idea what poverty was, only remembering that my family could consume meat only once in a great while. I began to do some light farm work when I was only four.

I started primary school in 1972 when I was five years old. As I moved from my village to the county capital for junior high and then high school, and finally to a provincial capital—Wuhan of Hubei Province—for college in 1981, I became aware of the different levels of income enjoyed by different people. But overall, China was a very poor country until 2000. Indeed, in 1984 I was shocked to discover that some villages in the southern part of Shan-Xi Province were even poorer than my village, which I thought was already extremely poor.

Like most young Chinese students of my generation, I used to believe firmly that science and technology were the most direct and vital engines of economic development. Therefore, when I enrolled in college, I chose a natural science major, geology, as an undergraduate and then molecular
biology as an MA student. Yet, the shocks I experienced after moving from inland China to the coastal city of Shenzhen (a Special Economic Zone just across from Hong Kong), as well as from watching the collapse of the socialist countries of Central and Eastern Europe on live TV, gave me a greater awareness of the profound economic, political, and social changes unfolding in China and beyond. Perhaps I was already preparing myself for my preordained shift to social sciences even back then.

I studied molecular biology in the United States from 1990 to 1997 and then switched to social sciences from 1997 to 1999. I came back to China in 1999, and in early 2006 I moved to Singapore and worked there from 2006 to 2009. For the past 20-plus years, I have also traveled to several other countries. All these travels and periods of foreign residence have made me more aware of the extreme poverty endured by most people in developing countries but also the much higher living standard enjoyed by most common folks in developed countries. Within the United States, I also witnessed glaring inequality and racial discrimination firsthand in Detroit, Michigan. More relevant for this project, I began wondering why my salary in China, the United States, and Singapore has varied so enormously. These are all problems of economic development. Perhaps I had been thinking about economic development all along, however subconsciously, even when I was thinking about conflict and cooperation.

I began to take the puzzle of economic development more seriously when I was posted as a midlevel government official in Ningxia Hui Autonomous Region in northwestern China from 2002 to 2003. Ningxia hosted three counties, Xi-ji, Hai-yuan, and Gu-yuan, that were collectively known as one of the poorest regions not only in China but in the world. During my year-long stay in Ningxia, I had the opportunity to travel extensively throughout the region. I visited villages, factories, and schools and talked to peasants, workers, teachers, students, and officials. Everywhere I went, I saw that people wanted to better their lives but often felt that not much could be done by themselves.

During that time, I began to think that if a country is poor, it must be the state’s responsibility, and the state must act through policies and institutions. I also came to appreciate the profound effect of the “simple” reform initiated by the late Deng Xiaoping. By rejecting the Confucian and socialist mantra that only self-sacrifice makes a community prosperous, Deng Xiaoping was merely going back to the teaching of Adam Smith ([1776] 1981): a country can only prosper if it lets its people make money for their
self-interest. With such a simple move, Deng Xiaoping had unleashed the potential of the Chinese people and made possible the “China miracle” over the past four decades or so.

This book is the product of my rather long journey of puzzling over economic development, starting from that tiny village in Hunan, China. Along the way, I have incurred enormous intellectual and spiritual debt.

In Berkeley, Hong-yung Lee introduced institutions and economic development to me in his course on the post–World War II political economy of East Asia in 1998. Besides the works of Douglass North and Mancur Olson Jr., Hong-yung also highlighted the political economy of the East Asian developmental state. Furthermore, I learned something about the critical role of industrial policy from the courses taught by Laura Tyson and John Zysman.

This project formally started at the Institute of Asia-Pacific Studies (IAPS), part of the Chinese Academy of Social Sciences (CASS), after I returned from Ningxia in 2003. I have been extremely fortunate to have worked under the directorship of Professor Yunling Zhang, whose generosity, encouragement, and support made my various academic ventures possible.

Perhaps most critically for this project, I was able to secure that yearlong stint as a local official in Ningxia during my days with IAPS. It was during that year that my thinking about the institutional foundation of economic development began to crystallize and come together. As assistant director in the Bureau of International Trade (before it merged with another bureau to form the Bureau of Commerce) in Ningxia, I had the responsibility of attracting foreign and domestic investment to Ninxia and promoting Ninxia’s exports. Equally important, I also participated in poverty alleviation programs for poor rural families and local schools, trying to promote economic growth at both the meso- and micro levels, even if only marginally. I learned a great deal about economic development on the job, and many key lessons might not have been possible by merely reading textbooks, playing with models, and running regressions.

I took this project with me to various places as I moved around. At the East Asian Institute at the National University of Singapore, then under the directorship of the great historian Wang Gungwu, I drafted the first outline of this volume. Life took an interesting turn, however, and I ended up writing a different book. After discovering that there was no general theory of institutional change despite the voluminous literature on the subject, I wrote a book titled *A General Theory of Institutional Change* (Tang 2011b).
The Institutional Foundation of Economic Development was put on the back burner while I was teaching at the S. Rajaratnam School of International Studies of Nanyang Technological University (2006–2009). During that period, I was mostly working on conflict and cooperation and published two volumes on international relations (Tang 2010, 2013). Only after coming to Fudan University in 2009 was I able to pick up the project again.

Three giants, Adam Smith, Arthur Lewis, and Albert Hirschman, laid much of the foundation for my understanding of economic development. While building upon the work of many learned economists, however, my project also departs from mainstream developmental economics decisively at its starting point: I drew from a very diverse body of literature—from anthropology, to political science, to sociology. I believe that if one wants to solve the puzzle of economic development, one cannot only think within the boundary of economics; one must bring insights from all the fields of social science.

Put differently, economic development is not an economic puzzle, but a political puzzle first, an economic puzzle second, and perhaps a sociological puzzle third. Economic development should not be the exclusive domain of economics and economists. After all, neither David Hume—the first serious economist ahead of Adam Smith, according to Walt Whitman Rostow—nor Smith was an economist by training as there was no formal discipline of economics back then.

As a social scientist who has never been formally trained as an economist, I have never been bound by the straitjacket of mainstream economics. In fact, I think the field of mainstream economics may be inherently incapable of solving the puzzle of economic development due to its neglect of contributions from other fields of the social sciences and its obsession with technical details (either in modeling or in econometric exercises) that leaves out deductive theorization without models and qualitative evidence from historical cases. Formal modeling often prevents us from incorporating enough variables and contexts. Obsession with “clean” causal identification dictates that many questions of great importance are ignored or pushed aside due to a lack of data that allow for “clean” causal inferences.

Thus, in order to understand economic development more adequately, we need a more eclectic and pragmatic approach. While I do value deduction more, I also include induction; and while I do employ formal modeling, I also use deductive theorization without formal modeling. In my work, I present econometric evidence whenever possible and wherever appropriate, yet I also draw from powerful qualitative evidence. The proper yardstick
for scientific progress cannot be a singular measure, but should be a reason-
able combination of theorization, hypothesis, and evidence.

Among contemporary institutional development economists (besides
the usual suspects, such as Douglass North and his followers), I drew more
inspiration from Mancur Olson Jr. and Dani Rodrik; both of them pos-
sess a style similar to that of Hirschman. Although both Olson and Rodrik
are mainstream (i.e., neoclassical) development economists, they are also
open-minded or unorthodox enough to think beyond the boxes of neoclas-
sical economics and rational choice, despite Rodrik’s (2007, 3) insistence
otherwise.

Before his untimely death, Olson had examined two different types of
economies—developing countries and developed countries—most promi-
nently in his *Rise and Decline of Nations* (1982) and “Big Bills Left on the
Sidewalk” (1996). He had also inquired into the political economy of two
types of political regimes, most visibly in his “Dictatorship, Democracy, and
Development” (1993) and “The Economics of Autocracy and Majority Rule”
(McGuire and Olson 1996). Unfortunately, Olson was unable to bring these
two themes together even in his last book, *Power and Prosperity* (2000),
partly because he was still too much under the spell of neoclassical econom-
ics (despite his deep interest in political power and his scathing attack against
the universality of the Coase theorem; see Dixit and Olson 2000) and partly
because he had always been fond of “stark and simplifying propositions,” or
big theories centered on one or two big variables or mechanisms. Needless to
say, with both traits in place, his big theories cannot carry us very far (Keefer
2000; McLean 2000; Wintrobe 2001; Rose-Ackerman 2003).

Rodrik has always taken a more eclectic approach toward economic
development. Despite valuing the utilities of models, he does not insist
that only models can lead to theories. Rodrik (2003b, 10) has also rightly
stressed that “a claim based on case studies that does not find support from
cross-country regressions requires closer scrutiny. By the same token, any
cross-national empirical regularity that cannot be meaningfully verified on
the basis of country studies should be regarded as suspect.” In other words,
we often need both kinds of evidence to arrive at an adequate understanding
about how development works.

Among contemporary Chinese economists, I have learned most from
Justin Yifu Lin. While I like his earlier work on institutions (Lin 1989, 1995;
Lin and Nugent 1995) more than his “new structural economics,” which
singles out development strategy (Lin 2003, 2009, 2012b, 2012c), his pas-
sionate search for different perspectives on development has always been
an inspiration. I also thank Justin for hosting a conference on development economics in 2017 at which I was able to present some of the ideas contained herein, albeit in rough forms.

In the broader social sciences, including economics, I have learned a great deal from the works of Pranab Bardhan, Ha-Joon Chang, Jared Diamond, Stanley Engerman, Stephan Haggard, Yukon Huang, Geoffrey Hodgson, Charles Jones, Michael Miller, Barry Naughton, Richard Nelson, Arkebe Oqubay, Michael Ross, Kenneth L. Sokoloff, Rory Truex, Andrew Walder, Yong Wang, and Yi Wen. Many of them have kindly provided comments for various parts of this book. My apologies to other scholars I have forgotten to acknowledge here.

As previously mentioned, I started this project when I was still with IAPS of CASS. I also drafted parts of the manuscript when visiting the East Asia Institute at the National University of Singapore and the School of Global Policy at the University of California, San Diego. Much of the writing has been done at Fudan University, my home institution, over the past decade or so.

Many former and current colleagues and students have also provided intellectual discussion and spiritual support over the years: Cheng Gao, Zhan Hu, Zhengqian Huang, Chen Liu, Min Tang, Rui Tang, Chengcheng Ye, Yuyang Zhang, Jianglin Zhao, Litao Zhao, Yu Zheng, Xiaobing Zhou, and Qing Zhu. I have been very fortunate to work with some wonderful coauthors as well: Suo Chen (chapter 4), Rui Tang (chapter 6), and Chengcheng Ye (chapter 4).

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I thank Mingjiong Jiang and Wei Shao for being kind enough to keep their “boutique” coffee shop open for the past decade so that I had a place to read and think while sipping good coffee. Alas, that was a lot of coffee.

Three special friends, Tao Cui, Hongmei Li, and Yu Zhang, have helped me carry on in hard times, with their unflinching faith in me, coupled with support, encouragement, and understanding. Leslie Fong, Jin Han, and Xin Yan—friends as well as mentors—have taught me things that I could not possibly learn by reading books.

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joint workshop, Ren-min University, Peking University, Shanghai Jiao-tong University, and Tsing-hua University, where I have presented various parts of the project.

At Princeton University Press, things got started in 2015 with a coffee chat. For whatever reason, Eric Crahan took an early interest in my work, and I thank him for his initial blind confidence. Bridget Flannery-McCoy then shouldered the burden of actually guiding the project and provided patient direction before the manuscript was ready (with several passed deadlines, inevitably). During Bridget’s maternity leave, Alena Chekanov shepherded the project over the finish line with great enthusiasm. Jennifer McClain copyedited the manuscript with meticulousness and precision. Additionally, two anonymous reviewers have provided critical support for the project. All of them have made this project a blissful experience in its final stage. In fact, among the five books I have published, this book has been the easiest sailing.

A very crude version of chapter 2 was published as working paper no. 156 (2005) by the East Asian Institute of the National University of Singapore under the title “What Do Institutions Do Exactly? Toward an Understanding of the Institutional Foundation of Economic Growth.” An earlier and shorter version of chapter 3 was published in the Journal of Economic Issues (2010). An earlier version of chapter 6, coauthored with Rui Tang, was published in Kyklos (2018). I thank Taylor & Francis and Wiley & Sons for allowing me to reuse these previously published materials.

My deepest gratitude goes to my extended family. My parents not only endowed me with the stamina to tough it out but also tolerated me for spending so little time with them over the years. My wife, Lin Wang, and my parents-in-law have shouldered much of the burden of raising my son, Xiaoyu, who has grown up with my books. So far, he has had the same reaction to yet another book published by his father: “Wooh, another book!”

Finally, I dedicate this book to my grandma, my parents, and my parents-in-law. My grandma and my mom raised me in that tiny village when my dad was away. Unfortunately, my grandma passed away in 1999: she survived the turbulent years of modern China but enjoyed little of the fruits of China’s development. I wish she could still be with us today. My parents and parents-in-law can now reap some of the benefits of China’s development after too having endured much hardship. I wish all of them a very long life and many happy years ahead.
THE INSTITUTIONAL FOUNDATION
OF ECONOMIC DEVELOPMENT