

# Acemoglu, Johnson and Robinson’s Notion of Exogenous Imposition of Colonial Institutions onto Colonies— A Critique in the Light of Historical Evidence

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This paper provides critique of Acemoglu, Johnson, and Robinson’s (2001, 2002) notion that rests on the hypothesis of exogenous imposition of colonial institutions onto their respective colonies based on conditions for their settlement. Our research brings forth the logical loopholes in Acemoglu, Johnson, and Robinson (AJR) by constructing arguments against the over-simplified assumption of exogenous imposition of colonial institutions in explaining the differences in development today. To prove our point, we build on two main arguments from history to show that some degree of endogeneity did indeed exist in colonial institutions that were imposed on the colonies. Our first argument revolves around the theme that how Atlantic slave trade evolved with colonialism and had meaningful technological and institutional consequences in the colonial metropolitan state. And these evolving conditions in coloniser’s mother country not only shaped incentives for mercantilist colonialism at one level and at the other became the base of institutional setup of progressive forms. In our second part of the argument, we demonstrate the role of native agency either in the form of local’s formal or informal pre-colonial institutions or in the form of their hold within the colonies, were all important in shaping what path colonisers eventually took for the institutional transfer. Based on these historical evidences, it is concluded that colonial institutions cannot be assumed as an exogenous transfer based on the notion of settlement as per AJR, rather it can be best described as an evolving fit between colonial and pre-colonial institutions.

*Keywords:* Acemoglu, Johnson, and Robinson’s (2001, 2002), Reversal of Fortune, Institutions, Colonialism, Long-term Development Differences

## 1. INTRODUCTION

Acemoglu, Johnson, and Robinson’s (AJR) research on the reversal of fortune has been counted as the seminal contribution in applied institutional economics.<sup>1</sup> According to their studies, the institutional course of action colonisers adopted in their colonies was based on two critical instruments namely settler mortality rate (Acemoglu, Johnson & Robinson, 2001)<sup>2</sup> and population density of indigenous people encountered by European

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<sup>1</sup>Other important empirical studies on institutions and growth link that came about the same time AJR studies came out includes Hall and Jones (1999), Keefer and Knack (1997), Rodrik and Subramanian (2003).

<sup>2</sup>The empirical findings in Acemoglu, Johnson and Robinson (2001) provide evidence for above hypothesis and estimate robust negative and significant impact of settler mortality on the indicators of good institutional performance in 1900 and explain the phenomenon of reversal of development pattern post-colonisation through impact of colonisation on the institutional set up of the regions depending on the mortality they faced during colonisation.

colonist at the time of the conquest (Acemoglu, Johnson, & Robinson 2002).<sup>3</sup> As per their hypothesis, areas where Europeans had the possibility of developing large scale settlement, they promoted European style inclusive institutional setup. In contrast, the colonies where they found little scope of placing their people, they established an extractive institutional mechanism. Hence, finding evidence in favour of the above hypothesis, AJR not only identified instruments that could explain the difference in institutional setup and long-run economic development of various colonies but also brought forward a beautiful blend of development economics and economic history.

Their work is unique not only in terms of findings but also in its innovative use of econometrics in establishing the impact of institutional paths taken by the colonial administration on post-colonial development prospects. Following their methodological breakthrough, many applied papers have tried to link post-colonial outcomes to its colonial origins, which include (Angeles, 2007; Bairoch, 1993; Banerjee and Iyer, 2005; Bertocchi, and Canova, 2002; Engerman & Sokoloff, 1997, 2005a, 2005b; Ferguson & Gupta, 2002; Grier, 1999; Iyer, 2010; Mohoney, 2010; Nunn, 2008a, 2008b and Reno, 1995).

In the context of the validity of AJR formulation, many studies have tested the robustness of these critical instruments. For instance, Alouy (2004a, 2004b) and Slyweter (2008) examined the robustness of settler mortality as the causal determinant of contemporary institutions after controlling for other historical and geographical correlates. Similarly, some other studies have tested the validity of AJR hypothesis by extending methodologies or by assessing the strength of data which includes McArthur & Sachs (2000), Auer (2009), Albouy (2012), Acemoglu, Johnson & Robinson (2012), Easterly & Levine (2016) and Chakraborty (2017).<sup>4</sup> However, in our study, we have tried to augment the AJR line of research by going beyond econometrics justifications to an evaluation of these instruments in the light of historical evidence.

Hence, our work distinguish from previous comments on AJR that instead of targeting on the problems in settler mortality rate's measurements as others have done, our work advances the AJR argument that yes indeed the European colonial institutions have made difference in defining development path for their colonies but one should not ignore the question that what may have shaped the colonial institutions after 1500? In this context, we build an argument that how local people's choices within colonies and the evolution of institution<sup>5</sup> of slavery had a meaningful role to play.

<sup>3</sup>Both these channels are related than it seems, as we know from work on historical conditions of development in Diamond (1999) that areas with sparse population neither had the capacity to develop diseases that could adversely impact possibilities of European settlement nor the strength to withstand European military might. While areas with denser native inhabitants had the ability to sustain more complex societies with internal strength to survive even in the face of colonialism and adverse disease environment for the European immigrants making settlements harder to come by (Bardhan, 2005, pp. 510–511).

<sup>4</sup>McArthur & Sachs (2000) test the robustness of AJR results to the change of sample both in size and geographical dispersion; Auer (2009) disentangles the partial effects of institutions and of endowments on income; Albouy (2012) criticise the authenticity of AJR's dataset and Acemoglu, Johnson & Robinson (2012) provides answers to criticism raised by Albouy (2012); Easterly and Levine (2016) extends the literature in line with AJR work by constructing a new variable—the European share of the population during colonisation and examining its link with development patterns today. Chakraborty (2017) not only points to measurement errors but test the AJR hypothesis of institutional primacy and geographical simultaneously.

<sup>5</sup>Given AJR use property right expropriation as institutional proxy; hence our notion of institutions will be the same. However, since extraction of colonisers was both in terms of materials and in case of Africa indulges in slave trade so we will define property rights expropriation in terms of both material extraction and slavery (primarily in case of Africa) as was categorised by AJR.

The key findings from our analysis are two-fold. First, we showed that how evolution in Atlantic slave trade with colonialism had meaningful technological and institutional consequences in the colonial metropolitan states defining their incentives for mercantilist and progressive colonialism differently. And secondly, imposed colonial institutions on the colonies can only be best described as an evolving fit between colonial and pre-colonial institutions with a defining role of native agency in sustainability of the final outcome. Hence, some degree of endogeneity did exist where conditions in colonies other than those related to settlement for the colonisers<sup>6</sup> had indeed played an important role in defining the institutional path taken by colonial powers within their colonies.

Our findings have important relevance in understanding the process of liberal imperialism<sup>7</sup> with foreign aid acting as a measure of influence on the developing countries (Hayter, 1971; Williams, 2000, 2008; Harvey, 2003; Itmi (2018); Williamson, 2018). Learning from Altaf (2011), Lum umba-Kasongo (2011) and Itmi (2018), one finds that not only foreign aid has become a means of imposing neo-imperialism on developing world but its continuation is in the interest of all stakeholders from aid donors to aid recipient countries and donor agencies like IMF and World Bank etc. For this purpose, the institutional weakness within the aid receiving countries serves both as source of aid inflow and also of its continuation (Easterly & Pfitze, 2008; Haque, 1999, 2018, 2020).<sup>8</sup> This process has parallel to our findings. Just as in case of our analysis, pre-colonial institutions set-up of colonies defined the trajectory of colonial rule, in case of foreign aid the institutional weaknesses of the developing countries which often are rooted in their colonial past serve as the cause of aid inflow in its first stage and as source of further weakening of their institutions in its second phase. This creates a recurrent need to look out for aid and loans within developing countries undermining their future long-term growth prospects.

In this perspective, let us present empirical and historical evidence in favour of our hypothesis in Section 2 below. In light of this discussion, we will conclude the debate in final Section 3.

## **2. PLAUSIBLE LOOPHOLES / ANTITHESIS TO AJR EXPOSITION FROM HISTORICAL EVIDENCE**

AJR, in their path-breaking contributions, not only have given us tools to integrate economic history and development economics but also have provided us with the most widely accepted explanation for development differences today. However, despite its remarkable contribution in explaining disparities in development patterns across the world using colonisation as a natural experiment, we showed how exogenous imposition of colonial institutions based on criterion of European settlement or non-settlement has undermined some possible sources of endogeneity for institutional transfers via

<sup>6</sup>Given we have tried to understand process of colonialism and institutional path within colonies in the backdrop of AJR framework, hence in our analysis wherever coloniser is used, it refers to only the era of European colonialism and all other forms of colonial experience such as the Romans, the Byzantines, the Moors, and the Ottomans, to name a few by default are being categorised as pre-colonial.

<sup>7</sup>Liberal Imperialism is being used in the sense of interventionist foreign policy by United States (Bishai, 2004; Mabee, 2004; Kiely, 2005; Ikenberry, 2006; Quinn and Cox, 2007).

<sup>8</sup>For example, Haque (1999) shows that reforms have failed in Pakistan because the intent was just to get money from donor to release immediate fiscal constraints. Further, this process of foreign aid and donor's assistance has led to creation of intellectual and institutional gaps as shown in Haque (2018a, 2018b).

colonialism. First of such source that we highlighted deals with how technological frontier for the colonial states evolved as prices of African slaves changed with colonisation defining the incentives for mercantilist and progressive colonialism differently. AJR did not take into account the role of local agency and pre-colonial institutions in shaping the form of colonialism they encountered. For more details we will divide the coming discussion into following two segments.

- 2.1. Evolution in Technological Frontier and Institutions of the European Colonial Powers and Role of Atlantic Slave Trade.
- 2.2. Argument of Local People as a Maker of their History.

### **2.1. Evolution in Technological Frontier and Institutions of the European Colonial Powers and Role of Atlantic Slave Trade**

To establish endogeneity argument, we will first assess whether classification into settler and non-settler colonies as identified by AJR is the only valid demarcation to explain colonial institutional transfers, or there exist further sub-divisions within colonial experiences. Revealing one such division in section 2.1a, we build the argument of how such divisions are independent of AJR's criterion of coloniser's settlement or non-settlement for institutional transfer. We further discussed the institutional path that European Colonisers choose to administer their respective colonies was endogenous and highly dependent on how technological frontier for the colonial states evolved as prices of African slaves changed with colonisation and consequently their institutions, defining their stakes for mercantilist and progressive colonialism differently.

#### **2.1a. *Notions of Colonialism Independent of Settler Criterion***

Diversity in colonial policies across various regions and the time dimension, due to varied political and economic institutional make of colonisers in their home countries need to be assessed within a rigorous historical account. In the above aspect, two distinct forms of colonialism pattern emerged i.e. mercantilist and progressive colonialism<sup>9</sup> which

<sup>9</sup>Here we have just considered two divisions that is mercantilist and progressive colonialism but a thorough review of literature also points towards further finer divisions such as those shown in analyses of colonialism by Marx and Bill Warren (progressive but not liberal) (Warren, 1973; Marx, 1976; Amin, 2018), by Paul Baran and Lenin (neither progressive nor liberal) (Lenin, 1917; Baran, 1957) and (progressive and liberal) (Melleuish, 2001; Sang, 2009, 2018). However, ignoring these finer divisions does not undermine validity of our analysis since all we are trying to show that colonialism can be categorised in divisions other than the AJR notion. And that such divisions are motivated by reasons other than AJR notion of coloniser's settlement or non-settlement. However, both these critiques will stand valid even if we go beyond mere mercantilism or progressive divide to include some other subdivision etc. However, for simplicity of the argument, we keep to only two categories of mercantilism or progressive forms in our analysis. Examples of liberal and progressive colonies include British Hong Kong and British Australia (Melleuish, 2001; Sang, 2009, 2018). However, if we go deeper into philosophy of liberalism applied to these regions, then even in across these two example, we can find some import distinctions in its application. In Australia, the idea of liberalism is actually adopted in its British settlers who wanted more state intervention to guide policies towards certain end. In contrast, in Hong Kong, liberal policies were promoted within British colonial rule to promote a free market mechanism by design to protect it from other ideologies present into its neighborhood (Melleuish, 2001). Example of progressive colonialism Includes British North American Colonies and British Canada (Bourinot, 1900; Wrong & Langton, 1914; Frankema, 2010). Example of progressive but not liberal colonialism include the case of South Korea as colony of Japan—though this example is Non-European and does not apply to our context but for understanding of the process, it is important case study (Kohli, 2004; Hundt & Bleiker, 2007). Most prominent example of neither progressive nor liberal is case of British India (Wilson, 2016; Tomlinson, 1981; Tharoor, 2017; Lenin, 1917).

were not related to AJR notion of settlement criterion for inclusive institutional transfer and non-settlement benchmark for extractive institutional implantation.

The first form of colonialism, termed as mercantilism<sup>10</sup> in literature, is based on short-term gains and restricted economic activity under colonialism (Coleman, 1957). In this form of political economy, the colonial focus was the maximisation of extraction at the lowest cost possible. And the prime emphasis was on only immediate consumption goals and maintenance of colonial supremacy with no economic rationality for investment to increase the productive base of the colonies for long-term sustainable progress.<sup>11</sup> Hence, the administration within this form of colonialism implemented state regulations that benefited the coloniser's merchants, their aligned beneficiaries, and support groups both within colonies and in their home country (Ekelund & Tollison, 1980a, 1980b).

To sum up, the mercantilist colonialism patronised economic stratification within its colonial subjects officially. These practices had resulted in their weak institutional base and eventually led to negative post-colonial prospects for regions that had a history of being subjected to such colonial plunder. On the other hand, colonies under progressive colonialism operated in an atmosphere where free market forces could kick in their true spirit at domestic and international level.

Colonial powers within liberal agendas made sure that commercial interests should not be politically influenced within their subjects. State involvement was restricted to the extent that the incentives for entrepreneurial investments and technical up-gradation through property rights protection were maintained. The only hierarchy that resulted within such colonies was market forces and not through official policy of divide and rule as practiced within mercantilist orientation.

A case-oriented approach to the analysis of historical evolution processes reveals that few colonial governments were found to adopt the mercantilist style of ruling i.e. British India<sup>12</sup> and Spanish American colonies (Wilson, 2016; Tomlinson, 1981 and Tharoor, 2017; Engerman & Sokoloff, 1997, 2005b) while others who were liberal in their approach indulged in progressive capitalism since its very inception for example consider the case of British North America (Frankema, 2010), British Canada (Bourinot, 1900; Wrong & Langton, 1914) and British Australia (Melleuish, 2001). Hence, contrary to AJR's hypothesis, we found variation in line of progressive or mercantilist approach to ruling in the colonial history both within colonies and the colonial powers.

<sup>10</sup>Since some historians use concept of mercantilism as a representation of all sorts of non-laissez-faire economic practices in European history from fifteenth through nineteenth centuries, hence to clarify such confusion it should be noted that terms mercantilist and progressive phase of colonialism being used in present discussion should be recast as classical mercantilism and enlightened mercantilism respectively when making current context comparable to other works employing above definition of mercantilism being applied for whole of the colonial history.

<sup>11</sup>The imperative towards technological improvements of an economy and training of the workforce was avoided within the colonies under the mercantilist rule, given it would have absorbed the returns of the colonial extraction (Mohany, 2010).

<sup>12</sup>Analysis by Wilson (2016), Tomlinson (1981) and Tharoor (2017) shows that different facets of British colonialism and its extraction.

However, for the sake of clarity, one should note that the AJR notion of extractive and inclusive settlement should not be confused with the mercantilist and progressive phases of colonialism, respectively. The exploitative colonial rule within AJR analysis was linked only to the unfeasibility of settlement. In contrast, the vision for extraction differed across mercantilist and liberal colonialism was not in light of settlement criterion but more so in the face of the technological frontier of the time and institutional setup within coloniser home country. Hence there could be both phenomena of more or less settler presence across colonies experiencing a mercantilist or liberal form of colonialism (Mohaney, 2010).

Further, given that technological frontier faced by colonists evolved with colonisation, hence taking this feedback impact from colonial encouragement of extractive practices on themselves needs to be understood. Given colonisation not only affected the conditions in colonies but as these conditions evolved so did the technological and institutional structures within the coloniser's mother country and with its objective of colonialism and its form.<sup>13</sup> For example, Britain that led the transition towards the capitalism through initiating industrial revolution could only do that as the balance of power changed between monarchies, commercial, and business groups post Atlantic slave trade<sup>14</sup> (Acemoglu, Johnson & Robinson, 2005, Inikori, 2002). Hence what sort of institutions a colonial state had imposed on its colonies, did in some sense was determined by changing conditions and contributions of colonies into how the colonial metropolitan country evolved itself institutionally and hence this process was not exogenous as AJR assumed. AJR claim that eight European nations<sup>15</sup> that had participated in the process of colonialism imposed a common institutional framework in their respective colonies depending on whether they had established massive settlements or not is easily challengeable and unstable.

### **2.1b. *Evolution in Technological Frontier and Institutions within Colonial Metropolitan States with Colonisation and Role of Atlantic Slave Trade***

The strategies for colonisation depended not only on the extent of settler mortality and native population density alone but also on internal dynamics and the stage of development at which the colonial powers had been at the time of its indulgence into colonial projects. In the initial phase of the colonial takeover near 1500, the technological frontier had not evolved for the European counties to the extent that oppressive institutions of mercantilists could change. The practice of labour-intensive techniques for

<sup>13</sup>The extent of capitalism within the societies of colonial powers also had an essential role in defining their colonial trajectories. Moreover, these institutional differences among the European colonial powers had a consequential impact on the route such forces took under their colonial mission. Countries that could not evolve as effective capitalist institutions for themselves cannot be the cause of leading their colonies towards such growth-promoting end. The possibility of positive institutional transfers in the sense of free-market norms and *laissez-faire* economic policy with colonialism could happen only where such practices had emerged in the mother country.

<sup>14</sup>Rough estimates of profits from British slave trade during eighteenth century comes up to be 50 million pounds, from West Indian sugar plantations to be between 200 to 300 million pounds and from Indian subcontinent between 500 million to one billion pounds (Crow & Thorpe, 1988, p. 16; Digby, 1969, p. 33). These profits did play an important role in creating enabling environment to kick start industrial revolution in Britain which then spread all over Europe subsequently (Inikori, 2002).

<sup>15</sup>European nation that indulged in overseas territorial control through colonialism at some point between fifteenth and mid-twentieth centuries include Belgium, Britain, France, Germany, Italy, Netherlands, Portugal, and Spain.

the plantation of cash crops gave a big push to forced labour (Engerman & Sokoloff, 1997). Slavery was considered as the most productive and feasible option given the technology employed for production was not safe and health-friendly (Fenoaltea, 1984; Fogel & Engerman, 1974). With the established practice of human pawning in pre-colonial Africa, the abundance of African slaves at a cheap cost (Austin, 2005) and technological improvements in the shipping industry made the Atlantic slave trade feasible.

From the mid-eighteenth century onwards, massive outflow of African slaves, along with substantial demographic loss from ongoing tribal wars within Africa, pushed the price of these slaves up<sup>16</sup> (Stavrianos, 1981). Such resulting unmet slave demand, along with their price rise, created incentives for their replacement with mechanised production (O'Rourke, and Williamson, 1999; Acemoglu, Johnson, & Robinson, 2005). Further, this shift away from labour extensive techniques towards a transition for a capital oriented technological innovation forced a change in the class structure in some of the coloniser's metropolitan states e.g. in Britain, Netherland and Holland to name a few (O'Rourke, and Williamson, 1999, Inikori, 2002). These changes had multiple impacts. For example in Britain, At some level the increasing tendencies for capitalism post such changes initiated a search for territorial expansions and new markets that set a base for a process of extractive colonial rule in India for Britain as has been stressed by Marx and Lenin (Kohn, & Reddy, 2017). And at other level, with changing class structures by strengthening of merchants groups in Britain post Atlantic slave trade, and a shift of labour from rural to urban areas (industrialisation phase) led to weakening of feudalism in Britain hence initiating a process inclusive institutional reforms (Acemoglu, Johnson, & Robinson, 2005; Rogowski & Macae, 2004). Further, how the Atlantic slave trade transformed the institutional path of the colonial countries was not uniform and depended on to whom revenue of this trade went to. In Britain and Netherland, since the beneficiaries were the merchant groups and in Spain and France, revenues went directly to the crown, hence the institutional evolution in these areas differed greatly (Acemoglu, Johnson, & Robinson, 2005). Such feedback impact over long-term evolution cannot be accommodated within AJR quantification and can be best understood under comparative historical analysis.

In light of the above discussion, few historical facts should be given their due merit in defining the inter-linkages for development prospects across the world in the face of changing conditions for colonialism over time. Firstly, proprietorship in people through institutions of slavery in Africa responded to evolving technological constraints such as the 'cash-crop revolution' from the initial colonial timeframe (Austin, 2005, pp. 236–249, 512–515). Secondly, in context of how the contribution of this oppressed workforce to mining industries for gold, diamonds, coal, minerals, etc. or to the

<sup>16</sup>The demographic loss due to colonial indulgence into the slave trade and death toll that can be attributed to resulting tribal warfare or in the process of shipment of slaves onto western hemisphere during 1600-1900 time period has been approximated to be 12 million and 36 million (Stavrianos, 1981, p. 109). In percentage terms, there was a drop of ten percentage points from 18 percent to 8 percent in African share in the world population from 1650 to 1850, a large portion of which can explain directly or indirectly through the phenomenon of Atlantic slave trade (Stavrianos, 1981).

development of vast irrigation networks<sup>17</sup> had provided a stimulus to the industrial revolution globally within the European colonisers.<sup>18</sup> Such a complete picture of how extractive institutions in one region had contributed positively towards development in other areas has not been given due significance in the AJR assumption of exogenous institutional transfers from coloniser to colonies.

## **2.2. Argument of Local People as Makers of their History**

So far, we have focused on the institutional diversity of the coloniser and its impact on the colonies; however, a more problematic puzzle that AJR story is unable to shed light on is that why do we find variation in institutional adoption even across colonies under same colonial administration? More precisely, why does one find regions that were both ruled under colonisers belonging to similar school of thought<sup>19</sup> show diversity in their institutional path and hence post-colonial outcomes? Such historical variety within colonies under the same colonial institutional exposure needs to be assessed in the light of emerging evidence using an interdisciplinary approach involving sociologists, economists, and historians' point of views taken together. The dynamics of indigenous populations in choosing their historical path and the strength of pre-colonial institutions as defining factors for such divergent colonial trajectories will be presented in more detail as below:

### **2.2a. Evolving Fit of Pre-conquest Institutions and Colonial Institutions**

AJR discourse builds on the premise of heavy settlement as a key element for positive institutional transfers from the metropolitan state to its colonial constituencies. However, the true process of colonialism and institutional impact involves more dynamism than has been accommodated in AJR methodology. So far, the discussion has focused on the diverse modes of colonialism and subsequent variation that existed across the institutional ideology of the colonisers at the time of conquest, and how their stance transformed with changes in technologies as colonial extraction intensified. However, to understand why such variation existed among the colonies under coloniser with similar institutional backgrounds, one needs to examine the key differences among the colonies taken under siege. In other words, it is not only the variation in the political economy of the metropolitan state that mattered but also the existing political and economic organisation of state being colonised at the time of the conquest and its institutional

<sup>17</sup>A quasi-feudal attitude toward the workforce in the phase of mercantilism kept the profitability on the high side for the early industrialists through various means (Mohaney, 2010). For example, profitability was kept high through biased policies within colonies in favour of commercial export agriculture (cash crops) against the subsistence food grain agriculture required for food security in colonies or through investments into the mining industry. Cheap slave labour was instrumental both because of its lower cost and also because the technologies at the time were not health-friendly (Fenoaltea, 1984; Fogel & Engerman, 1974). Hence, colonial extractive institutions under the technological frontier of the time when such practices took place, did play a vital part in the development of the global economy through creating favourable conditions for industrialisation.

<sup>18</sup>Colonial wealth directly helped in the process of industrialisation within Britain and Holland, not just financially but also in the form of cheap access to inputs such as labour, raw materials, and minerals (Stavrianos, 1981). In contrast, colonial extraction of Spain and Portugal indirectly supported the process of industrialisation not of themselves but other European countries like Britain, etc. since their population indulged in the consumption of industrial products produced elsewhere rather than their production processes at home.

<sup>19</sup>Similar school of thought in the sense that whether it is the phenomenon of settler or non-settler colonialism as emphasised in AJR description of history or distinction based on liberal or mercantilist paradigm as has come up in general literature.

complexity<sup>20</sup> also acted as a vital limiting factor for the path colonisers eventually took for their various colonies (Austin, 2008;<sup>21</sup> Frankema, 2010; Mohaney, 2010).

Population density of the colonies at the time of conquest not only reflected their intensity of resistance as stressed by AJR but also proxied their degree of hierarchy within their pre-colonial institutions—which has shown to define stakes for the liberal and mercantilist colonisers differently in literature. Complex society with a dense population and socially divided setup were in accordance with the institutional structure of mercantilist rulers (Mohaney, 2010, Frankema, 2010, p. 424). While on the other hand, a thin population base with no pre-colonial social stratification would require inclusive institutional reforms by the mercantilist colonisers (Mohaney, 2010). Hence, in territories where such pre-colonial base was present, it had acted as a shield towards the extractive mode of colonisation for the mercantilist administrations.<sup>22</sup>

Wherever colonisers with mercantilist orientation found already in place extractive pre-colonial structures i.e. slavery or huge tax base in the form of dense indigenous presence and institutional hierarchies, it gave them incentive to reinforce exploitative institutions. The congruence in such pre-colonial extractive institutions and mercantilist ideology had led to a deeper transgression in these societies.<sup>23</sup> On the other hand, for liberal colonisers, profit motives required participatory and market-oriented approach, but only where their immigrants have an edge of being settled in the new environment as a majority.

The stakes of liberal colonisers, hence, differed from coloniser with mercantilist ideology when facing thin versus dense surviving indigenous populations at the time of the conquest (Mohaney, 2010). Areas with sparse population had provided them with an opportunity to wipe out most of the indigenous population to overwrite the pre-colonial institutions with their free-market-oriented institutions through heavy settlements of their immigrants. On the other hand, dense surviving population with complex stratified pre-colonial institutions had acted as a disincentive for institutional spread in lines with liberal ideology since the cost of transforming the existing extractive institutions was

<sup>20</sup>Institutional complexity of pre-colonial societies as proposed in Mohaney (2010) thesis as the crucial feature of the extent to which colonisers could transfer obvious elements of their institutional setup into the new territory needs to be assessed taking into consideration political, economic and cultural formation of such societies as a barometer. The move from least to most complex societies has been judged by an anthropologist by assessing how politically there is a move from decentralised and non-bureaucratic governance to a centralised authoritative structure with complex patrimonial-bureaucratic controlling mechanism, economically from relatively non-specialised production techniques without division of labour to organised agriculture with advanced specialisation of labour with the use of coercive methods and finally culturally from a small homogenous population to stratified large populations with exploitative practices in place in terms of ethnicity and other social divisions (Flannery, 1972). Accordingly, by above criteria, anthropologists have characterised the pre-colonial societies into three levels of institutional complexity: among the least complex are those who have termed as hunter-gathering, herding, and horticultural communities, under intermediate levels comes those that have been referred to in the literature as chiefdoms or advanced horticultural societies and finally among the most complex societies comes those named as “proto-states,” states or advanced civilisations (ibid).

<sup>21</sup>Austin (2008) explains constraints within which colonial powers had to work given how pre-colonial institutions arose in the face of factor endowment proportion facing a region—more specifically land abundance view in case of Africa.

<sup>22</sup>This point is all the more relevant for mercantilist rule as it was structured around the exploitative mechanism and coercive labour as a tool for a profit-maximising rule.

<sup>23</sup>To make the point, let us rephrase the point that we are emphasising here that mercantilist coloniser had a good fit with those societies that had surviving dense native communities with already existing social, political, and economic divisions than in colonies where natives and their institutions have been decimated and marginalised (Mohaney, 2010).

higher especially in the presence of hierarchical indigenous base. Moreover, the possibility of developing their settlement to dominate demographics in favour of their settlers against the natives also seemed unlikely with surviving dense communities of indigenous people after their colonial victory.

The ultimate direction in which colonies under colonial administration with the mercantilist or liberal outlook from their home institutional legacy moved, hence, depended on the constraints put by the size of surviving native population and their pre-colonial organisational structures. However, the size and structure of the native population had a varied impact on the degree to which mercantilists and liberal colonisers would install institutional features to their acquired colonial territories (Mohaney, 2010). Therefore, the process of colonialism and development can be best explained as an evolving fit between the institutions of the colonising nation and those of the colonised territory, and it is this interaction that holds the key to post-colonial outcomes, which cannot be accounted within AJR framework.

### ***2.2b. Strategic Interplay of Various Stakeholders and Differential Institutional Course***

According to this viewpoint, it is not just merely the initial conditions at the time of colonisation as stressed in AJR thesis<sup>24</sup> but also the relative bargaining strength of various stakeholders within the colonies that had led to varied institutional path across colonies. A neat example of such a role of native agency in the historical evolution under colonial rule comes from the varied experience of areas under the direct and indirect rule<sup>25</sup> of same colonial administration. Empirical evidence in Banerjee & Iyer (2005) and Iyer (2010) confirms that colonies under the indirect control of British administration where native autonomy was maintained outperformed regions that were under direct control in terms of contemporary economic outcomes.

A relatively higher level of governance and homogeneity among population in Indian regions that had a history of being under indirect British rule indicated how colonial history emerging from the relative bargaining power of the natives and colonial administration can set the trajectory for institutional evolution (Banerjee & Iyer, 2005; Iyer, 2010). However, dynamics may vary from case to case as there is evidence of non-uniform impact of indirect colonial rule on post-colonial outcome in different regions (Frankema, 2010). Hence, generalised conclusions as to how indirect versus direct rule may have provided natives' stakeholders' reasons to influence colonial policies with a forward-looking developmental agenda should be inferred with caution, as the experience may vary depending on the strength of natives and colonisers' resolve in implementing effective institutional organisations.

More enlightening perspective to differential institutional development across colonies regarding the strategic interplay of colonial and indigenous elements comes out

<sup>24</sup>By initial conditions we mean settler mortality risks and native population density at the time of the conquest.

<sup>25</sup>Why direct or indirect rule was chosen by Britain in different parts of India may have depended on a number of factors such as what kind of pre-colonial institutions were present at the time of colonisation (Gazdar, 2011), what were geographical constraints (Morrison, 2006 or Engerman & Sokoloff, 1997) and also the requirements of colonisers at time of conquest (Mohaney, 2010). Since this is not our key concern so we will not indulge in this discussion here.

in Frankema (2010).<sup>26</sup> In this study, author investigates why three colonies namely Northern Rhodesia, Sierra Leone and Malaysia under the indirect rule of same colonial power and with somewhat similar geographical conditions show different institutional trajectories. To elaborate further, the study explains different patterns of land distribution (egalitarian or stratified) in terms of the strategic interaction of the various stakeholders involved in such process: the colonial administration, colonial settlers and native population.

The important finding that comes out from Frankema (2010) is that even though all these colonies were administered under indirect colonial rule of same colonial power, yet different land ownership patterns evolved across these regions. Establishment of coercive institutions with relatively greater distribution of land from natives to white settlers appeared in Northern Rhodesia. In Sierra Leone, Europeans settled to a smaller extent despite evidence of its friendlier disease ecology and subsequent lesser mortality risk for the settlers.<sup>27</sup> Similarly, Malaysia, even though possessed very similar geographical and organisational structure in the pre-colonial rule as Northern Rhodesia and Sierra Leone but once under the indirect control of colonists showed the presence of higher land inequality than Sierra Leone. The prime reason for these divergent patterns as per analysis in Frankema (2010) was found in how natives were placed against colonial rule in each colony with highest degree of their relative strength in Sierra Leone and lowest in Northern Rhodesia. (Frankema, 2010).<sup>28</sup>

Hence, in the above framework of Frankema (2010), the comparative evidence of three colonies with somewhat similar ecological conditions and hence similar disease environment for settler<sup>29</sup> becomes an effective tool to highlight the role of political economy aspects in the institutional evolution. Such an adjustment of indigenous voice and how colonists adapted their policies to keep social and political support for the smooth functioning of their rule cannot be feasible in AJR theoretical insight of exogenous imposition of extractive or inclusive institutional base in response to disease environment and native population density.

### **2.2c. Use of Indigenous Forces to Support Institutional Course**

AJR's description of colonial history missed the role of pre-colonial institutions and how it impacted the institutional choice of the colonisers in due course of their colonial rule. So far, in the discussion above, we have highlighted how pre-existing

<sup>26</sup>This evidence has importance because in its analysis, Frankema (2010) compares colonies that were under same colonial administration, all were under indirect rule and all had very similar geographical and pre-colonial organisational structures. Hence, author in this study is able to control all these factors while comparing different degrees of native agency relative to colonial hold within these colonies and its impact on land inequality. Most of other evidence is not able to control for these factors rather their evidence captures impact of differences in pre-colonial geographical factors on the divergent institutional ends such as in Morrison (2006) or Engerman & Sokoloff (1997). Hence, the evidence of Frankema (2010) is unique since it isolates the impact of strategic interplay between natives and colonisers from other plausible reasons- an analysis we did not find in other works on understanding colonialism.

<sup>27</sup>This pattern of restricted European settlement despite minute mortality risk for the settlers in Sierra Leone provides evidence against the AJR premise.

<sup>28</sup>The strength of colonial hold on Malaysia was relatively more than that in Sierra Leone but remained much limited compared to Northern Rhodesia, as can be inferred by the import of labour from India and China to work on Malaysian plantation than the use of native Malay population. This shows that colonists found it profitable to import labour to meet labour scarcity in Malaysian colony than bear risk of conflict with natives in case of imposing coercive practices of forcing the native population (Frankema, 2010).

<sup>29</sup>To remind settler mortality is a vital source of identification in AJR research.

indigenous institutions interacted with the mercantilist and liberal orientation of the colonisers to produce limitations on the colonial institutional action. However, here we will follow the same discussion with a different angle.

Apart from evolving fit of pre-colonial social organisations and colonial institutional ideology, our focus in this section will be on how the forces emerging from within the indigenous pre-colonial setup had acted as defining factors for the colonists. To be specific, here the constraints imposed on colonist's institutional pursuit, especially in case of African history will be evaluated in the form of local will of native agency.<sup>30</sup> Further, British colonisation of Indian subcontinent will be used as a case study to highlight tangible limits in terms of local traditions and pre-colonial treaties and how their violation had the power to not only jeopardise the colonial hold but also affect their revenue collection objective adversely (Wilson, 2016).

As discussed in the previous section, colonial powers did use the extractive institution of slavery to their advantage to fill up the labour shortages at minimal prices in their countries or colonies elsewhere in terms of brutal intensive use of African slaves (Manning, 1990, Fenoaltea, 1999). Access to cheap labour for European powers in the form of slavery did act as a vital stimulant to their initial growth takeoff (Inikori, 2002). However, it is crucial to understand European hold in choosing the extraction rate of material and human trade in the African continent.

AJR conceptual formation becomes questionable once African colonial experience is evaluated taking colonialism in its true spirit of territorial control, which raise some interesting loopholes in AJR account of history. Indulgence in African slave trade by Europeans was documented as either an act of raiding as in initial European ventures or through formal dealing with African slave merchants (Dike, 1956). Slaves acquired through raids can be characterised as a crime or defiance of a country's sovereignty. While the slaves acquired through the act of purchase becomes a matter of trade between local African slave traders and their European counterparts (Iliffe, 1995; Fenoaltea, 1999).

Moreover, if European indulgence in the slave trade with Africa is considered as part and parcel of colonialism and its extractive institutional legacy according to AJR, then how can the existence of historical links between Arabs and African slave trade and its impact on institutional course for Africa can be accommodated within AJR reasoning? If such an act of buying African slaves by non-European countries has not been described as a form of colonialism in literature, then AJR notion of European extraction in Africa becomes a valid contradiction to historians' point of view on colonialism.

The historical evidence shows European colonial powers had no means to control slave trade rather their indulgence into African slavery was only through the ability of their traders to deal effectively with local African traders (Thornton, 1998: pp.100–101, pp. 114–116). Hence, the local pre-colonial institution of human pawning and the will of local African chiefdoms to sell their acquired slaves played an important role in the establishment of extractive institutional formation for African continent rather than the institutional transfer from the European colonial powers.<sup>31</sup>

<sup>30</sup>Here it is important to note that in AJR framework, pre-colonial practices of slavery has been counted as part of the colonial extraction in Africa. Hence, under AJR application, it is assumed that European colonisers' had some sort of control on slave supply from Africa.

<sup>31</sup>We should rather use the term imperial powers here as colonialism in literal definition apply to conquered dominance, which occurred to much-limited degree and for a much shorter time in African continent than others.

Further, we do have evidence where local chief lords had restricted their slave trade in response to their local conditions as was seen in case of kingdoms of Benin and Kongo that were among the main initiators of trade in humans to Portuguese (Thornton, 1998, pp. 110–125). This suggests that Europeans were in no means to influence the rate of extraction whether politically, economically or militarily in most of the colonial history which run counter to AJR theme. Further, the AJR notion of higher settler mortality rate leading to higher extraction cannot readily be applied in this context as Europeans faced higher deaths was not merely through disease environment but also in consequences of higher African resistance (Thornton, 1998, pp. 36–40). Hence, in such cases, African resistance not only limited the European interference in terms of their extractive practices but also provided grounds for African agency to choose the rate of extraction for their region themselves wherever and whenever they willingly sold their people to Europeans.

Coming to the second part of the argument that besides the indigenous participation in choosing their institutional path as had been seen in the case of Africa, the local traditions and pre-colonial treaties also sometimes acted as a binding constraint. Let us explain this point in context of Ryotwari land settlement that was enacted simultaneously in different parts of British India such as Sindh, Madras, Bombay and Bengal presidencies; however the institutional impact in Sindh was totally in contrast to other three regions due to certain pre-colonial practices. The reason was institutional discrepancy across these regions resulted from how British administration defined Ryot<sup>32</sup> differently in Sindh and other regions.

Given, in Sindh, there existed an intermediary namely Zamindars—the tribal landlords that were traditionally entitled to receive one-sixteenth of the crop as a tax called laapo for investing in cultivating land through irrigation and for protecting the hari—the actual cultivator of land in difficult times. Due to existence of already in place traditional revenue apportioning system, colonial administration in Sindh decided to deal directly with these zamindars and declared them as the Ryot under the implementation of the settlement rather than the Hari who despite being original cultivator was treated merely as a serf. This preserved the power structure in favour of large landlords in British Sindh. In contrast, in Madras, Bombay and Bengal, the property ownership rights were given to actual cultivators leading to the establishment of individual rights and homogeneous society (Gazdar, 2011, pp. 11-12).

Though, Ryotwari land settlement was enacted in all these regions, yet its institutional impact differed in terms of how such regions evolved the land distribution patterns in consequence of being awarded property rights claims differently due to pre-colonial initial conditions.<sup>33</sup> Therefore, not only has the indigenous will to accept

<sup>32</sup>Ryot by definition means the cultivator of land.

<sup>33</sup>Why different forms of pre-colonial institutions emerged in India? Was it because geography of these areas that guided different pre-colonial practices in Sindh than elsewhere or something more. Indeed, geography can play an important role in emergence of certain pre-colonial institutions. For example, Marx explains extractive pre-colonial taxation system in India as a natural course due to certain geographical factors (Kohn & Reddy, 2017). As per his analysis given India's agricultural productivity was linked to large-scale public works such as irrigation, hence oriental despotism was bound to emerge since only a centralised state could finance such an activity. However, given this research question is independent than what is being addressed here, hence we will not indulge into this debate here. Rather what we are trying to do here is to argue that this is the case where we indeed find evidence of the pre-colonial institutional setup leading the Britain to opt for empowering different groups. And hence institutional path taken by them in India should be at best considered as the evolving fit of pre-colonial and colonial institution.

colonial policies had acted as a limiting force for colonial institutional impact as was highlighted through African experience but also the pre-colonial traditional settlements among the indigenous populations defined the route colonists<sup>34</sup> took in their institutional choices in case of Indian subcontinent under British colonialism.

### **2.2d. Importance of Native Agency in Choosing their Historical Path Post-colonial Exposure**

AJR notion of the external imposition of institutions by European powers builds on observation of the inverse correlation between mortality rates of the European settlers and the establishment of European-style inclusive institutions. Accordingly, in densely populated colonies that provided a much better avenue for extractive practice<sup>35</sup>, colonial administration chose rent-seeking instead of preferring the participatory institutions. Hence, above line of reasoning by AJR maintains emergence of institutions in colonies as a choice of the colonial governments given the conditions for European settlement, negating any role of the native historical agency under colonial rule in influencing their institutional path. Such a thesis is very strong for a historian perspective and can easily be nullified through historical anecdotes. Theoretically speaking, even in most extractive colonial rule, its mere continuation had required local support whether through support of corrupt locals or through the compromises with locals to avoid revolt.

Coming to the first point, among a few such channels that prove the historical agency of local people as identified in the previous sections are twofold. Firstly, in the context of how variation in pre-colonial institutional organisation defined the limits and incentives differently for settlers and non-settler colonialism within mercantilism and liberalism paradigms in the colonial exposure (Mohaney, 2010). And secondly, in terms of how pre-colonial treaties or social organisation had made colonists adjust their system of property evaluation for revenue collection differently (Gazdar, 2011). But more importantly, for our argument here is to go beyond above channels to look at how colonisers looked for a match with pre-existing exploitative social structures to identify corrupt native elites as a way to strengthen their hold (Mohaney, 2010). Therefore, local political will to submit to colonialism also came from forces within the colonised region at some level which needs due recognition.

Also just as a will to submit to colonial rule was present in some segments of population, so was resistance against such rule which has an important role in protecting their natives business and properties too. For example, the influence of native's resilience can be seen through survival of native production in Southern Rhodesia, and Kenya despite the colonial pressure of pushing the labour out of their own production into the labour market or the emergence of world's most prominent cocoa belt in Ghana during its colonial subjugation served as an example of how indigenous forces organised for interests against colonial extraction (Mosley, 1983; Hill, 1963). Similarly, the establishment of Northern Nigeria under British colonial rule as a prime exporter of peanuts and not of raw cotton as was intended under colonial enterprise to support their textile industry, again present the case of native agency (Hogendorn, 1979).

<sup>34</sup>Account of British colonialism of India in Wilson (2016) show that the colonial administration did start at to replace local negotiation and mutual obligations between landlords, peasants, and the officials at some point but that led to conflicts and riots destabilising their control on India. Wilson (2016, p. 80., p. 101, p. 233 and p. 293).

<sup>35</sup>By extractive practice what is implied here is forced labour or higher tax rates.

Decimation of local's industries to avoid competition was a common practice within British colonialism, for example, consider the case of marginalisation of textile industry in Egypt and India (Stavrianos, 1981, Bagchi, 1984, p. 82 and Tharoor, 2017). Further, in case of India, analysis of how local Indians took back almost all businesses and industries from the expatriate companies in Eastern India by 1950 show that this process did not happen overnight. Rather it was case of proactive native resistance that had started around the time of First World War (Ray, 1979, Tomlinson, 1981). Hence, it will be not wrong to infer that wherever the natives had kept their production processes in their control under colonial rule does indeed reflect their coordinated agency in protecting their businesses from expropriation of foreign companies as is evident from colonial experiences of Southern Rhodesia, Kenya, Ghana and Northern Nigeria (Mosley, 1983; Hill, 1963; Hogendorn, 1979, Austin, 2005, 2007).

Therefore, the point that needs its right credit from a historian perspective and which has been hidden within AJR methodological simplification of a complex historical issue of colonialism and its impact is that even in most exploitative colonial rule, the indigenous support forces at one level had acted as a backbone to the feasibility of that imposed external administration and at other colonial policies could be slow but eventually did adjust to seek general political acceptance of the indigenous masses for their rule (Tomlinson, 1981).<sup>36</sup> For example, the property rights mechanism that was established within the colonial rule for whatever colonial objectives of tax base records, did respond to limits set by local opposition to changes. A case to this points to the differential imposition of land rights in Sindh and Bengal within British India following the local will of powerful groups (Banerjee and Iyer, 2005; Gazdar, 2011, pp. 11-12).

Hence, it is quite feasible that colonists who intended to establish certain institutions which reflected their setup in the metropolitan base could not implement or if implemented were reversed in congruence with past pre-colonial legacies and existing mistrust of indigenous masses for the colonial administration culminating into organised resistance from natives against the colonial hold (Wilson, 2016). Example of this can be found in Mutiny of 1857 in British India which was evidence of local resistance to British administration that became a coordinated force by 1919 or continuation of indigenous property rights systems as done in some African colonies cited above in face of local support for such a system. Hence, colonial administration could be slow but eventually found in their interest to compromise keeping in view political and economic will of their subjects, and such examples of a shift in colonial policies to adjust the indigenous agency blur the AJR implication of external institutional transfer dependent only on colonial power's motives based on settlement criterion.

<sup>36</sup>The expatriate businesses of Eastern India that were operating as monopsony in context of internal trade and dominating most of foreign trade from the region till 1900 lost most of their businesses to local Indians by 1950's as Indian support for the colonial rule started to diminish (Bagchi, 1971). The analysis in Tomlinson (1981), show that many factors played their due role. But one thing that was most dominant included how the political uncertainty that followed post increased native resistance against the colonial rule de-incentivised these expatriate companies to limit their expansion into new fields such as sugar and cement. This not only opened avenue for native entrepreneur to fill the gaps but also build up finances to later expand in other industries such as paper, chemicals and machine tools etc.

### 3. CONCLUSION

Our critique on Acemoglu, Johnson, and Robinson's (2001, 2002) does not undermine the significance of their findings in any way. We, in our research, maintain that the ingenuity of AJR research lies in its use of unique instrumental variable found through the impact of settler mortality rates on the kind of institutions they placed which could not have been possibly affected by current growth outcomes. Hence, in the above context, not only their grasp on econometric tools is admirable but also their explanation as to how growth-enhancing institutions appeared in some parts of the world and failed to emerge in others is of crucial importance.

However, in our analysis, we show that AJR assumption of exogenous imposition of colonial institutions based on conditions for their settlement is too strong for two reasons. First, one account for the impact of Atlantic slave trade on colonial metropolitan states in terms of technological frontier and how home institutions evolved, it brings forth first source of endogeneity. That is how such dynamics had defined the incentives for mercantilist and progressive colonialism differently for European colonial powers especially the ones that have embarked on industrialisation. And secondly, we find that imposed colonial institutions on the colonies can only be best described as an evolving fit between colonial and pre-colonial institutions with a defining role of native agency in sustainability of the final outcome. Hence, some degree of endogeneity did exist where conditions in colonies other than those related to settlement for the colonisers had indeed played an important role in defining the institutional path taken by colonial powers within their colonies.

Our findings have meaningful implication in the context of how foreign aid often termed as means to impose neo colonialism/imperialism functions in developing countries. Just as in case of our analysis, pre-colonial institutions set-up of colonies defined the trajectory of colonial rule, in case of foreign aid the institutional weaknesses of the developing countries which often are rooted in their colonial past serve as the cause of aid inflows in its first stage and as source of further weakening of their institutions in its second phase. This creates a recurrent need to look out for aid and loans in such developing countries undermining their long-term future growth prospects.

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