Policy-oriented Study of the Asian Developmental State and Poverty Reduction: Going Beyond History

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Introduction

The development experience of East Asia since 1945 has few rivals in the Asia-Pacific region. Indeed, few countries anywhere in the world achieved the rate of industrial growth and poverty reduction seen in this region, which comprises the newly industrializing countries (NICs) of Northeast – South Korea, Taiwan, Hong Kong and Singapore – and Southeast – Indonesia, Thailand and Malaysia – Asia. The statistics tell the story. The four original NICs of the Northeast grew on average at an aggregate annual rate of 8 percent between the 1960s and 1990s. These societies also managed to secure various social improvements, such as lower infant mortality, greater life expectancy and higher educational achievement, while achieving rapid industrialization.[1] The second-generation Southeast Asian economies also achieved high economic growth – averaging 6 percent per annum over the same period – while diversifying their economies through export-led productivity.[2] The effectiveness of these economies in terms of growth, industrial diversification and poverty reduction, in terms of both income measures and social development, is a striking accomplishment in recent world history.

Unsurprisingly, the comparative success of East Asia invites much policy-oriented analysis and scholarly debate. Many of these enquires diverge in their premises, methods

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[1] Chang 2003: 106-109. Life expectancy increased in South Korea from 58 years in 1965 to 70 years by the early 1990s. The ratios for Taiwan are 59 years to 74 years in the same period. Pempel 1999: 156.

[2] Jomo 2001: 4. For further statistics, see Pempel 1999: 148.

and conclusions. Nonetheless, most seek to answer the following general questions: What explains the East Asian 'miracle'? How should we assess the miracle in terms of the ability of other countries to *replicate* this experience, the *desirability* of its model of transformation and its *necessity* for achieving sustainable human development? Finally, what lessons emerge for the future?

This paper addresses these questions by providing a comparative historical survey of North- and Southeast Asia vis-à-vis India in the post-1945 era. It provides a macro-level analytical map of the politics, economy and society of these sub-regions. In particular, it focuses on the notion of the 'developmental state' to explain their divergent trajectories of development. In contrast to previous analyses of the developmental state, however, which disproportionately focus on the policies and institutions that characterize developmental states, this paper focuses on the role, importance and limits of *politics* in understanding the vicissitudes of development in these countries. In other words, it analyses how the struggle for and exercise of power between competing social interests, in domestic, regional and international arenas, is crucial to understanding the relative success or failure of particular social and economic policies and institutional arrangements related with developmental states. In doing so, it analytically distinguishes the role of policies, institutions and politics in determining important development outcomes, yet simultaneously demonstrates the nexus between these factors.

The argument proceeds in the following manner. Part 1 surveys the debate between orthodox liberal explanations of the miracle and more revisionist accounts. It demonstrates the superiority of the latter and explains in detail the policies, institutions and politics that characterized the developmental states of East Asia, particularly the Northeast. Part 2 compares India's attempt to establish a developmental state and analyses the reasons for its relative failure. Part 3 appraises various critiques regarding the replicability, desirability and necessity of the developmental state experience in East Asia. In particular, it addresses the impact of Cold War politics, repressive authoritarian regimes and extensive state intervention for understanding the comparable policy effectiveness of various developmental states in East Asia. Part 4 reconsiders the Indian experience over the last two decades, illustrating the importance of subnational variation within any developmental state; the possibility of reconciling democracy with rapid economic growth, industrialization and poverty reduction; and how state-society relations may change over time. The paper concludes by recapitulating the lessons of developmental state experience in the Asia-Pacific region and examines the implications of this experience for future development strategy in an era of increasing economic globalization.

1. Explanations of the East Asian 'Miracle'

1.1 The conventional view: a summary

Conventional accounts of the East Asian miracle seek to explain its achievements through the prism of standard neoclassical economics. According to most standard explanations, liberal economic policies account for the ability of these countries to achieve unprecedented rates of industrialization and poverty reduction in the post-WWII period. Three broad issue-areas receive particular notice. First, the decision of many countries in East Asia to shift from a model of import-substitution-industrialization (ISI) to export-oriented-industrialization (EOI) compelled these economies to submit to the discipline of international trade and to court foreign investment, leading to a virtuous cycle of growth, industrialization and poverty reduction.[3] Openness to trade and the rationalization of exchange rates spurred a more efficient allocation of scarce resources, maximized the

[3] See for example Balassa 1971, and Fei and Rainus 1975; cited in Chang 2003: 111.

comparative advantage in labor-intensive activities and facilitated movement up the product cycle. Second, a commitment to prudent macroeconomic policies – maintaining low inflation, curtailing the fiscal deficit and maintaining a competitive exchange rate – created incentives for business and industry to invest in economic activities with relative certainty. Third, massive public investment in education and training, basic health and physical infrastructure, and successful land reform in the countryside, established the conditions for well-functioning markets to operate. The expansion of basic primary education provided the foundation for increasing labor productivity, a more flexible workforce and enhanced human capital. Specialized vocational training in fields of engineering, industry and science created a highly skilled workforce in economic sectors that were critical for rapid industrial transformation. Improvements in basic health care enhanced the longevity and quality of life, and increased the productivity of the workforce. High levels of public investment in critical physical infrastructure – the development of roads, ports, rail, telecommunications and power – facilitated the integration, expansion and functioning of markets in a trade-oriented economy. And land reform in the countryside, in conjunction with a commitment to private property rights, promoted a dynamic form of smallholder peasant agriculture. It expanded agricultural commodity production, increased the supply of raw materials and wage goods necessary for industrialization and spurred the process of capital accumulation and market expansion.[4] In short, a market-based strategy of industrialization explained the East Asian miracle.

Perhaps somewhat ironically, commentators sympathetic to the neoclassical view also stress the importance of particular social factors; specifically, the role of culture. Many highlight the importance of Confucianism in instilling an ethic of hard work, respect for

[4] Evans 1987: 214; Chibber 2003: 15.

education and collective discipline.[5] They tend to attribute the 'efficient, independent and accountable' bureaucratic administrative structures of these countries either to their collectivist ethic as well, or to the minimal capitalist state and deregulated market economy that ostensibly characterize them.[6] Indeed, the preceding arguments often lead to the more general claim that the miracle was 'almost entirely due to good policies . . . the ability of the people . . . and strong, stable government'.[7] The view that liberal economic policies unleashed the natural propensities of these societies to achieve rapid economic growth, industrialization and poverty reduction influenced official development thought until the 1980s.

1.2 The conventional view: a critique

The actual development experience of North- and Southeast Asia, however, compels us to reconsider the conventional neoclassical view. Indeed, in many instances the realities of the miracle undermine many neoliberal claims. This is evident in examining the economic policies of the East Asian NICs. First, the willingness of many of these countries to take advantage of international trade opportunities and foreign technology played a critical role in their development. However, contrary to orthodox economic advice, which champions a static notion of comparative economic advantage that focuses on allocating scarce resources according to market price signals, many of these states achieved a form of *dynamic* comparative advantage by 'getting prices wrong'.[8] Notwithstanding the city-state of Hong Kong, most of these countries pursued an industrial policy in which the state directed the

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[5] Chang 2003: 110. Some also focus on the relative ethnic homogeneity of countries like South Korea as a contributing factor.
[6] Leftwich 1994: 371.
[7] I.M.D. Little as quoted in White (n.d.): 102.
[8] The classic argument is Amsden 1989.

economic decision-making of private firms and granted various subsidies to help nascent enterprises compete in the international arena. Moreover, the importance of foreign direct investment as a source of growth was primarily limited to the city-state of Singapore.[9] In most cases, the switch to a strategy of EOI occurred after a period of ISI, which granted sufficient time to emerging industrial sectors to become competitive.[10] Indeed, as the following section illustrates, the decision to intervene in economic decision-making was not limited to the external sector. These various interventions amounted to a strategy of 'governing the market'.[11] Second, macroeconomic stability was important. Yet fiscal prudence, backed by the capacity of the state to collect tax revenue, co-existed with levels of inflation that averaged between 10 to 20 percent – relatively high by neoliberal standards.[12] Third, high public investment in education, health and infrastructure were certainly important factors in reducing the level of poverty and expanding the possibilities of industrialization. Yet conventional accounts fail to explain *how* these measures were achieved – a crucial omission given the difficulty of mobilizing adequate savings in many developing economies. Similarly, given the difficulty of restructuring social relations in the countryside, such accounts fail to explain the factors that enabled land reform initiatives to succeed. Characterizing egalitarian asset distribution as a favorable 'initial condition', as mainstream accounts often do, ignores the processes that caused such an outcome to occur.[13] In short, orthodox economic accounts of the miracle either neglect or misconstrue the role of the state in spurring trade-oriented dynamism, and fail to explain how the state overcame the

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9 Haggard and Cheng 1987.
10 Evans 1987: 211.
11 The phrase is the title of Wade 1990.
12 The figures are for South Korea in the 1960s and 1970s but reflect a general trend. Chang 2003: 114.
13 DeLong 2003: 195.

classic difficulties associated with generating national savings, investing in essential public goods and redistributing economic assets.

Conventional explanations that highlight the contribution of peculiar sociological characteristics of North- and Southeast Asia also encounter numerous difficulties as well. Values, ethics and ideology quite often influence particular development trajectories. The appeal to Confucian social values lends itself too easily, however, to essentialist, ahistorical or Orientalist interpretations that obscure the role of other potential variables. Taken by itself, it also fails to explain why previous scholars viewed Confucianism as inimical to entrepreneurship, risk-taking and innovation.[14] Hence the need to treat these considerations with greater care.

Finally, the conception of governance, administration and the state that informs the standard neoclassical view suffers from two major shortcomings in trying to explain the miracle.[15] First, the presumption that a relatively efficient, independent and accountable public service requires a minimal regulatory state jars with the actual experience of the region, particularly in Northeast Asia. The economic bureaucracies of these states, noted for their relative competence, experience and influence in directing complex development strategies, went far beyond the minimal regulatory functions ascribed by neoliberals to 'good government'. Second, most of these bureaucratic structures were embedded with authoritarian political regimes; their accountability was partial to certain elite groups. Finally, purely administrative notions of good government fail to address the structure, capacity and purposes of the state, its relations to major social actors and the politics that sustains these relations. Resolving these fundamentally political challenges is a prerequisite to establishing

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[14] Akyuz, Chang and Wright 1998: 23. Jomo (2001: 5) also notes how, for example, the Kuomintang was driven out of China partly due to their incompetence and corruption.
[15] Leftwich 1994: 372-4.

these desired administrative structures. Yet many advocates of good government fall prey to the technocratic fallacy of separating the issue of administration from deeper political questions regarding the structure of state-society relations in particular countries. In short, the notion of governance prescribed by neoliberal accounts represents a deeply apolitical and idealized self-image of the West, projects a singular conception of governance that distorts the reality of the 'miracle' and limits our understanding of how different forms of governance might prove effective in developmental terms.[16] Understanding the complexities of the miracle, in other words, requires us to transcend the limitations of the conventional view.

1.3 The revisionist view: policies, institutions and politics of the 'developmental state'

The failure of neoclassical theoretical models to adequately explain the trajectory of development in much of North- and Southeast Asia led to several revisionist accounts in the 1980s and 1990s. Most of these accounts comprise individual country studies that noted their differences vis-à-vis other particular cases. To put it simply, no single model fully captures the diversity of experience in East Asia.[17] Nevertheless, the *relative* similarity of the policies, institutions and politics of their experiences, particularly in Northeast Asia, and major underlying principles of intervention shared by these countries as a whole, suggests an alternative conceptual paradigm, which many have christened the 'developmental state'. In brief, these revisionist analyses demonstrate how the presence, capacity and effectiveness of a developmental state apparatus catalyzed large-scale industrial transformation and poverty

[16] Doornbos 2001. For an analysis of how the World Bank sought to maintain the neoliberal paradigm of development against challenges to it by the East Asian experience, see Wade 1996.
[17] For instance, Taiwan developed a large public sector; South Korea favored large business enterprises; Japan had a more consultative association with business than Taiwan or South Korea. See Akyuz, Chang and Wright 1998: 6-7. For a more sustained comparison, see Jomo 2001: 3-6; and Pempel 1999: 149-152.

reduction associated with the miracle. To some extent, the developmental state thesis recalls earlier diagnoses of greater state involvement in European trajectories of 'late development'. Nevertheless, the theory of the developmental state amounts to a new *Statswissenschaften*, or 'state science' of 'late-late development'.[18]

Most revisionist accounts of the miracle focus on the heterodox economic policies of Northeast Asia. In general, their policy frameworks exemplify many of the tenets of 'new institutional economics': the ways in which effective state intervention can improve market coordination, reduce transaction costs, stimulate increasing returns to investment, promote dynamic efficiency and generate endogenous growth.[19] Three areas attract particular attention. The first concerns trade policy, foreign investment and capital movements. Trade was a motor for development. It expanded the potential market, compelled these economies to become competitive in the international arena and provided scarce foreign exchange to buy capital imports necessary for industrialization. However, the export strategy pursued by these states departed in significant ways from conventional neoliberal mantra. Government support of various kinds was critical to its success. Most of these states provided targeted, phased and strategic subsidies to private economic actors in exchange for export performance targets negotiated on an annual basis.[20] These subsidies took different forms in various countries: tax exemptions, special depreciation allowances and export permits, to name a few. Moreover, all of these states protected nascent business enterprises at an early critical stage of labor-intensive industrialization, lowered trade barriers in a gradual manner and screened the acquisition of technology to maximize spillover effects and domestic learning. The maintenance of dual exchange rates helped these interventions by making

[18] Woo 1999: 16. The classic statement regarding the role of the state in late European development remains Gershenkron 1962.
[19] See Chang 1999.
[20] See Amsden 1989.

exports more competitive and reducing the cost of necessary capital imports. Lastly, most of the Northeast Asian NICs imposed severe restrictions on the outflow of capital.[21] Thus, in contrast to the neoliberal paradigm, they pursued an open but strategic approach in the realm of trade and technology; set the terms for foreign direct investment in a selective manner; and maintained firm restrictions on capital movements.[22]

The second principal realm of intervention of these developmental states concerned financial, competition and fiscal policy – the key domain for many observers. Most nationalized their banking sectors to maintain firm control over interest rates and allocate credit to strategic sectors and firms at concessional rates. They also regulated investment decisions – managing inter-firm competition, encouraging mergers and cartels, and restricting entry in particular sectors to specific firms – to avoid coordination failures and align private investment decisions with high social returns.[23] These interventions boosted corporate profits, allowed particular actors to corner market share and led to 'learning by doing'.[24] These increased profits were often reinvested to boost industrial competitiveness. This was partly because of the powerful disciplinary effect of providing government subsidies in exchange for good economic performance. But it was also due to direct government restrictions on the consumption, import and production of luxury goods, and indirectly through high taxation and limited consumer credit that influenced patterns of expenditure.[25] Hence the emergence of comprehensive business conglomerates – such as the *chaebol* in South Korea – which diversified economic risk, entered low-end foreign markets and supplanted the need for multinationals.

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[21] Singh 1995, cited in Akyuz, Chang and Wright 1998: 6-7.
[22] Chang 2003: 115.
[23] Chibber 2003: 17.
[24] See Amsden 1989.
[25] Akyuz, Chang and Wright 1998: 5-8.

The third major realm of developmental state intervention concerned human capital formation, physical infrastructure and the agricultural sector. These developmental states expanded primary education through massive government investment to create a literate, skilled and mobile workforce. National training programs in higher technical subjects increased the capacity for innovation and imitation that late-late development requires.[26] They also devoted considerable public resources to physical infrastructure – the extension of road, port, rail, power and telecommunication systems – to expand markets and spur rapid industrialization. Finally, these states frequently carried out serious land reform.[27] The most dramatic initiatives of large-scale redistribution occurred in South Korea under the Rhee administration and in Taiwan under the Kuomintang. The effects of such interventions were far-reaching. The redistribution of land to the tiller improved asset ownership in the countryside. The shift in landholding patterns, combined with government support for the use of high-yielding seeds, fertilizers and irrigation, and the stabilization of tenancy arrangements, promoted a more dynamic form of smallholder peasant agriculture. The resolution of the 'agrarian question' boosted the capital accumulation process integral to industrialization.

Significantly, as the preceding discussion shows, the linkages between these economic policy realms were as important as the particular interventions themselves. Indeed, the heterodox policy frameworks of these developmental states created positive synergies and spillover effects. To give a few examples: a selective industrial policy was vital to spur trade competitiveness; massive public investment in education, health and infrastructure was a precondition for business innovation, industrial linkages and economic

[26] See Amsden 1989.

[27] The following paragraph draws on Evans 1987: 214. Land reform initiatives were limited in the city-states of Hong Kong and Singapore.

competitiveness; extensive land reform laid the foundation for greater social equality and stimulated capital accumulation processes necessary for industrialization. Hence the claim that a composite development approach was an integral part of the East Asian miracle.

However, the success of these heterodox policy decisions relied on the existence of effective *institutional* structures, a crucial pillar of all developmental states. Three deserve attention in particular. First, a coherent, skilled and well-developed economic bureaucracy with the authority to formulate, execute and implement economic policy decisions characterized these states. Several factors contributed to the high institutional capital of these bureaucracies: recruitment by merit, good salaries, strong internal norms and sanctions against misconduct and corruption, and rewarding career paths.[28] Furthermore, the relative autonomy given to high economic policy-making shielded these bureaucracies from the immediate pressures of everyday politics, while the continuity of personnel led to knowledge accumulation.[29] It enabled the elite mandarins of the state to promote a long-term development strategy. Second, most of these states established a nodal agency to coordinate the workings between different bureaucratic segments, and with private economic actors. A coherent bureaucracy is a necessary but insufficient factor to spur late-late industrialization. The latter also requires a higher bureaucratic rationality to ensure an integrated strategy of investment, production and consumption for the whole economy.[30] Paradigmatic examples include the Ministry of International Trade and Industry (MITI) in Japan, Economic Planning Board (EPB) in South Korea and Economic Development Board (EDB) in Singapore. Lastly, the establishment of formal organizational links and informal personal networks between government and business, such as deliberation councils and policy study

[28] See Evans 1996.
[29] Akyuz, Chang and Wright 1998: 25.
[30] Chibber 2003: 20-21.

groups, 'embedded' the state within society.[31] Strong government-business links exerted a powerful disciplining effect. The provision of subsidies in exchange for good economic performance, supplied by a relatively well-paid and coherent bureaucratic apparatus, ensured that businesses would follow government imperatives. It simultaneously prevented the sub-optimal rent-seeking outcomes predicted by neoclassical economics and increased business profits, which were reinvested to boost industrial competitiveness. These public-private partnerships also enabled private economic actors to relay critical information to the state regarding the design, coordination and implementation of economic goals, policies and strategies. The result was a form of 'alliance capitalism' between the business-industrial complex and the state.[32]

Finally, both the heterodox policy framework and robust institutional apparatus that mark developmental states rested on several *political* characteristics that defined these states and their relations with society.[33] First, most were either *de jure* or *de facto* one-party states. The former included the establishment of the 'New Order' by Suharto in Indonesia in 1966, the military regime in Thailand in 1932, the Kuomintang in Taiwan and the countervailing Maoist regime in China in 1949, and the respective political regimes of Rhee and Park in South Korea in 1953 and 1960. Amongst the latter were the People's Action Party (PAP), which dominated the politics, economy and society of Singapore even before its independence in 1965, and the United Malays National Organisation (UNMO), which comprised an alliance of ethnically distinct parties reflecting the highly plural society of Malaysia in order to contain inter-group conflict. These effectively single-party regimes bestowed a degree of relative political stability to formulate long-term plans. The presence

[31] The classic statement is Evans 1995.
[32] See Wade 1990.
[33] Leftwich 1994: 378-381; and Leftwich 2000: 175-190. See also Pempel (1999: *ff* 144), although he identifies several of the following characteristics as 'socioeconomic' rather than political.

of a powerful ruling elite, composed of military, political and bureaucratic elements with dense interpersonal ties, helped to steer the state. Second, nationalism, a sense of threat vis-à-vis perceived respective enemies, the ideology of development-as-industrialization and a strong desire to catch up with the West instilled a unity of purpose amongst these elites. Fear of communism in China and North Korea, and of the dominance of the West, spurred the construction of capitalist developmental states in South Korea and Taiwan and furnished a justification for the demanding popular sacrifices imposed by these regimes upon their societies.[34] The separation of Singapore from Malaysia created a similar competitive dynamic for survival in both countries.[35] Thus 'passions' were as important as 'interests'.[36] Third, war, conquest and revolution provided relative political autonomy to these developmental elites. Events of massive social dislocation helped to consolidate their rule vis-à-vis traditional landed interests, the national bourgeoisie and foreign capital.[37] In some cases, such upheavals displaced configurations of power amongst traditional interest groups, creating an opening for state ascendancy. The manner in which the South Korean elite inherited the colonial state apparatus following the collapse of the Japanese empire illustrates this well.[38] In others, the relative prior weakness of these social classes merely intensified. The experience of Taiwan, where the Kuomintang dominated a small and weak domestic capitalist class, simultaneously limited and tainted by Japanese rule, is a striking example.[39] Fourth, the relative dominance of the state allowed its ruling elites to create the meritocratic, skilled and insulated economic bureaucracies that spearheaded rapid development. Lastly,

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34 Woo 1999: 23. The obverse held for China and Vietnam.
35 According to Jomo (2001: 3), the PAP sought to attract massive FDI in order to both ramp up investment *and* to create a foreign stake in the survival of the Singaporean regime.
36 See Hirschman 1997.
37 The contrary view, which highlights the primacy of class and ability of capital in steering the state, is Chibber 2003. Compare Herring 1999: 323-324.
38 Evans 1987: 213.
39 Chibber 2003: 228-230.

the autonomy, unity and power of these political, bureaucratic and military elites, the desire for rapid industrialization on political, economic and security grounds, and their authoritarian tendencies led to the establishment of a repressive state apparatus. These developmental states frequently confronted weak civil societies overwhelmed by massive social change. But they also sought to control the workings of labor, political opposition groups and other independent forces by penetrating, manipulating and reorganizing their institutions. In short, the miracle owed much to the emergence of developmental states, particularly in Northeast Asia. The heterodox policy frameworks, robust institutional capacities and underlying power relations enabled these states to reorder their respective societies towards rapid economic growth, industrialization and poverty reduction.

2. The Indian experience in comparison: 1950-1980

A comparison of India's developmental record from 1950 to 1980 illuminates the impact of the policies, institutions and politics of developmental states in North- and, to a lesser extent, Southeast Asia. India enjoyed considerable natural resources, a well-developed political and bureaucratic leadership, and a nascent industrial class at independence.[40] Moreover, the ideology of development was integral to the post-colonial Indian state. Indeed, the Congress party, which brought the country to self-rule under the leadership of Jawaharlal Nehru in 1947, sought to construct a developmental state apparatus. It established a Planning Commission to direct the commanding heights of the economy. Its second and third Five-Year Plans (1952-1957 and 1961-66) sought to reduce mass poverty

[40] Chibber 2003: 3. Chibber (2003: 5-11) argues that India is comparable to Korea due to their levels of industrialization, the prominence of several business houses in both countries and their interventionist policy design. He goes on the claim that state capacity is a function of state cohesiveness (a function of relations between public officials and business classes) and its ability to extract performance (a function of its economic strategy, i.e. ISI or EOI). However, compare Herring 1999 and Kohli 2004, both of whom point to different initial conditions.

through a strategy of rapid industrialization. And the belief that late-late development required comprehensive state intervention in the economy – in the form of subsidizing nascent industries, altering patterns of landownership in the countryside and steering the market – was central to the Nehruvian vision. Hence it was not without reason that many leading figures in the emerging discipline of development economics saw India as a favorable test case for planned late-late development.

However, a number of policy, institutional and political factors undermined efforts to construct an effective developmental state in India. Policy-wise, the post-colonial Indian state made a strong commitment to planned industrial development. First, government subsidies to, and protection of, various economic sectors generated a diversified industrial base with reasonable rates of growth until the 1960s. Like its Northeast Asian neighbors, India also restricted movement on the capital account, established high barriers to foreign direct investment and controlled economic decision-making through a comprehensive 'license-permit-quota raj'. However, fuelled by a widespread belief that openness to trade would merely recreate a neocolonial version of the British *raj*, it embraced a policy of ISI. Import substitution policies enabled nascent industries to develop behind high tariff walls. But they also ensured a protected market for large business houses that felt little pressure to become more efficient, produce high-quality goods for the international market or reinvest their profits to boost industrial competitiveness. In other words, India's leading business houses enjoyed the benefit of subsidies without the threat of discipline. The policy of ISI made their opposition to discipline by the Planning Commission rational; individual business houses benefited from their selective engagements with the state.[41] Third, the failure to

[41] Chibber 2003: 32; see also Herring 1999: 332. In contrast to Chibber, however, Herring sees the capitalist class as fragmented rather than unitary in India, due to the refractory effects of federalism. See also Kohli 2004.

channel adequate public funds in physical infrastructure, primary education and basic health care, combined with inadequate land reform and agricultural investment, stalled the emergence of a literate, skilled and productive labor force, a vibrant agricultural sector and an integrated national market – factors in themselves necessary for poverty reduction as well as the capital accumulation process integral to industrialization.

Significantly, many of these sub-optimal policies stemmed from institutional failures. First, the orientation and composition of the apex of the bureaucracy – the 'steel frame' provided by the Indian Administrative Service (IAS) – lacked the coherence of its counterparts, particularly in Northeast Asia.[42] In the 1950s and 1960s principles of meritocracy and seniority, within a high-caste dominated pool of candidates, determined its strategies of recruitment and mobility. From the 1960s onwards, however, the politicization of the high bureaucratic apparatus undermined its autonomy, morale and professionalism. In any event, its ranks were always more generalist than specialized; moreover, imperatives of law-and-order, rather than development, shaped its orientation. And the disjuncture between the high modernist ideology of development that governed its apex and the more vernacular understandings of social justice that informed its lower ranks led to incoherence, corruption and resistance from the start.[43] Second, a tripartite coalition of public bureaucrats, landed elites and big business undercut the autonomy of the Planning Commission, weakening its capacity to coordinate the project of development from above.[44] Despite being 'outside' the domain of politics, its technocratic experts could not insulate themselves from the rent-seeking pressures of these proprietary classes, which escalated over

[42] The following draws on Kohli 2004: 260-261.
[43] See Kaviraj 1991.
[44] See Bardhan 1984.

successive decades.[45] The relative power of these groups within the Congress – principally agricultural and industrial capital – enabled them to receive fiscal largesse without submitting to disciplinary measures.[46] It also constrained the limited capacity of the Indian state to raise the level of savings through direct taxes. In short, the relative power of these proprietary classes to dictate government-business relations in India undermined the institutional channels designed to spur rapid development and led to a sub-optimal allocation of resources, which privileged immediate consumption over capital investment and gradually strained the fiscal capacity of the state.

Yet it is impossible to understand these policy choices and institutional weaknesses without grasping the underlying politics of the post-colonial Indian state. First, the Congress sought to pursue rapid development *and* consolidate a constitutional federal democracy in a continental-sized polity based on universal adult franchise. Development was a crucial ideological justification of state power. Yet disagreements within the Congress over the strategy of development retarded its pursuit.[47] In contrast to the pro-capitalist orientation of the East Asian regimes, the Nehruvian elite was far more circumspect about the virtues of private economic actors. Its suspicion of international capital, a legacy of its experience under the British *raj*, extended to domestic capitalists as well. Furthermore, the imperatives of rule following the violence of Partition went beyond a single-minded pursuit of development. The need to maintain national unity by democratic means in a poor diverse society led to the balancing an array of interests - of caste, class and region – through negotiation, compromise and accommodation. The difficult geopolitical situation created by

[45] See Chatterjee 1993.
[46] According to Chibber (2003: 30-31 and 85-110), big business pressured like-minded elements in the Congress and relevant state ministries to undermine the potential disciplinary authority of the Planning Commission.
[47] Corbridge and Harriss 2000: 59-60.

Partition, where an independent India faced a US-backed Pakistan and in which the two neighboring countries struggled for position over Kashmir, comprised another reason of state in the subcontinent.[48] The following statement by the All-India Congress Committee partly captures the delicate balancing act facing its ruling elites at independence:

> Our aim should be to evolve a political system which will combine the efficiency of administration with individual liberty and an economic structure which will yield maximum production without the concentration of private monopolies and the concentration of wealth and which will create the proper balance between urban and rural economies. Such a social structure can provide an alternative to the acquisitive economy of private capitalism and regimentation of a totalitarian state.[49]

Second, although the Congress was the dominant political force at the Centre and in the states in the 1950s and 1960s – the so-called 'Congress system' – and despite the fact that significant constitutional powers rested with the Centre under its command, it had to contest for power in regular competitive elections. Many opposition parties began to alternate in office with the Congress in the regions by the late 1960s. Thus, despite the capacity of the Congress to encompass many contending interests within its ranks, it never possessed the level of control of the single-party regimes of the East. Indeed, its power to retain the loyalty of newly mobilized groups diminished over time.

Third, from the start the Congress' electoral prospects were beholden to local proprietary notables – also known as dominant castes – that mobilized 'vote banks' of historically subordinate groups in the peripheries in exchange for patronage, offices and jobs.[50] In addition, their control over the state-level units of the party, combined with the fact that many critical subjects – such as agriculture, education, health – were constitutionally delegated to the states in India's federal system, led to a meager or skewed allocation of resources in these realms. The consequences were twofold. The limited capacity of the state

[48] Herring 1999: 312.
[49] Quoted in Herring 1999: 318.
[50] Corbridge and Harriss 2000: 50. Curiously, Chibber (2003: 44) ignores this factor, emphasizing instead the Congress' antipathy to labor and its confidence in business.

to raise the level of savings and collect taxes became particularly acute in the countryside. And the Congress' need to accommodate these landowning groups enabled them to block land reform in most states. The outcome was a 'passive revolution': an attempt by the Congress to transform agrarian relations through bureaucratic power and institutional change rather than massive agricultural investment and land reform.[51]

As a result, India's 'fragmented multi-class state', which confronted the far more difficult task of developing a tremendously diverse society in a continental political economy, engendered a 'Hindu rate of growth' of approximately 3.5 per cent per annum that limited its efforts to achieve rapid industrialization and poverty reduction until the 1980s.[52]

3. Assessing the developmental state thesis

The dramatic transformations engendered by the developmental states of Northeast and, to a lesser extent, Southeast Asia elicit a variety of reactions. In particular, three questions arise. Is it *possible* for other countries to emulate their strategy of industrialization? Is it *desirable* on normative grounds? And is the development state model generally associated with East Asia *necessary* to achieve rapid industrialization and poverty reduction? The following section analyzes each of these concerns in turn.

3.1 The difficulty of replication

The first major question is the issue of replication. Most neoliberal commentators focus on the distinctive cultural attributes – in particular a collectivist ethic – that ostensibly distinguish these states and make them difficult to emulate. As noted earlier, such

[51] See Chatterjee 1993 and Kaviraj 1991.
[52] The characterization of post-colonial India as a 'multi-class fragmented state' is made by Kohli 2004. The level of poverty did actually decline in India in this period. However, it did not occur as quickly as envisioned.

essentialist arguments run into serious difficulties, however, and require more rigorous analysis of how certain social values interact with other factors in specific historical periods.[53] Others point to the difficulty of pursuing a strategic industrial policy without the robust bureaucratic capacity of these states. Yet such claims make the presumption that it was an 'initial condition'. In doing so, they ignore that many initial conditions are the outcome of purposive social agency, a fact which obviously applies to these bureaucracies as well. Put simply, these bureaucracies were concertedly built. Whether or not longer-term historical factors played a role in their emergence – which remains in serious dispute – is an important but different issue.[54]

Nevertheless, particular historical circumstances *were* critical in facilitating the emergence of these developmental states and enabling their interventions to succeed.[55] The first significant factor was Japan. The establishment of powerful bureaucratic, police and military institutions in South Korea and Taiwan, which enhanced the overall capacity of the state to centralize political authority, reorganize social relations and steer the economy, owed much to the Japanese colonial experience of these two countries.[56] Japan provided a successful role model of state-induced late industrialization. Its imperial policies also helped to forge the developmental state apparatus in these countries. In particular, the Japanese colonial state helped to form state-dominated production-oriented relations between government and dominant social classes, altered landholding patterns in the countryside by co-opting landlords into the ruling political alliance that simultaneously undermined their

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53 Chang 2003: 120-121. As they note, citing the classic thesis of Karl Polanyi in *The Great Transformation*, the establishment of market societies also entails a *cultural* disposition/disruption, which neoliberal proponents assume naturally exists.

54 For the view that such bureaucracies were built relatively anew, see Cheng, Haggard and Kang 1998; and Johnson 1982. For a more historical argument, which examines the crucial impact of Japanese imperialism, see Kohli 1998.

55 Indeed, Pempel (1999: *ff* 138) contends that numerous causal factors overdetermined the East Asian miracle. He also criticizes the *domestic* focus that informs most analyses of the developmental state.

56 Japan colonized Taiwan in 1895 and annexed South Korea in 1910.

economic power,[57] and created powerful bureaucratic apparatuses in its own image. And Japan became both a significant investor of, and a key market for, the burgeoning export sectors of these economies. The process of regional integration began with Japan investing in industry and infrastructure in South Korea and Taiwan (facilitated by war reparations agreements), facilitating their entry into lower-end markets as the former moved up the product cycle from light manufacturing into heavy industry, and relinquished its export sales markets in the US in exchange for supplying capital goods and excess savings to its former colonies.[58] Japan later played a similar dual role – investing in industry and infrastructure and importing raw materials – in Southeast Asia as well. Eventually the lower-end NICs of Southeast Asia entered into activities and sectors vacated by the more developed economies of the northeast, constructing regional production chains, reducing demand-side constraints and forming a flock of 'flying geese' led by Japan.[59] Indeed, the significance of these interventions led one recent commentator to conclude: 'No Japan, no developmental state'.[60]

The second crucial influence from outside was the United States. American support during the Cold War to authoritarian regimes and military dictatorships was a massive external bulwark to the various anti-communist regimes of East Asia.[61] From the 1950s onwards the US provided massive foreign aid, often as grants, to these countries to underwrite their capitalist aspirations.[62] Some commentators argue that such funds, which

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[57] See Koo 1987; Kohli 2004.
[58] Chibber 2003: 42, 233-239.
[59] Akyuz, Chang and Wright 1998: 17-19.
[60] The reference is to a comment made by the political scientist Ron Herring on Chibber 2003.
[61] US intervention in the region naturally began with Japan. According to Jomo (2001: 6), the US sponsored land reform in Japan after WWII stemmed from the widely held belief that the *zaibatsu* military industrial complex was responsible for its pre-war militarization, which redistributed assets to employees and local communities. Chibber (2003: 237-238) further shows how the US, following its support for Japan to accede to the General Agreement on Tariffs and Trade (GATT) in 1955, helped to strike trilateral agreements with Japan and Europe; granted Japan control over patents and licenses in order to boost production for the wars in Korea and Vietnam; and generally opened the US market to Japanese exports.
[62] Evans 1987: 210; Haggard and Cheng 1987: 117.

initially could not be used to buy capital goods for export purposes, were a disincentive for exports until the 1960s.[63] Others lament that US foreign policy saddled these countries with a heavy military burden.[64] Nevertheless, these funds, whose magnitude was hard to ignore, were put to various uses; and the subsequent provision of financial loans was equally critical. The most obvious case was South Korea. In aggregate terms, American foreign assistance to the latter in the 1950s amounted to approximately 15 percent of GDP, accounted for more than 70 percent of its imports and gross public investment and represented nearly 80 percent of its foreign exchange.[65] Moreover, the US earmarked considerable funds for expanding primary education. It sponsored extensive land reforms and stabilized tenancy arrangements in South Korea to ward off the allure of communism. And it kept its market relatively open to their exports. US support to Taiwan was similarly critical. Apart from sponsoring land reform, American foreign assistance to the latter equaled $1.5 billion between 1950 and 1964, a figure that excludes an additional $2.5 billion in military equipment.[66]

Indeed, US influence stretched across the region. The anti-communist 'domino theory' emerged specifically with regard to Southeast Asia.[67] Furthermore, the US acquiesced to Japanese influence in the region and the flouting of liberal economic principles in order to contain the threat of communism, making North-and Southeast Asia the site of cooperation by the two most powerful capitalist economies for close to forty years.[68] The

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[63] Chibber (2003: 40) argues that it was only in 1961, when the Foreign Assistance Act switched grants to loans, that exports became important in order to pay off these new loans.
[64] Akyuz, Chang and Wright 1998: 23. However, compare Jomo (2001: 5), who notes how the US subsidized military expenditure in the region.
[65] Kohli 2004: 74-77; Pempel 1999: 153-154.
[66] Pempel 1999: 153.
[67] For an excellent critical overview of the role of US foreign policy in the region, and its relation to domestic political, economic and social developments, see Anderson 1998. However, the latter ignores the developmental state thesis.
[68] Jomo 2001: 5; Anderson 1998: 1-3. Anderson also notes insightfully that communist revolution in China, and the prior exodus of its labor, respectively protected South East Asia from Chinese economic might until the 1980s, while Chinese entrepreneurial classes acquired a key position in their economies.

result was a tripartite regional economy consisting of the US as the core, Japan as the semi-core and the Northeast and Southeast Asian states in the periphery.[69] In other words, the US integrated these 'semi-sovereign' developmental states into its sphere of influence through the twin dependencies of security and prosperity.[70]

The question of whether these developmental states could have arisen without the role of Japan and the US is difficult to assess. Counterfactuals of history are impossible to resolve conclusively. Nonetheless, it is impossible to underestimate the significance of Japanese colonial rule in constructing the foundations of the developmental state and its effectiveness. Moreover, American imperial backing enabled the pro-capitalist authoritarian regimes of East Asia to emerge, and certainly thrive. The implication is relatively clear: developmental states require a conducive international environment in which to succeed.

3.2 Repression, corruption and partial human development

The second question regarding the East Asia experience concerns its desirability. Two concerns warrant particular attention. First, as noted previously, the developmental states of North- and Southeast Asia at their zenith were authoritarian or single-party regimes run by tightly interwoven elites that repressed labor, left-wing political opposition and other popular groups. The impact of these regimes on labor in Northeast Asia was twofold. On the one hand, the dynamic industrial transformations set in motion by land reform and labor-intensive production led to rising real wages and relative income equality in these countries: productivity gains consistently outstripped rising wage costs. The result was diminishing income poverty and relative social equality in these states vis-à-vis others in the Asia-Pacific region. Rapid material gains bestowed considerable political legitimacy to the

[69] See Cumings 1987.
[70] Woo 1999: 21.

regime.[71] However, the popular sector suffered from terrible political repression. The subjugation of labor in South Korea, Taiwan and Hong Kong was brutal under the Japanese colonial regime. The succeeding post-colonial regimes in these states continued similar policies: criminalizing strikes, protests and collective wage bargaining; maintaining government control of the leadership and activities of trade union organizations; and ensuring a low rate of unionization amongst workers.[72] Similar conditions existed in the Southeast Asian NICs. Indeed, it was the desire for democracy that led to the mobilization of labor, student and opposition movements in South Korea in the 1980s and Taiwan in the 1990s. Hence some observers refuse to characterize these states as *developmental* – labeling them 'cohesive-capitalist states' instead – since real human development implies an expansive conception of social well being that includes freedom of expression, the right to vote and other civil freedoms.[73] The condition of genuine democratic freedom partly constitutes true human development.

Second, some commentators also criticize the nature of government-business relations in these states. The closely-knit relations between capital and the state generated 'profound structural corruption'.[74] The targeting of subsidized credit, industrial licenses and new technologies to favored business houses boosted corporate profits, led to greater market share and socialized economic risks. However, the oligopolistic position and 'family exclusivity' of many *chaebols*, which resembled 'quasi-state organizations' or 'company towns', created moral hazards. The increasingly lenient posture of governments towards business in the provision of subsidies-for-performance in the 1980s saw many of these states support inflationary refinancing or cancel non-performing loans. Hence many critics of the

[71] Leftwich 2000: 176.
[72] Johnson 1987: 150.
[73] See Kohli 2004.
[74] This paragraph relies on Woo 1999: 12-18.

developmental state model blamed its 'crony capitalism' as responsible for the Asian financial crisis in 1997-98.[75]

The causes of the Asian financial crisis continue to attract debate. The charge that excessive state intervention was the sole cause of the debacle fails to withstand critical scrutiny, however.[76] On the one hand, it was the *more* open economies of Southeast Asia that suffered greatest during the crisis. Moreover, countries that experienced financial contagion, such as South Korea, had shifted to a more liberal market economy in the 1980s and 1990s, partly due to the success of its state-led industrialization strategy.[77] On the other, various international factors played a decisive role in instigating and exacerbating the crisis. In particular, premature capital market liberalization in the region, growing instability of international capital markets and lack of international financial architecture to regulate financial volatility allowed a panic of short-term capital flight to cause a larger financial meltdown.[78] Furthermore, the decision of the IMF to impose deflationary policies and maintain exchange rates intensified the crisis, according to critics. The fact that those economies, such as South Korea and Malaysia, which pursued reflationary policies recovered from the crisis most rapidly supports this view.[79] In short, the lack of proper state

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75 See for instance Krugman 1998.

76 The following relies on Chang 2003: 117-119.

77 According to Chibber (2003: 246-247), the success of industrialization in South Korea led to a renegotiation of the government-business pact. In particular, the *chaebols'* greater self-reliance with respect to industrial research and technology upgrading, their greater access to non-bank finance and the entry of these firms into new economic sectors enabled them independently to tackle coordination issues, and led to their demands for greater market independence beginning in the late 1970s.

78 For instance, see Radelet and Sachs 1998; Furman and Stiglitz 1998. According to Jomo (2001: 10, 13), the relative dominance of foreign finance capital over domestic industrial capital unleashed massive capital inflows in the region, which helped to support consumption booms and speculative asset bubbles. The subsequent inability of these governments to maintain their exchange rates, which had appreciated as a result, left these economies vulnerable to reverse capital flight. The most exposed country became Thailand, which had liberalized its financial markets more than others in the region, in contrast to the more 'prudential regulatory framework' in Malaysia.

79 Jomo 2001: 11.

intervention and international regulation, as well as misguided orthodox policies, were equally significant contributing factors to the crisis.

3.3 The issue of necessity

Finally, the presumed salutary effects of state intervention in the economy drew criticism from various quarters. First, many orthodox commentators maintain that industrial growth in Northeast Asia was 'market-conforming'. Government export subsidies created a 'virtual free trade' regime – the real cause of efficiency, dynamism and growth.[80] Second, some argue that those economic sectors promoted by state intervention failed to exhibit higher productivity. Indeed, they even assert that factor accumulation *alone*, rather than technological innovation or productivity growth, accounts for the miracle.[81] Such a pattern of growth is therefore unsustainable. Third, others contend that the developmental state paradigm has little general relevance.[82] This is partly because of the peculiar historical circumstances that endowed these states with relatively high bureaucratic capacity, autonomy and power. It is also due to the fact that other factors – such as a prudent macroeconomic policy, high saving and investment ratios, and the creation of a skilled labor force – contributed to the rapid economic growth witnessed in the region. But the primary argument against the relevance of the Northeast Asian model is the claim that its Southeast Asian neighbors – Indonesia, Malaysia and Thailand – industrialized rapidly through an ostensibly more deregulated policy environment, with greater reliance on FDI and a less robust industrial policy. Thus, given the difficulty of copying the Northeast Asian

[80] See World Bank 1993.
[81] See Krugman 1994.
[82] See World Bank 1993.

experience, the Southeast Asian economies provide a better model for other developing countries.

All of the preceding criticisms invite strong counter-arguments, however. The first overstates its case. The trade orientation of the Northeast Asian states *combined* strategic industry protection with relatively open trade in necessary capital inputs and targeted export subsidies. The principle of 'effective protection conditional on export promotion' captures their underlying policy approach.[83] Indeed, the financial, technological and marketing difficulties of late-late industrialization convinced domestic capital in these states of the need for concerted state involvement.[84] A strategic industrial policy was integral to trading success in the circumstances of late-late development. The second critique encounters problems as well. These include the fact that early growth is typically factor-intensive; that countervailing evidence that shows real productivity gains in protected sectors and in these economies in general; and that factor-driven growth can help secure subsequent productivity gains.[85] The focus on intensive factor accumulation also shifts attention from the wider institutional context, and its underlying political relations, that account for such accumulation in the first place.[86]

Yet it is the third claim, regarding the equally impressive performance of Southeast Asia, which requires the most scrutiny. On the one hand, inter-regional differences certainly exist. The greater abundance of natural resources in the Southeast Asia encouraged these economies to pursue a more agro-based strategy of development from the start. Moreover, the gradual exhaustion of ISI led all three to open their economies to greater foreign

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[83] Jomo 2001: 2; see also Rodrik 1994.
[84] Chibber 2003: 36-37.
[85] Chang 2003: 113-114. For evidence that productivity increased, see Barro 1998.
[86] Gilpin 2001: 325-326.

investment. Yet only Malaysia was particularly reliant on FDI in comparative terms.[87] Moreover, rapid export growth of natural resources caused serious environmental damage in Malaysia, Indonesia and Thailand.[88] On the other, however, the similarities between the two sub-regions need to be recognized as well. Both groupings displayed high rates of investment: between 20 and 40 percent of GDP per annum from the early 1960s to the mid-1990s.[89] The states of Southeast Asia also intervened in various economic realms, making heavy public investments in agricultural infrastructure, services and research; subsidizing bank credit to favored business firms; and providing export-promotion incentives to boost agricultural growth and the location and content of foreign direct investment. The forms of intervention varied in different countries. In general terms, Thailand and Indonesia provided domestic capital with tax exemptions, tariff protection and subsidized credit, which spearheaded industrialization. The Malaysian policy dispensation was more complex, using selective industrial targeting and a generous fiscal policy to bolster public sector enterprises, large private firms and small and medium enterprises in various domains.[90] Yet all three countries pursued a selective industrial policy to some extent. Lastly, it is necessary to qualify the parity drawn between the performances of these sub-regions. The overall performance of Indonesia, Thailand and Malaysia was less impressive than their more interventionist neighbors to the north: their aggregate rate of growth was approximately two percent lower per annum. The difference over time is striking:

> In 1961, [South] Korea's per capita income (in current dollars) was somewhat lower than that of Thailand; it is now three and a half times higher. Even more striking, Malaysia's per capital income was almost three times than of [South] Korea and almost twice that of Taiwan in 1961 (Malaysia then included Singapore, so purely 'Malaysian' income would have

[87] Jomo (2001: 3, 8) argues that Malaysia's ruling elites also courted FDI to contain the influence of Chinese entrepreneurial classes in the national economy. Malaysian-owned industry has also been marginalized as a result, however.
[88] Anderson 1998: 6.
[89] Akyuz, Chang and Wright 1998: 11.
[90] Akyuz, Chang and Wright 1998: 18-20.

> been somewhat lower), remained higher than that of [South] Korea until 1981, but in 1993 was less than half of [South] Korea, and about a third that of Taiwan.[91]

In addition, compared to their northeastern counterparts, the industrial sectors and technological capabilities of the Southeast Asian economies were smaller and less diverse; their levels of investment in education and training were far less impressive;[92] and improvements in growth of per capita income and social equality measures were slower as well.[93] Hence the greater industrial diversification and higher aggregate growth in Northeast Asia owed much to deeper state intervention in the latter. It also rests on greater indigenous capacity and therefore represents a more sustainable model.[94] In short, the general policy dispensation of the Southeast Asian NICs bears a closer family resemblance to the northeastern cousins in comparison to other states in the region, while their less impressive performance can be attributed to their departure from the developmental state paradigm.

4. Reconsidering the recent Indian record: 1980-2005

The preceding discussion illustrates the role developmental states had in directing rapid industrialization and poverty reduction in Northeast and, to a lesser extent, Southeast Asia since 1945. It demonstrates the difficulty of replicating this experience in other regions of Asia-Pacific due to a constellation of historically particular factors that enabled the emergence of these states and their critical economic interventions. Crucially, it also highlights the imperial underpinnings and tremendous social costs inherent in this model. The brutal repression of labor organizations, opposition groups and left-oriented parties by single-party regimes and military dictatorships led to the denial of basic civil, political and

[91] Akyuz, Chang and Wright 1998: 17.
[92] Anderson 1998: 4-5.
[93] Jomo 2001: 4.
[94] Jomo 2001: 7.

economic liberties necessary for the expansion of real human development. Hence, even if it were possible to copy the East Asian experience, its lack of desirability on normative grounds cannot be ignored.

Interestingly, a consideration of the Indian record at the national and state-level over the last twenty-five years suggests alternative ways of reconciling to some extent the presumed structural contradictions between competitive democratic politics, strong industrial growth and effective poverty reduction.[95] The first domain concerns macro-level transformations in the national political economy.[96] In contrast to its first three post-independent decades, which saw the country secure aggregate economic growth of 3.5 percent per annum, India has recently witnessed a step-change in overall economic performance as well as improvements in industrial growth and poverty reduction. Indeed, its economy grew on average by approximately 6 percent annually between 1980 and 2004, spurred by an increase in the pace of investment and productivity.[97] Industry grew at a similar pace. Finally, despite methodological disagreements, most observers contend that the head count ratio, which measures the proportion of persons below the income poverty line, declined from approximately 47 percent to less than 26 percent over the same period.[98]

Most recent scholarship attributes these changes to the liberalization of the Indian economy, which began in the early 1980s and accelerated in the 1990s. Liberal economic

[95] According to Leftwich (2000: 174), democracies typically entail political accommodation between various elite groups. Hence they rarely agree to initiate the radical sweeping interventions that development often requires in order to protect their vested interests.
[96] Unless otherwise noted, the following draws on Kohli 2006a and 2006b.
[97] See DeLong 2003; Rodrik and Subramanian 2004; Kohli 2006a and 2006b. According to Rodrik and Subramanian, a pro-business tilt by government spurred greater investment and rapid productivity growth; the latter cannot be accounted for simply by Keynesian pump-priming, the Green Revolution or economic liberalization. DeLong concurs with the higher productivity thesis but argues that increasing global integration and the demise of the old political order explain the shift.
[98] According to Deaton and Dreze (2002: 3731-3734), rural poverty fell from 39.0 to 26.3 percent between 1987-88 and 1999-2000. Urban poverty declined from 22.5 to 12.0 percent over the same period. This general improvement represents a continuation of earlier poverty reduction.

reforms certainly reduced some of the constraints on and disincentives to growth inherent in the previous development strategy. But neoliberal accounts downplay the fact that neither economic or industrial growth, nor levels of employment and income-related poverty, witnessed significantly higher rates of improvement following the onset of major economic reforms in 1991 than in the previous decade. Moreover, such explanations mischaracterize the transformation in government-business relations in this period. In particular, they overlook the *pro-business* approach of the state at the national level – in contrast to the *pro-market* strategy advocated by neoliberals – that exhibited some features of the East Asian model.

Several factors account for this general post-1980 transformation. Ideologically, New Delhi prioritized rapid economic growth as its leitmotif, downgrading its commitment to social redistribution and poverty alleviation, following a decade of growing political, economic and social crises and the realization that India had fared poorly economically in comparison with the East Asian NICs.[99] This became evident with the new policy orientation of the Congress government in 1980 and succeeding governing dispensations in the 1990s. Institutionally, the Centre adopted a more pro-business tilt, which increased the level of cooperation between state and capital against labor, leading to concomitant policy changes that supported business activities.[100] The central government eased licensing restrictions in the manufacturing sectors regarding the entry of firms, decisions concerning the level, location and process of production, and the expansion of private sector firms; liberalized credit for and provided tax concessions to favored big businesses; and

[99] The commitment to poverty reduction was rhetorical, however – a populist slogan by an increasingly authoritarian Mrs. Gandhi to win elections, understood as plebiscites, after she deinstitutionalized both the Congress and central state apparatus. For an analysis of the complex political economy of the 1970s, see Corbridge and Harriss 2000.

[100] In contrast to the pro-business argument, Chibber (2003: 248-253) portrays the political economy changes that occur in the 1980s in terms of economic liberalization rather than a function of industrial policy interventions, in which Indian domestic capital demanded greater freedom.

implemented legislation to discourage labor strikes, protests and walkouts. It also promoted business cooperation, increased public investment in infrastructure and continued to protect the domestic sector from international competition. The introduction of neoliberal economic reforms in 1991 led to more sweeping deregulation in the domestic sphere and a gradual controlled opening of the economy in the realms of trade, investment and finance. Nevertheless, the level of openness is extremely low in comparative perspective. Tariffs are high by world standards; foreign trade as a share of GDP is low; and foreign investment in relation to the size of the economy remains limited.[101]

Perhaps most importantly, however, it is impossible to explain the preceding institutional and policy shifts without recognizing their relation to a series of important political changes that began in the 1980s as well. These changes represented an 'elite revolt' and heralded a new political economy in India.[102] First, the relative failure of the Congress' redistributive economic strategy through the 1970s and its waning organizational capacities to accommodate rival interests led the party to shift its position increasingly to the right in the national political arena. It labeled various opposition parties in the regions as 'anti-national', justifying a more coercive posture against such movements, and stoked the fears of various minority communities by introducing a majoritarian political discourse. These factors also led the Congress into courting big business with the hope of reinvigorating industrial growth. Second, the emergence in the 1980s of Hindu nationalist forces, which advocated national economic self-reliance through greater industrial strength (*swadeshi*) and a desire to achieve great power status in the international arena, advanced this general rightward shift and pro-business tilt in the national politics. Third, the growing fragmentation of national electoral competition in India in the 1990s, combined with further

[101] Nayyar 2001, cited by Kohli 2006b: 1362-1363.
[102] The argument of an 'elite revolt' is by Corbridge and Harriss 2000.

economic liberalization, consolidated the importance of government-business ties across the political spectrum. The result was a more business-oriented developmental model that has promoted economic growth and industrial production, enhanced the concentration of big business in the private sector and prompted a rightward shift in national politics.

The developmental capacities of India's new political economy at the national level remain limited, however, by failing to incorporate some of the more desirable features of the Northeast Asian model. First, poor revenue generation – caused by underperforming public enterprises and low state capacity to collect direct taxes – and high current expenditures – driven by military expenditure, rising public subsidies and interest payments on public debt – continue to generate large fiscal deficits that threaten macroeconomic stability and constrain public investment. Second, declining public expenditure in the 1990s on agriculture, basic health care and physical infrastructure continues to limit the security, opportunities and human development prospects of the most disadvantaged sections of society.[103] Despite the abundance of labor, a strategy of capital-intensive industrialization by big business has led to slow employment growth in the manufacturing sector and limited export competitiveness, aggravating the struggle to reduce mass poverty and exposing poor workers to various depredations in the informal sector. Both infant mortality rates and agricultural wage increases have decelerated considerably since the onset of liberalization; agricultural growth also remains moribund.[104] Finally, declining capital expenditure from the Centre, combined with the partiality of private domestic capital towards relatively well-developed states, has created growing social inequality between regions, amongst social classes and across the urban-rural divide. Hence the relatively high level of social equality that distinguished Northeast Asia remains elusive in India.

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[103] See Corbridge and Harriss 2000; Dreze and Sen 2002; Harriss-White 2003; and Breman 2003.
[104] Deaton and Dreze 2002: 3743-3745.

The second change in India over the last quarter century that deserves notice, however, is the emergence of distinct political economies at the *regional* level. As is well-known, aggregate trends in economic growth, industrialization and poverty reduction often conceal important intra-national disparities. This is particularly the case in constitutional federal systems that govern large territories and socially diverse populations. In such countries, state-level variations in economic structures, social forces and political regimes may significantly alter the life-chances of the most disadvantaged. India's recent experience attests to such differences. Indeed, its state-level variations suggest *alternative subnational developmental regimes*, which modify the preceding all-India account in significant ways. Nonetheless, crucial political factors – relating to the ideology, bases and organization of parties – continue to shape the prospects of rapid industrialization and poverty reduction in different regions.[105]

Three patterns emerge. First, regions that possess good infrastructural capacities, strong government-business relations and strict labor regimes have achieved the greatest rate of economic growth and industrial development. In many cases, these regions had also engaged historically in a politics of bargaining and cooperation vis-à-vis New Delhi, which enabled them to receive a disproportionate share of resources from the Centre.[106] The paradigmatic case is the western state of Gujarat, where elite-dominated parties have controlled the electoral arena; established sectoral agencies to coordinate relations, communicate economic information and implement policy decisions in conjunction with big business and industry; and supported a pro-investment policy framework.[107] However,

[105] Unless otherwise stated, the following draws heavily on Harriss 2005.
[106] See Sinha 2005.
[107] Kohli 2006b: 1366-1368; for a more comprehensive analysis, see Sinha 2005.

despite being a high-income state with rising per capita income, the distribution of benefits has remained heavily skewed due to the political dominance of higher castes-classes.

Second, states governed by left-of-centre parties – either by dominating the electoral scene or alternating in office – exhibited greatest progress in the reduction of poverty in terms of income/consumption measures. The paradigmatic cases are the states of West Bengal and Kerala, respectively, where the Communist Party of India-Marxist (CPI-M) has governed Left Front coalitions with other social democratic parties.[108] The coherent political leadership, pro-poor ideology and strong organizational structures of these parties allows them to rework both the balance of power between social classes and secure positive developmental outcomes in their respective states. The CPI-M has mobilized lower class-caste communities against dominant landed interests and struck pragmatic bargains with middle class groups in order to implement land reform, raise agricultural wages and target public spending towards social expenditures. In doing so, it has raised agricultural productivity, lowered income poverty and expanded the provision of primary education, basic health care and subsidized food staples to the poor. These Left Front governments have also achieved the best decentralization record in India.[109] The latter is due to a political strategy that involves the mobilization of historically subordinate groups; devolution of authority and resources to reinvigorated local village councils that represent and implement policies reflecting popular demands; and the calculation that such reforms will enhance the popularity of the coalition and its prospects of re-election. Strikingly, these Left Front regimes have also brokered strategic alliances with domestic and foreign capital since the

[108] Different state-society relations mark Kerala and West Bengal, however. A stronger civil society balances the party organizational machinery in the former, underpinning a mobilizational approach to industrial relations in which the CPI-M negotiates with the trade unions over wages, work conditions and tenure of employment. In contrast, the hegemony of the CPI-M in West Bengal in political society has encroached on the space of civil society. See Heller 1999.

[109] For a comparative perspective on the success of decentralization in the West Bengal, see Crook and Sverrisson 2005.

1980s, enabling their respective states to rank amongst the best performing regions in the country.[110] In short, the emergence of these developmental democratic state-level regimes in West Bengal and Kerala have facilitated policies, institutions and outcomes that served the interests of the poor without alienating big business and foreign capital.

Finally, regions governed by competitive populist regimes have also shown the possibility of improving the pace of poverty reduction, albeit to a lesser extent. The key to success in these states has been intense electoral rivalry between well-institutionalized parties or blocs in which one of the main protagonists has challenged the Congress' traditional structures of dominance in their respective state. Competitive populism in Tamil Nadu and (to a lesser extent) Andhra Pradesh – respectively between the Dravida Munnetra Kazagham (DMK) and Telugu Desam Party (TDP), which represent the interests of middle and lower caste-class groups vis-à-vis the more privileged votaries of the Congress party – has led to improvements in targeted social expenditure and a lowering of the head count ratio regarding income poverty in both states. Compared to the Left Front regimes in West Bengal and Kerala, neither Andhra Pradesh nor Tamil Nadu accomplished significant land reform, which threatened the interests of the ruling middle castes of the DMK and TDP. Moreover, the fiscal strains imposed by competitive populism have forced both states to reconsider their strategies of accumulation. Nevertheless, the experience of Tamil Nadu and Andhra Pradesh also demonstrates how competitive institutionalized populism may reduce poverty levels to a greater extent than traditional clientelistic regimes, which continue to dominate politics in many other Indian states. Indeed, despite better initial conditions, greater economic resources and higher agricultural investment, the latter display less progress in diminishing poverty levels due to persistent upper caste-class dominance in the political

[110] One possible cause may be declining labor militancy in both states in the 1990s. However, further research on this question is required. Kolhi 2006b: 1367.

realm, which skews economic growth and social opportunities towards more privileged groups.

5. Implications and lessons

Several lessons emerge from the preceding analysis of the vicissitudes of developmental states in the Asia-Pacific region. First, the comparative historical experience of North- and Southeast Asia and India demonstrates that the prospects of economic growth, industrial diversification and poverty reduction require a *heterodox policy framework*. The countries of these sub-regions employed a variety of instruments and interventions to achieve their ends. Development is a highly non-linear process: the context, priorities and phases of development matter immensely and vary across regions and over time. No single development model accounts for their diverse trajectories. However, several common factors distinguished the most successful political economies in the Asia-Pacific region: strategic, phased and targeted economic interventions by the state; an emphasis on improving human capital, social opportunities and market functioning through concerted public investments that expand primary education, basic health care, labor-intensive employment, agricultural productivity and physical infrastructure, and through productive asset distribution; and a selective industrial policy that transforms comparative advantage through managerial learning, technological upgrading, diversification in manufacturing and export competitiveness. The universal neoliberal prescriptions that dominate orthodox economic frameworks fail to recognize this reality.

Second, the ability of countries to pursue a heterodox policy framework depends to a great extent on their *institutional* capacities. Effective bureaucratic structures, characterized by strong internal norms, highly trained personnel and sufficient insulation from everyday political demands, are necessary to formulate, execute and implement sound policies. Good working relations between government officials and private economic actors are also necessary to overcome various market failures that arise from asymmetric, imperfect or incomplete information. Formal organizational links and informal consultative bodies can help design better policies, coordinate economic action and solve potential conflicts.[111] In short, effective development interventions require greater state capacity, which militates against the minimal regulatory state lauded by most neoclassical economists.

Third, the ability of states to purse heterodox development strategies and expand their institutional capacities depends on their *underlying political relations* with various social actors. Official development rhetoric tends to proffer a technocratic approach to governance. In doing so, it either distorts or evades inherently political questions regarding the modalities, distribution and exercise of power. Politics is not a 'variable' of development; rather, it represents the fundamental underlying process through which all development interventions succeed or fail. Consequently, more than 'getting prices right' or 'getting institutions right', successful late-late development requires 'getting politics right'.[112]

Fortunately, as the preceding comparison of North- and Southeast Asia and India illustrates, there is no single conception of politics that is 'right'. A variety of political regimes, state institutions and social alliances – at the domestic, regional and international level – underlie successful development strategies. Put differently, various developmental state regimes exist. Trade-offs are inevitable. Yet it is worth remembering: the tigers of East

[111] Akyuz, Wright and Chang 1998: 26-29.
[112] Leftwich 2000: 191-196. Of course, conceptions of politics naturally vary. Leftwich backs a Weberian approach to politics, which recognizes the diversity of values, interests and conflicts inherent in politics, and the fact of power. He defends such an approach by arguing that rational choice analyses of development are too one-dimensional with respect the interests of real social actors and rely on rather heroic assumptions regarding their self-awareness; that 'good governance' approaches ignore the underlying politics of administrative bureaucratic institutions; and that 'post-development' approaches wistfully assume the end of conflict.

Asia may have been dictatorships, but dictatorships are not necessarily tigers.[113] Given the value we attribute to political freedom in enabling human beings to expand their capabilities and pursue lives they wish to lead, moreover, a *democratic developmental state* is a prerequisite for full human development. Democracies frequently generate many passions, interests and conflicts that pose difficulties for far-reaching social change. Yet democratic political regimes, which vary tremendously, do not in themselves pose obstacles to promoting human development. Rather, the autonomy, capacity and effectiveness of the state turns on the purposes, leadership and organization of parties and their pacts, agreements and relations with various social actors.[114] Hence building a democratic developmental state requires a transformational politics.

The final issue concerns the relevance of the developmental state paradigm in an era of globalization.[115] Many contend that global economic liberalization and trade increasingly rely on international production chains. Mergers and acquisitions, despite their failure to substantially increase productive capacity, increasingly account for most FDI. Moreover, the new international architecture of rules imposed by the World Trade Organization make it far more difficult for its members to employ traditional industrial strategy. Provisions regarding trade-related subsidies, intellectual property rights and foreign investment conditionalities prohibit many strategies of the first-generation and second-generation developmental states.[116] Undoubtedly, the international environment today reduces the options available to the global South.

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[113] This is a paraphrase of: 'The tigers may be dictatorships, but dictatorships are no tigers.' Przeworski 2000: 176.
[114] Leftwich 2000: 175.
[115] Unless otherwise noted, the following section draws extensively on Jomo 2001: 14-18.
[116] Akyuz, Wright and Chang 1998: 26-29.

Nonetheless, opportunities still exist for many developing economies.[117] There is greater market access today for certain developing economies. Governments still possess room to protect nascent industries if their tariff levels are below agreed ceilings. The restrictions imposed on export subsidies remain incomplete: complainants must first demonstrate harm to their sectors; subsidies for basic agricultural research, and research and development, more generally remains non-actionable; and the provision of information to export sector remains permissible. And there exists room for maneuver with respect to exchange rate policy, incentives to boost savings and investment, and differential tax policies regarding production and consumption – all of which can promote technological upgrading.

Indeed, if anything, the circumstances of the new global economy increases the need for pro-active coordinated efforts by state authorities to spur private investment, technology upgrading and infrastructure development, help private economic actors respond to new opportunities and ward off threats.

> Unlike traditional fiscal and monetary policies, industrial policy demonstrates no clear relationship between objectives and the means of attaining them. Its conception, content and forms differ, reflecting the stage of development of an economy, its natural and historical circumstances, international conditions, and political and economic situation, resulting in considerable differences from nation to nation and era to era.[118]

In short, a robust developmental state will become *more* important, not less, to transform the comparative advantage of nations in the Asia-Pacific region in an era of globalization.

[117] Akyuz, Wright and Chang 1998: 26-29.
[118] Woo 1999: 31.

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