

Chasing the Tigers: Can Fragile States Copy the Asian Miracle?



Seminar in Madrid, 6-7 October 2008

Ivan Briscoe

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Executive summary

Despite their high poverty rates and an inauspicious birth through war and secession, the Asian tigers defied all expectations in the decades after World War II. Through meticulous state planning and coordinated national effort, the developmental states of the region, followed by a select club of other countries from across the globe, managed to achieve sustained rapid growth, enabling them in some cases to reach the income level of the economies of the West - and even surpass them. Their example still resonates in countries as diverse as China, Vietnam and Ethiopia, all of which claim to have borrowed from the developmental paradigm.

For years, however, the international community dismissed these economic miracles as the effect of a set of Asian cultural and institutional values that could not be replicated elsewhere. In other developing countries in Africa, Latin America and Asia, the same policies of state planning and intervention led to ruin. The absence, until recently, of democracy in the developmental tigers, added to their reliance on efficient civil services and highly cohesive societies, suggested that these successes were oddities rather than models.

But in a two-tier world, marked by a widening breach between the richest and poorest countries, the appeal of the developmental state is growing. For the world's fragile states, where both economic performance and institutional capacity is weak, and where illicit activities and ungoverned spaces are spreading fast, the need for new approaches is urgent.

This report, based on the debate at a seminar of international experts held in Madrid, explores exactly what policies and recommendations for national and global action can be salvaged from a close study of fast-developing nations. It warns that the delicate power arrangements of fragile states may not always be suited to rapid development, central planning and limited democracy, and acknowledges that domestic political conditions are crucial to the success and legitimacy of

state-led growth. But at the same time, it draws out a number of key lessons that have been forgotten during the long period of free market orthodoxy and global economic integration dating from the 1980s.

First of all, donors and domestic policy-makers must square up to the need to create and protect niches of knowledge-intensive productive activity. Simply joining the club of nations with large industrial manufacturing sectors is no longer enough for growth, nor is reliance on low-value segments in the global production chain. At the institutional level, improvements in state capacity are essential, even as they are difficult to achieve. States in fragmented and volatile nations must focus first on gathering together the powers of the state, limiting to the greatest extent possible vacuums of authority or takeover by self-serving factions. Lastly, a working level of cohesion must be built through policies and power arrangements that emphasise equity and inclusiveness, without which battles for power and resources are likely to scupper the developmental effort. Democracy is the best system for building legitimate and inclusive states, but in some fragile contexts, dominant cross-cutting coalitions may be better equipped to deliver stability and growth.

Recent international initiatives, such as the 2005 Paris Declaration on Aid Effectiveness, have pointed the way to a renewed confidence in state-led development - of the sort shown to the likes of South Korea by the United States in the 1950s. But donors have so far proved cautious in practice, and the architecture of the global economy allows little space for policy experiments in countries that are not powerful players. The current credit crisis has once again shown that openness to capital and trade in poor, vulnerable countries - especially those with weak institutions - can undermine years of reform and progress.

Pressure is building for a new set of global rules, adjusted to the needs of the poorest countries and weakest states. While these countries must strive to focus on productive value and foster social inclusion, the international community should respond by allowing them the leeway to join the global economy at their own pace.

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Introduction

Until recently, the academic study of developmental states has flourished within fairly narrow confines. Although the field of inquiry has generated major insights into the conditions for and organisation of economic growth, social modernisation and political stability in a number of formerly poor countries in the period following World War II, above all the “four tigers” of East Asia,¹ its contribution to debates over how to deal with the many complex issues affecting the contemporary developing world, including low growth and limited productive diversity, chronic poverty and weak statehood, has been desultory.

In principle, however, the developmental state debate should have much to contribute to the search for new approaches to chronic poverty and misgovernment. As the economist Ha Joon Chang describes in his book *Bad Samaritans*, the condition of South Korea in the 1950s – with a per capita income half that of Ghana – merits comparison with some of the most serious cases of impoverishment in sub-Saharan Africa.² It is even more extraordinary to contemplate the fact that the supposed cultural impediments to progress in Africa or Latin America used to be prevalent across East Asia: the expression “Korean time” formerly referred to the native tradition of turning up hours late.³ Yet the trajectory of this country from a post-conflict rural subsistence economy to a member of the industrialised world, en route to becoming one of the world’s richest nations per capita, has been extraordinary, even in spite of a number of prominent corruption cases and the fallout from the financial crisis of 1997.

Three reasons tend to underlie this apparent segregation of the study of developmental states from exploration of the quandaries faced by developing countries. One of the principal causes is undoubtedly

the ambiguous relation of the “model” Asian states to democratic practice. Of the 13 states that are listed by the World Bank’s recent Growth Commission as exemplars of rapid economic growth in the post-1945 period, only two could be considered multi-party democracies, while only one – Malta – witnessed regular handovers of power between rival political forces.⁴ The difficulties of combining fast growth with democracy have been analysed and dissected by numerous authors, who have associated the route of state-led development with a process of insulation of state officials and business leaders from democratic pressure. In the opinion of one scholar, these states “tend to be authoritarian, often reaching deep down into the society to create well-structured interest groups and thereby to minimise political opposition... Viewed from a liberal standpoint, such cohesive-capitalist states resemble fascist states of yore.”⁵ In fact, the type of insulation from public demands need not entail dictatorship – though highly authoritarian regimes governed Brazil, South Korea, Taiwan and Thailand during their formative periods of fast growth – but could encourage a type of “controlled” democracy, characterised by one-party rule or shifting coalitions that maintain strict policy continuity.⁶

A second reason is more circumstantial, and derives from the awkward contrast between the academic analysis of successful state intervention, which started in earnest in the 1980s, and the simultaneous global dominance of an ideology of limited state action. This uneasy relationship between the cumulative evidence of state-led growth and the post-Cold War drive towards rolling back the supposedly inefficient and “rent-seeking” public sector was epitomised in the World Bank report on East Asia of 1993, which argued that the Asian tigers’ success was the result of unique state

⁴ Commission on Growth and Development (2008), p. 20.

⁵ Kohli, Atul (2004), *State-Directed Development. Political Power and Industrialisation in the Global Periphery*, Cambridge: Cambridge University Press, p. 22.

⁶ Leftwich, Adrian, (2008), “Developmental states, effective states and poverty reduction: The primacy of politics”, Geneva: UNRISD, p. 13. See also Fritz, Verena and Rocha Menocal, Alina (2007), “Developmental States in the New Millennium: Concepts and Challenges for a New Aid Agenda”, *Development Policy Review* 25 (5), p. 537.

¹ South Korea, Singapore, Hong Kong and Taiwan.

² Chang, Ha-Joon (2007), *Bad Samaritans*, p. 3.

³ Chang, Ha-Joon (2007), *op. cit.*, p. 196.

capacities that did not exist elsewhere.⁷ In spite of this limited concession to public intervention, the International Monetary Fund meted out radical surgery to a number of these same developmental states during the Asian financial crisis four years later on the charge that they had been irreversibly afflicted by “crony capitalism”.⁸ Inefficient, corrupt and rent-seeking states had come to be seen within international financial institutions as the principle causes of economic paralysis; exceptions to this rule were curious, rare and destined for a nasty end. The development state, in short, was not a model but an idiosyncrasy.

Thirdly, and related to the previous point, there is a significant distinction to be made in the study of state-led development between the economic lessons that they can provide, and the conditions that they depend upon. The economic package implemented by most developmental states is that of rapid industrialisation through trade protection and targeted public support, an emphasis on exports, and a gradual opening of the economy as it attains higher productivity and skill levels. Its mission of manufacturing-led “catch up” with richer countries has been enshrined by some of the foundational authors of economic theory – notably Friedrich List, Joseph Schumpeter and Gunnar Myrdal⁹–, and was previously adopted as the motif of industrialisation by many European countries in the 19th century.

However, the political and institutional context surrounding these policies is crucial in determining

their success. In many if not most countries, the same developmental policy package applied in East Asia failed to produce growth, or generated chronic corruption and economic disaster. Systemic failures in what were once developmental stars or initiates can be found in all regions, with the results including kleptocracy in Nigeria, debt crisis in Brazil and Mexico, social turmoil in Indonesia, food shortages in Tanzania, and interest-group capture in Pakistan and the Philippines. Scepticism over whether there is any exportable “model” at all is thus widespread and justified. For Francis Fukuyama, the entire state-building enterprise is flawed at the outset by the very different initial institutional starting points, and the obstacles these present for some countries: “Holding on to a certain structure of political power is often a life-and-death issue for leaders of poor countries.”¹⁰ In short, you either have the right conditions, or you don’t.

Weak, fragile or failing states would naturally appear to fall in this latter category as unsuitable candidates for state-led development. If the viability of a developmental state depends on a particular institutional inheritance, then it would seem that these countries – estimated to number between 20 and 60,¹¹ even if certain “fragile” characteristics can be found across almost all countries in the developing world – are doomed, in the context of the current global free market economy, to a steady labour of advancement through the search for greater private investment and an improved business climate. Yet at the same time, close study of these states suggest that the economic conditions which prevail within them are intimately related to their political culture, and that poverty and economic informality breed and are bred by poor

⁷ World Bank (1993), *The East Asian miracle: economic growth and public policy*, Washington DC: World Bank. One author amusingly describes this report as “so cautious and middle-of-the-road that it seemed to have been written in the best tradition of Harry Truman’s proverbial two-handed economist (forever saying ‘on the one hand’ and ‘on the other hand’)”. Woo-Cumings, Meredith (ed) (1999), *The Developmental State*, p. xi.

⁸ The charge had more than a grain of truth, as this paper will show, above all in the cases of Thailand and Indonesia. It can be argued, however, that the Asian financial crisis resulted from a liberalisation of capital markets and empowerment of private corporations that represented a *relaxation* of the developmental state model. Putzel, James (2001), “Developmental States and Crony Capitalists”, in Masina, P. (ed). *Rethinking Development in East Asia*, London: Routledge.

⁹ See, above all, Reinert, Erik S. (2007), *How Rich Countries Got Rich... and Why Poor Countries Stay Poor*, London: Constable, chapter 2, including the two family trees of rival economic schools on pp. 32-33.

¹⁰ Fukuyama, Francis (2004), *State-Building. Governance and World Order in the Twenty-First Century*, London: Profile Books, p. 49.

¹¹ There are 26 “low-income countries under stress” according to the World Bank list for 2006 (see http://www.worldbank.org/ieg/licus/licus06_map.html). Alternatively, Britain’s Department for International Development (DFID) listed 46 fragile states in its 2005 report, *Why we need to work more effectively in fragile states*, London: UK government. In both cases, most of the countries listed are from sub-Saharan Africa. The *Foreign Policy/Fund for Peace* list of fragile states for 2008, meanwhile, privileges conflict and poor governance as the bases for ranking states: 11 of the top 20 are African, though Iraq, Pakistan and Afghanistan figure prominently (see http://www.foreignpolicy.com/story/cms.php?page=1&story_id=4350, accessed June 1, 2009).

governance, a porous rule of law and institutional weakness. In the words of one recent study, “billions are trapped in poverty and informality without access to the legal tools that would give them the formal rights necessary to buy or sell property, divide labour among themselves or gain access to the expanded markets.”¹²

While this combination of political and economic dysfunction is daunting, it may provide the justification for the application of some sort of economic and political developmental shock. Furthermore, consideration of some of the initial conditions that gave rise to earlier developmental states suggests that the traumatic birth of states and nations is not always damaging to future economic prospects. One recent study even argues that the post-conflict scenario is well-suited to a transformation of national governance.¹³ In other words, might it not be the moment to resurrect some if not all elements of the developmental state in the prescription book of the international community? Or is it the case that the conditions for successful developmental policies are invariably poisoned by the institutional weakness and malaise that characterise fragile states?

With these considerations in mind, the *Fundación para las Relaciones Internacionales y el Diálogo Exterior* (FRIDE) assembled over a dozen experts on economics and the state from Asia, Africa and Latin America for two days to map out the precise relevance of the developmental experience to fragile state environments, whether these are low-income nations such as those of sub-Saharan Africa, or low to middle-income countries where the economic escalator to the developed world appears to have shuddered to a halt. These experts’ thoughts, alongside references to the wider debate on weak and developmental states, are collected below.

¹² Ghani, Ashraf and Lockhart, Clare (2008), *Fixing Fragile States*, Oxford: Oxford University Press, p. 21.

¹³ Collier, Paul (2007), *The Bottom Billion*, Oxford: Oxford University Press, chapter 5.

A two-tier world

The central concern motivating a renewal of developmental state thinking is the spreading economic divergence of the world’s population. Recent statistics from the World Bank have underlined just how unevenly distributed economic progress has now become. Whereas the Indian and Chinese booms have reduced the number of poor people substantially, most of the 1.4 billion considered to be living beneath the line of extreme poverty (1.25 dollars a day) are now to be found in sub-Saharan Africa and South Asia.¹⁴ Simultaneously, recent statistics indicate that global inequality is increasing on its two main axes: between countries, and between individuals irrespective of the nations in which they live. As a result, “global inequality is significantly greater than inequality found in any individual country in the world.”¹⁵

In the words of one speaker at the seminar, the world is now separated into Malthusian and Schumpeterian segments: in the former, people fight out a zero-sum game for scarce resources, whereas in the latter capitalism drives a creative process of collective enrichment, with occasional downturns. This broad portrait, however, should not obscure the fine global variegation of state systems. Democratic law-bound states of the industrialised world (the OECD members) and newly industrialising countries – where rising prosperity is not always accompanied by the consolidation of stable and open political orders – dominate the global economic system, as manifested in the composition of the G-20. Beneath them, a host of middle-income and lower-middle income nations, clustered in Latin America, North Africa and Eastern

¹⁴ “World Bank Updates Poverty Estimates for the Developed World”. See <http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH/0,,contentMDK:21882162~pagePK:64165401~piPK:64165026~theSitePK:469382,00.html> (accessed June 1, 2009)

¹⁵ Milanovic, Branko (2007), “An even higher global inequality than previously thought”, draft document, Washington DC: World Bank, pp. 9-10. The gap between the poorest and richest countries in the world is estimated to have grown from 4:1 to 50:1 since 1800. Reinert, Erik et al (2008), “The Economics of Failed, Failing and Fragile States”, draft paper, p. 6.

Europe, endeavour to find a way to hike their growth rates in fractious domestic political contexts.

Fragile states, meanwhile, are composed of three sets of economies: the least developed countries, most of which are in sub-Saharan Africa and suffer dire shortages of state capacity and business potential;¹⁶ former lower-middle-income countries that have undergone brutal economic contraction and institutional corrosion (e.g. Central Asian states, Myanmar and Indonesia); and countries affected by grave internal conflicts which, while not being the result nor cause of economic failure, are closely connected with economic stagnation, mismanagement and inequality (e.g. Colombia, Pakistan, Mexico).¹⁷ The radical differences in living conditions and economic opportunities between these countries and the industrialised world in turn underlie a series of threats to international security – illegal migration, criminal trafficking, ideological extremism – while also sapping states in the poorest and most violent regions of the limited legitimacy they might have acquired.

The global management of such inequality has so far been carried out in a largely informal fashion, involving a variety of actors and agencies. “Palliative economics” was the term used in the seminar to describe an approach based on aid to low-income countries that seeks to alleviate the worst effects of poverty without managing to provide the infrastructure and investment needed to establish solid productive bases. Its effects have been noted in the current focus of donors on broad welfare targets, such as the Millennium Development Goals, or on managing projects through international non-governmental organisations, instead of creating institutions that might boost native technical capacity in fragile states.¹⁸

¹⁶ The list of 50 LDCs can be found at <http://www.un.org/special-rep/ohrlls/ldc/list.htm> (accessed June 1, 2009). The composition is very similar to that of DFID and the World Bank’s lists of fragile states.

¹⁷ Mexico is also a member of the OECD, underlining the trend towards pockets of fragility in highly unequal middle and lower-middle income states.

¹⁸ Ghani, Ashraf and Lockhart, Clare (2008), op. cit., p. 98.

Poverty alleviation and project funding, however, can do little to narrow the gap with the industrialised world. To achieve convergence, a poor country must embark on a process of rapid economic transformation, involving a number of distinct phases: the introduction of basic industrial processes, urbanisation, the spread of education, increases in productivity, shifts to higher value-added levels of the production chain (often combined with growing openness to international trade), and eventual convergence with the income levels of the prosperous countries. The theories of latecomer development devised by Alexander Gerschenkron argue that these phases of catch-up can become much more compressed as advanced technology becomes more easily available to lower-income countries.

It was argued that the economic path to fast development consists primarily in the establishment of industries with increasing returns to scale, where this is defined as obtaining lower costs for economic activities as production increases. However, there are major differences in theory as to how this can be achieved. The World Bank’s Growth Commission largely reflects orthodoxy by insisting on free market operations and on the dynamics of private enterprise as the means to spur growth: “structural change under competitive pressure is what propels productivity growth”.¹⁹ In contrast, a substantial body of theory calls for trade protection and focused state intervention in order to alter a country’s trading status – which is regarded as unfavourable if it is solely an exporter of raw materials –, enhance internal markets and build technological expertise. If this is not done, these theories warn, then a country is doomed to stay trapped within the confines of its initial comparative advantages.

The industrialisation and income convergence of Western European states and North America in fact drew heavily on nationalistic policies of protection and mercantilism, particularly in 16th century England (when Henry VII poached Flemish wool manufacturing through trade policy), 17th century

¹⁹ Growth Commission (2008), op. cit., p. 44.

Germany, 19th century Scandinavia, and the United States from 1776 and in the 1820s, where steel tariffs rose to 100 percent.²⁰ However, the adoption of similar protectionist policies throughout the developing world in the decades after World War II, in the guise of import substitution, gave rise in many cases to inefficient, protected industries operating with the support of complicit state agencies – the sort of states that, in Latin America, were “embedded in, penetrated by, or beholden to ‘the interests’”.²¹ In macro-economic terms, inflation, balance of payments crises and exchange rate fluctuations were the common results.²²

Yet as the ruling orthodoxy in international development finance veered away from state intervention, research into the structural characteristics of hyper-growth unearthed in the cases of the “four tigers” a rich vein of innovative and highly heterodox institutional practices. Starting with the work on Japan of Chalmers Johnson, and continuing through studies by Alice Amsden, Robert Wade, Peter Evans and Atul Kohli, among others,²³ a school of political and social scientists mapped the way in which these states concentrated powers, mobilised societies, and forged highly competitive economies out of what were essentially rural backwaters. The developmental approach could be conceived of in two ways. First, as an extraordinary and seamless concentration of national energies towards growth, in which competent and insulated bureaucracies directed private business and labour forces towards profit and an ever greater

global market share. And second, as a set of interventionist policies that involved public licensing, subsidies, protection for infant industries, infrastructure investment and an arsenal of schemes aimed at achieving technological catch-up.²⁴

Without ever becoming entirely acceptable to an international community dedicated to lowering trade barriers, the model has been touted, though not necessarily in good faith, by a widening circle of political elites. Variations on the basic model have been employed in Vietnam and China since the 1990s, are keenly defended in Ethiopia and Rwanda, and are currently a source of contention between government and opponents in Argentina.²⁵ Western donors, for their part, are wary of any authoritarian and protectionist drift by these regimes, but have become convinced that “capable states are central for development and for the capacity to use aid effectively”.²⁶ A substantial part of the seminar was thus dedicated to understanding the conditions in which these policies and institutions work, and to assessing whether these conditions exist or can be fostered. However, it is important to underline a number of conceptual and terminological distinctions that are important in demarcating the often subtle differences in development strategy and statehood, while also issuing a word of caution over the limits to *all* development policies in an era of global economic interdependence.

Development and states

Development, state-led development and the developmental state should be distinguished, albeit with an acknowledgement that usage of these terms in practice tends to overlap. Development is the almost

²⁰ Reinert, Erik (2007), op. cit., chapter 3.

²¹ Woo-Cumings, Meredith (1999), op. cit., p. 23.

²² This connection between rent-seeking behaviours and macro-economic crisis formed the kernel of the free-market attack on import substitution and other state-led development policies. A number of critics, however, have questioned this connection, suggesting “rents” play only a minor role in macro-economic turbulence. See Mkandawire, Thandika (2001), “Thinking About Developmental States in Africa”, *Cambridge Journal of Economics* 25:3, p. 300.

²³ Johnson, Chalmers (1982), *MITI and the Japanese Miracle: the Growth of Industrial Policy*, Stanford: Stanford University Press; Amsden, Alice (1989), *Asia's Next Giant: South Korea and Late Industrialisation*, Oxford: Oxford University Press; Wade, Robert (1990), *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialisation*, Princeton: Princeton University Press; Evans, Peter (1995), *Embedded Autonomy: States and Industrial Transformation*, Princeton: Princeton University Press; Kohli, Atul (2004), op. cit.

²⁴ Khan, Mushtaq H. (2006), “Governance, Economic Growth and Development since the 1960s”, p. 20.

²⁵ Meles Zenawi, prime minister of Ethiopia, has repeatedly emphasised the “transformative” role of the state, while post-genocide Rwanda under President Paul Kagame was mentioned in the seminar as a possible upcoming developmental state. President Cristina Fernández de Kirchner, meanwhile, has used the developmental argument frequently including in her government’s battle with Argentina landowners over taxes on soya and other grains in 2008.

²⁶ Fritz, Verena and Rocha Menocal, Alina (2006), “(Re)building Developmental States: From Theory to Practice”, London: ODI, p. vi.

universally embraced goal of broad-based economic growth. While its meaning is contested, ranging from the growth-centred focus of William Easterly to the vision of broad personal empowerment supported by Amartya Sen, it is generally assumed that the state's role should be that of regulator and facilitator, enhancing public-private linkages and redistributing income without undermining capital accumulation. Basic good governance is thus a core requirement for this felicitous path to riches, as is, according to Sen, democracy.

State-led development, meanwhile, refers to the interventionist policies applied by numerous countries in an effort to overcome fundamental obstacles to industrialisation. What distinguishes this approach, diverse as it is, from development *per se* is the lead role of a state, which through invention, import, incentives and/or terror seeks to guide and speed up the process of industrial acquisition. It entails no particular policy, bridging forced privatisation and collectivisation, autarchy and openness. Some of these policies may be flawed or irrational. Others, however, may succeed in meeting their goals only within a particular context: land reform, which proved fundamental to growth in South Korea or Taiwan, stymied economic progress in post-revolutionary Mexico, where it became a tool of political patronage;²⁷ a powerful economic bureaucracy in the shape of the Economic Development Board generated rapid modernisation in Singapore, but inefficiency and parallel economic circuits in the Soviet Union.

In short, a focus on state-led development foregrounds the nature of the institutional arrangements and the ways they interlock with socio-political reality, over and above the content of policies. As a result, it fits neatly with the view, espoused by Dani Rodrik among others, that states in successful developing countries tend to

learn over long periods, and through trial and error, how to craft institutions that can "embed" themselves in society and business so as to extract the most productive outcomes.²⁸

The developmental state, meanwhile, refers to a concrete historical reality: that of the breed of states, rooted in North-East Asia but also found in Botswana, Mauritius or Brazil over certain periods, which displayed an extraordinary vocation for national development. These states and their societies were for a number of reasons infused with an ideology of national accumulation that resulted in limited displays of political difference and democratic competition, astonishing capacities for austerity, a persistent interest in social equity, tight compacts between officials and business leaders, and an ability to judge the right moment to change economic models (from rudimentary industry to hi-tech, or from protection to commercial openness).²⁹ According to Kohli, these are "cohesive-capitalist" states, whose fanatical pursuit of economic growth "systematically incorporates and silences those who might detract from the state's narrow goals of industrialisation and rapid growth."³⁰ At the same time, and unlike the communist experiments in national development (which they resembled in other ways), these countries were exceptionally well-attuned to the dynamics of the global market.

Unique in their determination to develop within the given international economic framework, these states have not been easy to graft onto other contexts. A very rich literature provides extensive insights into the dilemma of this "non-transferable" success story, pointing to the cultural path-dependency of competent state institutions,³¹ the impossibility of imposing a "one size fits all" model on different political

²⁷ Land reform in the two north-east Asian countries increased rural incomes and productivity, broadened the domestic market and encourage investment in industry (Putzel, James (2001), op. cit.). In Mexico, on the other hand, land reform was instrumentalised by the ruling Institutional Revolutionary Party (PRI) "to make peasants dependent on the regime" (Magaloni, Beatriz, Weingast, Barry & Diaz-Cayeros, Alberto (2006), "Why Authoritarian Regimes Sabotage Economic Growth: Land Reform in Mexico", p. 4.

²⁸ "An approach to institutional reform that ignores the role of local variation and institutional innovation is at best inadequate, and at worse harmful." Rodrik, Dani (ed) (2003), *In Search of Prosperity*, Princeton: Princeton University Press, p. 13.

²⁹ An excellent summary of these characteristics can be found in Leftwich, Adrian (2008), op. cit., pp. 11-17.

³⁰ Kohli, Atul (2004), op. cit., p. 419.

³¹ Fukuyama, Francis (2004), op. cit., pp. 39-41.

contexts,³² or the subtle distortions exerted on the “pure” developmental state approach by interest groups or pre-capitalist power brokers.³³ More radically, it has been argued by Mushtaq Khan that the profound transformations entailed by fast economic growth depend on a concurrent social and political revolution. Aspiring developmental states that did not remake fundamental power relations provoked disaster: “the most persistent types of state failure occur when institutions fail because of an inappropriate match between internal power settlements... and the institutions and interventions through which states attempt to accelerate transformation and growth.”³⁴

Fragility, resilience and development

The seminar also sought to place the developmental state within the broader landscape of types of statehood, and in particular how they stand in relation to fragile states. Once again, the typology of weak, fragile, failed and collapsed states – as well as the variety of definitions and causes offered for this family of institutional conditions – tends to obscure any effort at clear categorisation. However, it was stressed in the seminar that the most adequate way of approaching state fragility is through the concept of a state’s failure to enjoy a monopoly over coercive power, taxation and popular allegiance within its national territory. Interpretations of fragility that derive from tracking state performance in a wide number of fields, exemplified by the World Bank’s Country Policy and Institutional Assessment (CPIA) rates, tend in this view to ignore the fundamental structural basis of fragility, opting instead to focus on its symptoms.

³² Evans, Peter (2004), “Development as Institutional Change: The Pitfalls of Monocropping and the Potentials of Deliberation”, *Studies in Comparative International Development*, 38:4, pp. 30-52.

³³ These are the key reasons for the failure of developmentalism in Nigeria and its demise in Brazil according to Kohli, Atul (2004), op. cit., pp. 393-408.

³⁴ Khan, Mushtaq A. (2003), “State Failure in Developing Countries and Institutional Reform Strategies”, in Tungodden, B., Stern, N. and Kolstad, I. (eds), *Toward Pro-Poor Policies. Aid, Institutions, and Globalisation. Annual World Bank Conference on Development Economics, Europe*, Oxford: Oxford University Press and World Bank, p. 168.

It was argued that the condition that stands in direct contrast to fragility is not development, but resilience. States that are resilient can be found at all wealth levels, yet are distinguished by their capacity to sustain their authority and legitimacy over a given national territory. This in turn gives them the wherewithal to resist external shocks and prevent internal conflict. For countries emerging from a period of civil war or crisis, the principal route to resilience is to be found in an “elite bargain”, whereby the leaderships of different social factions – tribes, private business or political movements, among others – strike a basic working agreement on the sharing of power and of the resources that this provides.

Such bargains can be found in a host of developing countries, including the compact between dominant classes and the civil-military bureaucracy in Pakistan,³⁵ between the military, regional power brokers and industrialists in pre-democratic Brazil, or between different tribes and regions federated in a dominant political party in post-independence Zambia and Tanzania. At its heart is a division of “rents”, namely the extraordinary earnings that stem from ownership rights and privileged access to power. These bargains can fall apart if elite factions are left out, as they were in Uganda under the rule of Milton Obote and Idi Amin.³⁶ Therefore, stable, resilient states suffer from corruption (or rather, a division of spoils) that is entrenched in their basic system of governance. At the same time, it has been argued that this bargain serves the primary purpose of staunching violence between fragmented communities.³⁷

Elite bargains thus help to guarantee stability in potentially fragile states. Rapid industrial development, on the other hand, can threaten the agreed division of power and spoils by promoting new social classes and protest movements. The collision

³⁵ See for example Siddiq, Ayesha (2007), *Military Inc. Inside Pakistan’s Military Economy*, London: Pluto Press, pp. 67-69.

³⁶ Putzel, James (2008), “Crisis States Research Centre. Development as State-Making Research Plans”, draft paper for the Crisis States Research Centre-London School of Economics, pp. 8-10.

³⁷ North, Douglas C. et al (2007), “Limited Access Orders in the Developing World”, Washington DC: World Bank, pp. 7-8.

between the traditional power settlement and the dynamics of industrial transformation, as mentioned above, may entail the sabotage, boycott or capture of developmental policies and institutions, and in the worst cases a full-blown state crisis. To take one example, the resistance of strong feudal leaders at the regional level, many of them involved in commodity production, prevented Brazil from establishing a broader tax base for its interventionist state, resulting eventually in the debt crisis of the 1980s (foreign debt levels increased fivefold from 1973 to 1978).³⁸ Developmental states, on other hand, have largely been free of these limitations. They grounded their continuous economic growth and financial solvency on the weakened status of previous elites, enabling extraordinary rents and state support to be redirected towards the most productive economic sectors: the subordination of the agrarian, landowning class in Taiwan and Korea preceded rapid, planned industrialisation in both cases.

The tension between rapid, planned development and socio-political stability is also expressed in two other ways. The empowerment of modernising state agencies with broad rights to intervention in national economic life can, in a context of chronic political and social fragmentation, constitute a grave threat to state leaders, who will opt to weaken and sub-divide their security forces and state economic agencies so as to minimise the possible risks to their own authority. This political imperative of state weakening by vanguard developmental leaders has been described by one author as the “paradox of fearing and undermining the very mechanisms [the leaders] need in order to reach their own goals”;³⁹ Nasser’s Egypt, post-revolutionary Mexico and Zambia are offered as key examples of this survival instinct.

Secondly, the concentration of state power, whether in a democratic system or not, is an essential feature of all cases of rapid development. However, this

accumulation of power within the apparatus of central government tends to militate against civic participation and social inclusiveness. In the case of post-colonial nations, which are marked by horizontal inequality, weak state legitimacy and vulnerability to external shocks,⁴⁰ an excess of central power can undermine state construction and the building of social capital at a particularly delicate time – as was arguably the case in Sudan in the lead-up to the second civil war between north and south, beginning in 1983.

There is, however, no hard and fast rule to determine whether national cohesion or rapid economic growth should be a priority, and some countries have managed to combine both, though more often in sequence than simultaneously. Whereas the East Asian tigers, whose societies were broadly homogenous, began to democratise to a certain extent in the 1980s after decades of fast growth,⁴¹ India took the other path. It is notable in this respect that the sharp rise in Indian economic growth, beginning in the early 1990s, followed several decades of state-led development and economic stagnation, during which time successive leaders beginning with Prime Minister Jawaharlal Nehru placed overriding emphasis on the equal access to state power of the country’s fissiparous ethnic, religious and regional groupings.

The role of globalisation

The complications of attaining fast development in a fragile state are compounded by the current global economic context. In spite of their institutional weaknesses, the world’s fragile states tend to be deeply integrated into international circuits of trade and capital – even when these, as in Afghanistan or Somalia, are highly criminalised. While it is certainly true to say that land-locked African countries with limited trading opportunities are among the world’s

⁴⁰ Weiss, Meredith (2007), “What a Little Democracy Can do: Comparing Trajectories of Reform in Malaysia and Indonesia”, *Democratisation* 14:1, 26-43.

⁴¹ A recent study, however, suggests the process of democratisation in East Asia may well have stalled in many cases. East Asian Development Network (2007), *Political Transition and Economic Development in East Asia*, Indonesia: EADN.

³⁸ Kohli, Atul (2004), op. cit., p. 209.

³⁹ Migdal, Joel (2001), *State in Society*, Cambridge: Cambridge University Press, p. 69.

weakest and poorest states, it is nevertheless the case that the gravest cases of state collapse, ongoing civil war and public insecurity are associated with internal socio-political conflicts that are financially sustained by links to the global economy.

Even when such extremes of internal collapse and conflict are not reached, the global economy plays a vital role in conditioning the possibilities that states currently have of speeding up economic development. The 50 least-developed countries, many of which also figure on the lists of fragile states, enjoy a minuscule share of world manufacturing (estimated to stand at 0.2 percent in 2003), while 70 percent of Foreign Direct Investment in these countries is targeted towards natural resource extraction, incurring notorious risks for the country's quality of governance.⁴² China and India, massively populous countries with very low production costs, appear to have closed off the labour-intensive, low-wage route to development for small and poor countries - or at least caused profits in these sectors to slim. Lastly, programmes of structural adjustment and free capital movement implemented by international financial institutions have deprived many countries of the possibility of temporary trade protection, targeted subsidies, price controls and fiscal autonomy. The recent credit crisis has once again demonstrated the damage that can be done to developing countries by exposure to highly volatile international money markets, with private capital inflows to emerging economies falling by 50 percent in 2008.⁴³

Furthermore, it was emphasised in the seminar that the process of globalisation has also fundamentally altered public expectations, and thus the relationship between politics and economics in the nation-state. Modern states in a context of "global political awakening", to use the expression of Zbigniew Brzezinski,⁴⁴ are

obliged to reconcile three distinct goals: economic development, maintenance of the rule of law, and high levels of political participation. One consequence, mentioned above, is a tension between long-term technocratic planning, of the sort typical to first-generation developmental states, and public demands for participation. Perhaps more importantly, the preferential apparatus of developmental states – choosing "winning" firms, setting price differentials in their favour, limiting access to foreign currency – involves a system of skewed incentives for the private sector that may no longer stand up to public scrutiny.

In the case of Brazil, it was argued that the terminal crisis of the developmental state in the 1980s forced authorities onto the path of economic liberalisation, in which the country's economic solvency and its image to foreign investors were continually weighed against domestic demands. This balancing act results in very different outcomes depending on the country involved: China, for instance, has liberalised its economy while retaining a tight leash on political debate. India, as discussed above, profited from a late liberalisation under former Finance Minister (now prime minister) Manmohan Singh, which built on the foundations of "state socialism" by enabling entrepreneurs to profit from high educational standards and a consolidated political order.

These three countries, however, are populous nations, able to dictate the terms of their entry into the global economy.⁴⁵ Fragile states, particularly those with small and poorly diversified economies, are in a very different situation. Successful economic and political liberalisation tends to depend on strong initial state capacity; where this capacity is weak, finding the right mode of insertion in the global economy and possessing the capacity to police this interconnection has proved extremely difficult. In the case of very poor countries such as Haiti, a policy of complete trade liberalisation

⁴² Figures from UNCTAD (2006), *The Least Developed Countries Report 2006: Developing Productive Capacities*, UN: Geneva.

⁴³ UN (2009), *World Economic Situation and Prospects 2009 (mid-2009 update)*, New York: UN, p. 11. The estimated fall for 2009 is another 50 percent.

⁴⁴ Brzezinski, Zbigniew (2009), "Major Foreign Policy Challenges for the Next US President", *International Affairs* 85:1.

⁴⁵ A remarkable case is China's ability to thwart international norms on intellectual property, such as in the deal with Siemens to build Maglev trains. See "China Masters German Train Technology", *Deutsche Welle* 28/04/06. <http://www.dw-world.de/dw/article/0,,1982476,00.html> (accessed 01/06/09).

and reduction of state controls - dictated by international financial organisations - has perpetuated economic decline and a mono-export economy while increasing vulnerability to shocks, as manifested by the crisis caused by the sharp increase in food prices in the first half of 2008.⁴⁶ IMF interventions in many other countries have produced similar negative effects on growth.⁴⁷ For nations rich in natural resources, meanwhile, multinational business and geopolitical strategy tend to tolerate the establishment of economic enclaves run by unresponsive ruling elites, whose primary interest lies in nurturing their connections to "metropolitan" countries in the industrialised world rather than equitable domestic development.⁴⁸

As a result, globalisation has a mixed effect on global equality: while the poor and populous nations have risen up the scale, generating huge new middle classes, the smaller poor nations have diverged ever further from the richer world.⁴⁹

Searching for the right political conditions

The obstacles strewn in the path of rapid development cannot obscure the fact that some states have managed to leapfrog into the industrialised world. Their success raises three major questions: what initial conditions enabled them to carry out this feat? How

⁴⁶ Gauthier, Amélie and Moita, Madalena (2009), "External Shocks to Fragile States: Building Resilience in Haiti", in Heine, Jorge and Andrew S. Thompson (eds.), *Haiti's Governance Challenges and the International Community*, Waterloo: Centre for International Governance Innovation/Wilfrid Laurier Press, forthcoming.

⁴⁷ See, for example, the results of the 98-country survey in Dreher, Axel (2006), "IMF and Economic Growth: The Effects of Programs, Loans and Compliance with Conditionality", *World Development* 34:5, pp. 769-888.

⁴⁸ An extensive literature documents the links between multinational business, elites in poor countries with natural resources and their impoverished or poorly governed populations. See, for example, Moore, Mick (2001)- "Political Underdevelopment: What Causes Bad Governance?" *Public Management Review*, 1: 3, pp. 385-418.

⁴⁹ Held, David and Kaya, Ayse (eds) (2006), *Global Inequality: Patterns and Explanations*, Cambridge: Polity Press, introduction.

were developmental policies handled by governing elites so as to contain the obvious potential for corruption and favouritism towards certain businesses? And lastly, what issues must fragile states address if they wish to begin to follow the examples that have already been set?

Perhaps the most intriguing aspect of developmental states is the manner in which most were born. The focused and resolute administration of private enterprise and economic policy so as to enhance productivity depended upon submissive populations and authoritarian diktat; economist Ha Joon Chang recalls the almost total absence of imported consumer goods in South Korea in the 1960s.⁵⁰ Yet at the same time, these states were based on extremely unstable foundations: Singapore was a mini-state that seceded from Malaysia in 1965, South Korea the product of Japanese invasion followed by civil war, Hong Kong a tiny British outpost alongside the Chinese mainland. Traditional elites in Taiwan and South Korea had been decimated, the former by the Kuomintang-led repression of indigenous landowners in the late 1940s (the so-called "White Terror"), the latter by the destruction of landed elites during the Japanese occupation. In addition, in the wake of World War II, these countries were caught in the heart of zones contested by the Cold War superpowers. Their overriding priority was thus not economic growth in itself, but security and stability.

This general context, described as "regime trauma", did not immediately give rise to a developmental state: in the case of South Korea, it took until 1961 for such a state to emerge under the aegis of General Park Chung-hee. But the fear of democracy as an arena for public discontent and fragmentation, alongside the decisive weakness of traditional elites, oriented these states towards an arena of policy where they could be relatively autonomous, generate a basic level of national stability, and protect themselves and their nascent countries through the rapid accumulation of wealth.

⁵⁰ Chang, Ha-Joon (2007), op. cit., p. 5.

Similar experiences of trauma followed by a period of intense reconstruction and institution-building are scattered throughout history, perhaps most extraordinarily in Napoleonic France. It was argued in the seminar that, far from being models of transparency and good governance, these emergent regimes tend to be predatory and corrupt. Yet at the same time, they achieve mobile social pacts in which incentives to key interest groups, above all export-oriented businesses and the military, are combined with limits on rent-seeking and the extension of benefits to the poorest sectors of the population.

A fine line distinguishes such a workable, productive pact from an abusive or dysfunctional one. To take one outstanding example, Argentina and Taiwan shared until the late 1960s interventionist states, import substitution policies, export promotion programmes and technocratic economic planning. Their economic trajectories, however, could not have been more different.⁵¹

Several reasons can be invoked to explain the close proximity of national developmental policies that conclude in very distinct end-states. Above all, the pact in question is dynamic, and must adapt to social change and alterations in economic opportunity.⁵² Those states with miserable developmental experiences tended, on the other hand, to see programmes of economic stimuli captured by established elites, with business fighting to entrench special favours. In Guatemala, for instance, military rulers adopted developmental policies from 1970 in the hope of undermining a left-wing insurgency, only to find that a host of new state agencies, modified tariffs and fiscal preferences were “trapped in narrow sector dynamics, patronage-based privileges and discretionary public administration.”⁵³

⁵¹ Ngo, Tak Wing (2006), “Possible and impossible games: institutional order and social conflict in Argentina and Taiwan”, in Boyd, Richard, Galjart, Benno and Ngo, Tak Wing (eds), *Political Conflicts and Development in East Asia and Latin America*, London and New York: Routledge, p. 129.

⁵² Mkandawire, Thandika (2001), op. cit., p. 302.

⁵³ United Nations Development Programme (2008), *Guatemala: ¿Una economía al servicio del desarrollo humano?*, Guatemala City: UNDP, p. 412.

The part played by elite capture in undermining programmes designed to stimulate new structures of production is an enduring aspect of developmental failure across the world. In the case of the Philippines, the contrast with the industrial transformation of other East Asian countries is instructive: whereas the region grew on average 4.4 percent per annum from 1960 to 2000, the Philippines, despite adopting many of the same economic policies, grew at one percent. Unlike other countries, patterns of income distribution were unchanged, and remain the most unequal in the region; indicators for education, health and nutrition have fallen over recent years, while growth rates have stayed closed to zero since 2000.

At the heart of the Philippine problem, it was argued, stands the elite-led distortion of economic and regulatory institutions, which has become acute in the period following the overthrow of Ferdinand Marcos in 1986. Frequent demonstrations of public discontent and accusations of corruptions, while understandable, have hollowed out the political system and promoted a siege mentality in weak governments. Similar trends were noted in Sri Lanka, but in this case have been associated with the economic liberalisation programme implemented since the 1970s with the support of international financial institutions. A new presidential system, and the highly selective use of subsidies to state enterprises and development schemes (such as the huge project to develop irrigated land around the Mahaweli River), were used to consolidate extensive systems of political patronage and accentuate ethnic and class discrimination.⁵⁴

In short, an essential part of developmental success consists in the preservation of the autonomy of the state, which should in principle prevent the ossification of preferential treatment for favoured businesses and social groups. But at the same time, it is undeniable

⁵⁴ In fact this programme combined elements of liberalisation (trade and exchange rate reform) with more traditional developmental initiatives, including extensive support for export industries and state backing for strategic businesses. Dunham, David and Jayasuriya, Sisira (2001), “Liberalisation and Political Decay: Sri Lanka’s Journey from Welfare State to a Brutalised Society”, The Hague: Institute of Social Studies.

that developmental states have used their insulation from public pressures - largely through the absence of democratic channels of participation - to foster their own elites and indulge in extensive corruption. In certain cases, closed elite circuits of civil-military economic control, formerly praised for their growth record and openness to foreign capital, have become outstanding examples of "crony capitalism": Indonesia under Suharto shifted from the former to the latter in domestic and foreign perceptions over the space of months between 1997 and 1998,⁵⁵ while Russia under the rule of Vladimir Putin has been construed as both a mafia-led empire, headed by graduates of the country's intelligence services, and a model of state-led developmentalism.⁵⁶

Good and bad collusion

If we wish to decipher the different varieties and effects of elite capture, it becomes essential to examine the broader political contexts in which this occurs. Taiwan's central state until the 1980s was dominated by competing factions of the anti-communist Kuomintang regime, each of which were closely related to different crony businesses; similar patterns of public-private collusion could be found across North-East Asia. But the "trauma" of Taiwan's separation from mainland China, and the decimation of landed elites that followed, meant that public battles over the distribution of wealth were largely confined to the local political arena, where the indigenous Taiwanese remained powerful actors. In Argentina, however, Peronist, radical and conservative elites fought to dominate national politics and press their rival claims, causing violent shifts in economic planning from the 1940s onwards. Brazil's developmental trajectory, as mentioned above, can be traced to the schism between central planners and feudal elites who refused to participate in the financing of industrial policies, forcing the central government into dependence on foreign capital.

⁵⁵ It is estimated that 96 percent of the money used to pump liquidity into the Indonesian banking system was subject to some kind of abuse. See O'Rourke, Kevin (2002), *Reformasi: the Struggle for Power in Post-Soeharto Indonesia*, New South Wales: Allen & Unwin, p. 61.

⁵⁶ Matthews, Owen (2009), "Alternately Putin", *Times Literary Supplement* 27/03/09.

In other words, elites and social groups that did not fight over fundamental political goals (i.e. the distribution of resources and power), but instead regarded national economic construction as the essential prerequisite for satisfaction of their competing perceptions of self-interest, were able to create rapid and equitable growth – even if the policies used in this process were marked by corruption, property confiscation and abuses of the rule of law. Studies of developmental states have indeed confirmed that collusion and corruption, used in a timely and selective fashion so as to stimulate productive activities, were essential parts of the growth process. The *chaebol* business conglomerates in South Korea were subjected to intense political control through the publicly-owned banking system, and were obliged to respond to demands for kickbacks, as several scandals proved. Likewise in Japan, the *keiretsu* business groups were crafted and controlled by bureaucrats in the Ministry of International Trade and Industry (MITI). State allocation of extraordinary rents to business partners have also been crucial factors in speeding growth in contemporary China, Tunisia and Malaysia.⁵⁷

In the case of sub-Saharan Africa, dire economic failure stemmed in large part from the distortions exerted on developmental policies by unproductive neo-patrimonial networks linking political leaders to ethnic and clan constituencies. However, this failure owed more to the *type* of corruption than to the quantity of money pilfered from state coffers. More collusion between the state and the nascent entrepreneurial private sector in Africa, rather than dependence on foreign capital and markets, could in fact have assisted in boosting development.⁵⁸

⁵⁷ Khan, Mushtaq (2003), op. cit., pp. 177-178; Mkandawire, Thandika (2001), op. cit.; Johnson, Chalmers (1999), "The Developmental State: Odyssey of a Concept", pp. 56-60 in Woo-Cumings (ed), op. cit. According to the World Bank's report from 1993, the Asian developmental states created "an institutionalised form of wealth sharing aimed primarily at winning the support and co-operation of business elites" (World Bank (1993), op. cit., p. 181.).

⁵⁸ Mkandawire, Thandika (2001), op. cit.

Governance, democracy and political context

Three significant issues stem from the pivotal importance for the outcome of developmental policies of political competition and context. Firstly, major questions must be raised as to the value of good governance, understood as a set of procedures for public sector transparency and accountability, at early stages of development. A significant number of heterodox economists, foremost among them Mushtaq Khan, have stressed that policies which are most suited to instigating rapid development in poor countries are rarely based on the free market paradigm, even though markets are more effective generators of wealth at higher income levels. A series of statistical studies support this interpretation by finding that collusive practices and other instances of poor governance, *if handled by capable state agencies*, are essential in the early stages of growth,⁵⁹ whereas good governance appears to have no positive correlation with economic growth according to a recent paper by the French Development Agency.⁶⁰

Secondly, it underlines the importance of insulated and expert bureaucracies in applying effective economic policies, as has long been recognised by experts on the developmental state in the cases of Japan and South Korea. At the same time, this leaves unanswered the question of how such bureaucratic capacity can be acquired.

Lastly, the limited economic traction of good governance in poor countries and the need for substantial bureaucratic power points to a number of serious concerns regarding the role of democracy. While the historical data-set makes it clear that few developmental states have been democratic, and that fragile states with dominant political parties holding the elite bargain together can be cohesive and effective

(e.g. the National Resistance Movement in Uganda and the Rwanda Patriotic Front), the risks incurred by curtailing democracy and empowering economic technocrats in the hope that rapid growth can be attained are high. As discussed above in the case of India, fragmented, unequal societies may require an extended period of national political consolidation; where this has not happened, as in the Sudan or Myanmar, the national community rarely withstands the pressures of a non-democratic project for national development, which is frequently captured by a narrow set of ethnic or sectoral interests.⁶¹

Furthermore, the lack of public oversight of a set of policies that violates property rights or promotes favoured firms compounds the danger that these policies will be badly designed and implemented. In short, the ideal developmental state appears to demand a leap of faith by the domestic public and the international community, given that a non-democratic developmental failure remains a highly possible alternative outcome. Longitudinal studies of economic performance by democracies and dictatorships have indeed shown that the economic performance of the latter tends to be considerably more volatile than that of democracies.⁶²

Playing such dice in the contemporary developing world is an alarming prospect. The importance of political context in determining the right environment for developmental states makes it almost impossible to “export” a model: the right mix depends on the type of public-private collusion, the contours of political conflict, the trustworthiness and aptitude of public servants, and the solidity of the political community. All of these factors are volatile, interconnected, and almost impossible to measure with any certainty; at the same time, it would appear certain that few fragile states qualify.

⁵⁹ Khan, Mushtaq H. (2006), *op. cit.*, p. 19.

⁶⁰ Meisel, Nicolas and Ould Aoudia, Jacques (2008), “Is ‘Good Governance’ a Good Development Strategy?”, Paris: Agence Française de Développement, pp. 6-8.

⁶¹ “The problem in Burma is not the dominance of the military per se, but rather that the military have been unwilling or unable to share power with other groups.” Booth, Anne (2003), “The Burma Development Disaster in Comparative Historical Perspective”, *SOAS Bulletin of Burma Research* 1:1, p. 14.

⁶² Przeworski, A., M. E. Alvarez, F. Limongi (2000), *Political Institutions and Well-Being in the World, 1950-1990*, Cambridge: Cambridge University Press, pp. 143-144.

Even so, the discussion did help to underline the essential first conditions for creating viable developmental institutions. While social fragmentation and sectarianism are obstacles to the right sort of political competition in developmental states (though far from insuperable, as will be shown below), the crucial first step on the way to successful development is to ensure that the state is able to govern itself. The gathering and concentration of state power, accompanied by the gradual accumulation of expertise by public officials and efforts to make state agencies inclusive of all social factions, serves as a basis for the achievement of the state's "embedded autonomy". Where states are affected by criminal actors, the first priority must thus be to build coherence and trust within the administration. Capacity-building, in this sense, is a slow process, depending in large part on learning by trial and error, and on a certain continuity of personnel beyond changes in political power.⁶³

Building productive capacity

The impact of globalisation on weak and poor states occupied a central part of the debate at the seminar. While it was universally acknowledged that the flows of capital, trade, remittances, migrants and tourists had generated wealth as well as creating new, excluded peripheries in the global economy, there were differences over how this breach might be tackled to the benefit of fragile states.

An outstanding example of the consequences and contradictions of the new global economy can be found in the Caribbean. Profoundly connected to flows of capital, tourism and illicit goods, the Caribbean states have also distinguished themselves by registering astonishing levels of intra-regional inequality. It was

explained that the smaller, least economically diversified and most vulnerable islands nevertheless stood in the top income brackets in global terms, whereas none of the larger islands, with the exception of Puerto Rico, could be considered high-income.⁶⁴

The combination of prosperity and vulnerability can of course be found in other highly globalised economic environments, such as Singapore, which have successfully adapted to opportunities for off-shore finance, tourism, trade and foreign investment – while also exposing themselves to sharp drops in GDP in a global economic crisis. Their resilience has not consisted of any capacity to withstand external or internal shocks, in the sense of preserving the integrity of an established productive base, but rather of cultivating a national capacity for rapid social and economic adjustment. According to one recent assessment of developmental success, "leaders of successful national transitions reinvented their countries as 'nodes of value' by creating the necessary institutions... They understood that socially and culturally their countries could be national, but economically they had to be global."⁶⁵ In the Caribbean, the motto for island states has likewise become "dependence with dignity".

Two notes of caution are essential here as regards the condition of fragile states. Firstly, it is clear that a very different meaning is given to economic as against political resilience in the global economy: whereas the former involves fast adaptation, the latter depends in fragile states on an elite bargain that constricts the possibilities for structural transformation. Secondly, the scale of the economic and institutional lag between rich and poor countries signifies that many least-developed countries face huge challenges if they are to climb the ladder to the high value-added activities adopted by countries such as Singapore and Ireland. In this respect, hasty liberalisation and integration with

⁶³ Teskey, Graham (2005), "Capacity Development and State Building. Issues, Evidence and Implications for DFID", London: Department for International Development, Governance and Social Development Group.

⁶⁴ The high-income islands include Aruba, Cayman Islands, Anguilla and the Bahamas. At the other extreme stands Haiti, the poorest country in the Western Hemisphere, along with Cuba, Jamaica. According to the UN's Economic Vulnerability Index, five of the world's most vulnerable countries are Caribbean states.

⁶⁵ Ghani, Ashraf and Lockhart, Clare (2008), op. cit., p. 51.

the global financial or trading system can prove lethal to developing countries, either by destroying accumulated industrial capacity (as in Central and Eastern Europe in the 1990s),⁶⁶ or by posing the danger of a sudden and huge withdrawal of capital if global conditions and country risk perceptions become unfavourable.⁶⁷

Escaping the Malthusian trap

Instead, it was argued that the emphasis for impoverished countries must be placed on the minimal goal of building economic activities that generate increasing returns to scale. Production of natural resources or pre-industrial agriculture tends to suffer decreasing returns to scale: more investment and manpower results in progressively smaller gains in output due to natural scarcities. In addition, a concentration of valuable natural resources generates a well-known host of economic and political afflictions, reflected in the fact that none of the Asian developmental states was commodity-dependent.⁶⁸

Increasing returns to scale, meanwhile, can be found in industrial activity: bigger, more advanced factories produce ever more output at a lower unit cost. Economic expansion then brings with it higher productivity, and thus income, enabling countries to travel up the chain of value-added activities.

This distinction lies at the core of much economic theory, and was trumpeted in the 19th century as a justification for the protection and forced industrialisation of European economies. An alternative equilibrium-based economic narrative,

grounded in the gains to global welfare from free trade, has nevertheless become the dominant economic ideology. And while it provides many essential insights, it arguably fails to accommodate the “Malthusian” conditions of impoverished countries, which are locked into an international trading system solely as exporters of raw materials and unskilled manufacturing; without increasing returns to scale, they are doomed to stay entrenched in this low-profit productive base. Innovations in information and communications technology, the segmentation of the productive chain within corporations and the imposition of global intellectual property rules have only widened and hardened this breach. As a result, the ever greater shares of world manufacturing claimed by poor countries over recent decades appear to have driven profits ever lower in these sectors.⁶⁹

A vibrant debate on the best means to pull least-developed countries out of the poverty trap has embroiled development experts, political scientists and economists in recent years. Mass investment in basic health and social conditions, protection for infant industries, or international business compacts for firms operating in the developing world have been among the suggested novelties; rival authors have called for more targeted foreign aid, unconditioned aid or an abolition of aid.⁷⁰ The Growth Commission, for its part, acknowledged the temporary value of certain protective measures, while insisting that the establishment of a rule-based market system is the only sustainable route to growth.

Bearing in mind this debate, and the economic and political impediments facing fragile states, participants in the seminar engaged in intense debate over the outlines of a new approach that would incite development. At its centre, a broad consensus

⁶⁶ Tiits, Marek, Kattel, Rainer, Kalvet, Tarmo and Tamm, Dorel (2008), “Catching up, forging ahead or falling behind? Central and Eastern European development in 1990-2005”, *Innovation - The European Journal of Social Science Research* 21:1, p. 73. The destructive effect of market liberalisation on advanced industries is known as the Vanek-Reinert effect.

⁶⁷ As the IMF has acknowledged in a recent report, for countries without strong institutions and mature domestic financial systems, “volatility has tended to increase with greater openness”, IMF research department (2007), “Reaping the Benefits of Financial Globalisation”, Washington DC: IMF, p 35.

⁶⁸ Sindzingre, Alice (2007), “Financing the Developmental States: Tax and Revenue Issues”, *Development Policy Review*, 25 (5), p. 620.

⁶⁹ Wade, Robert (2005), “Failing States and Cumulative Causation in the World System”, *International Political Science Review* 26:1, p. 27. The point is also discussed in Collier, Paul (2007), *op. cit.*, chapter 6.

⁷⁰ Easterly, William (2007), *The White Man’s Burden*, Oxford: Oxford University Press, is highly critical of the aid system; Ghani, Ashraf and Lockhart, Clare (2008), *op. cit.*, maintain that unconditioned aid has historically been the most effective.

recognised the significance of opportunity: just as in Singapore, countries must adapt their policies to capture “niches” of increasing returns to scale, even if these are not the conventional labour-intensive industrial options chosen by the Asian tigers.⁷¹ But to do so, three broad enabling changes in policy are essential.

Firstly, global economic and trading rules must be changed to allow for easy access to technological knowledge by the poorest states, encourage regional policy-making, and reform the financial system so as to prevent as far as possible tax evasion, capital flight and extreme money market volatility.⁷² For the moment, in an opinion that was widely shared by seminar participants, the World Trade Organisation’s strictures on investment, services and intellectual property rights have “tipped the playing field decisively in favour of the developed countries and against the catch-up efforts of middle-income countries”.⁷³

Secondly, and in line with the conclusions of the debate on political conditions, major efforts must be expended on building competent and merit-based state structures, which are not subject to the whims of political change. The Weberian model of a meritocratic public service remains a partial guarantee that state intervention in the economy will be carried out effectively.

Lastly, the creation of local knowledge is pivotal. Capital controls, carefully selective use of foreign investment and sector-specific policy making all form part of an approach that would seek to capture for weak states the greatest amount of opportunities for participation in advanced economic activities. In this respect, it was stressed that leaders in fragile states must focus on the “knowledge intensity” of the economic activities they decide to sponsor.

⁷¹ Examples cited in the seminar by different participants included medical tourism, IT services, high value agricultural exports and Islamic banking

⁷² Several of the comments regarding the need for greater policy space and protection from market volatility made in the debate foreshadowed the recommendations made by the Commission of Experts on Reforms of the International Monetary and Financial System (the so-called “Stiglitz Report”).

⁷³ Wade, Robert (2005), op. cit., p. 29.

The need for equality

The traditional priority given to securing an industrial base was questioned by several participants in the seminar. On one level, knowledge-based activities in the current global economy appear to attract much greater value than participation in highly competitive manufacturing markets. In addition, the experience of developmental states has clearly illustrated that agricultural modernisation can play a significant role in speeding growth by boosting domestic demand. A recent UN report on least developed countries has insisted on the need for just such an integrated, cross-sector approach to industrial development.⁷⁴

Figures from East Asia during the developmental spurt from the 1950s reveal the success of land reform programmes in producing higher yields per hectare, boosting rural incomes and creating a larger market for domestically produced consumer goods. Where no land reform took place, as in Indonesia or Thailand, class-based political tensions have proved much more acute, profoundly affecting the stability and continuity of development policies in a way similar to that of Latin America.⁷⁵

In fact, a hallmark of rapid post-war developmental success has been the central role of redistributive policies aimed at channelling economic benefits (education, employment, housing or land) towards the poorest parts of the population.⁷⁶ Much of this had a simple political motive. The need for legitimacy in the absence of democracy determined that these states could not tolerate pockets of exclusion and resentment, while the continuity of policy – cherished by technocratic planning elites – mandated that rival classes and ethnic groupings had somehow to be incorporated within the governing coalition. The liberalisation of India’s economy in the 1990s stands out in this respect due to the simultaneous increase in quotas (known as “reservations”) in education and

⁷⁴ UNCTAD (2006), op. cit., pp. 279-280.

⁷⁵ Putzel, James (2001), op. cit.

⁷⁶ Leftwich, Adrian (2008), op. cit., p. 16; Sindzingre, Alice (2007), op. cit., p. 621.

public services for members of the lowest castes. Recent economic studies, meanwhile, have underlined the strong relationship between distributional equality and the possibilities of sustained and rapid growth, based in large part on the benefits to the economy of constructing a large consumer market and a more productive labour force.⁷⁷

Malaysia, however, provides perhaps the most intriguing example of a growth-based policy which featured prominent targets for group equality, and which was based on just such a pan-ethnic coalition. On achieving independence from Britain in 1957, this new South-East Asian country composed of three large ethnic groups had just emerged from a turbulent communist insurgency, and appeared destined to face intense economic and political turmoil. However, an outpouring of racial violence between the minority Chinese community, which was economically dominant, and the majority Malays, led in 1971 to the establishment a New Economic Plan, which aimed to reduce the ethnic dominance of the Chinese and was supported by all the ethnic constituents of the ruling Barisan Nasional coalition. Importantly, the plan sought not to redistribute existing assets or incomes, but to reassign the increases in wealth produced by rapid growth. As a result of its success, Malaysia now has a five percent poverty rate, and stands high in the human development index.

Major flaws can be found in Malaysia's effort to secure inter-group equality - including the evident dangers of politicising ethnic divisions -, while its effects on equality within ethnic groupings are of acute concern: current evidence suggests that only a small class of native Malays (the Bumiputra) are gaining in wealth, and not the group as a whole. According to the World Bank, Malaysia in 2005 reported the worst income distribution in Asia after Papua New Guinea. Corruption, poor democratic standards and

environmental degradation also sully the apparent equitable growth miracle of the country.

Even so, the stability and relative prosperity of the country in a region marked by ongoing state crises indicate that efforts to achieve greater equality are essential to the consolidation of stable political systems and large, productive domestic markets. This correlation has been confirmed by a number of studies, pointing to the importance of adapting growth-enhancing policies - or processes of market liberalisation - to the subtleties of social distribution in each country. Redistribution of the sort practised in Malaysia may also go some way to resolving the conundrum described earlier: namely, generating rapid development that is compatible with a society's underlying arrangements of power.

Aid and the international community

In the wake of an extended romance with the notion that states should be rolled back in favour of the private sector, the international donor community has embraced once again the nation-state as an agent of growth and a guarantor of security. A host of initiatives, including the World Bank's Comprehensive Development Framework, the New Partnership for Africa's Development (NEPAD), and most recently the Paris Declaration on Aid Effectiveness of 2005 have once again enshrined the state as the principal partner for aid efforts, and the main agent determining national policy. For fragile states, the Organisation for Economic Cooperation and Development's 10 principles of engagement, released in 2007, underlines the importance of adapting to local context and working alongside state authorities wherever possible.

At the same time, the seminar heard that the international community has developed an arsenal of

⁷⁷ Dagdeviren, Hulya, Van der Hoeven, Rolph and Weeks, John (2002), "Redistribution Does Matter: Growth and Redistribution for Poverty Reduction", WIDER discussion paper, Helsinki: UN; Ravallion, Martin (2005), "Inequality is Bad for the Poor", Washington DC: World Bank.

indicators and metrics with which to gauge levels of good governance, most notably the World Bank's CPIA evaluations, which use 16 criteria to numerically rate the standards of governance in any given country. These indicators have been seriously contested by many developing countries, and have failed on occasion to foresee serious internal crises, such as the 2007 post-election conflict in Kenya. More recent initiatives, notably the African Peer Review Mechanism, have managed to provide much richer and detailed analyses of in-country governance, albeit at the cost of rapidly accessible information.

In keeping with the spreading use of such indices and methodologies, implementation of the Paris Declaration is proceeding on a largely technical basis: countries are granted greater control over aid budgets so long as they keep to governance standards determined by the international community.⁷⁸ However, these tentative moves to national "ownership" are still closely controlled and patrolled by a donor community that seeks value for money in its foreign assistance, stresses poverty reduction above rapid development, and is acutely worried by efforts to subvert democracy and constitutional rights.

Here a sharp contrast can be drawn with the nature of foreign assistance to developmental states. Aid to South Korea was largely determined by Cold War geopolitics, in which little heed was paid to the democratic flaws of friendly post-colonial states but great emphasis was placed on strengthening state capacity;⁷⁹ a similar system of hands-off aid was employed in the Marshall Plan to Europe, with great success. A serious commitment to capacity-building in fragile states, it has been argued, demands a similar willingness by donors to draw back their conditionality or intervention so as to empower local elites and bureaucrats, just as a similar liberty in economic policy-making has been defended by numerous experts on the grounds that no definitive route to growth has

been found.⁸⁰ Only then can the learning processes described at the end of chapter 2 - the basic platform for later developmental policy-making - gain a significant foothold.

However, the conundrum of hands-off assistance is manifest in the grave misuse of funds or arbitrary styles of rule that are common among certain fragile states. On a purely practical level, the donor community has been profoundly disappointed by the results of its investment - 4 billion dollars in 2005 - to improve public administration.⁸¹ Quite how these countries can be leveraged towards more effective and transparent governance without major intrusions into their state structures is a problem that is vexing donor governments, and is a central worry of the European Union in its recent communication on situations of fragility.⁸² The concerns discussed earlier over the faith-like attitude that domestic public and international donors must adopt towards a government's claims that a developmental state is being constructed - usually at the cost of certain democratic liberties - makes it apparent that developmentalism is not just a historical phenomenon, or a set of trade and business policies, but also a discourse that can and has been used and exploited by political leaders for their own ends. As such, it is undoubtedly a useful rhetorical weapon in fragile states with weak democratic systems.⁸³ Meanwhile, for those countries where no developmental discourse or practice exists, it is uncertain what the international community could do to motivate elites towards it.⁸⁴

A compromise based on an evolving compact between donors and national governments may serve to paper over these dilemmas, and could also include obligations

⁸⁰ See, for example, the rejection of all growth theories in Kenny, Charles and Williams, David (2000), "What Do We Know About Economic Growth? Or, Why Don't We Know Very Much?", *World Development* 29:1, pp. 1-22.

⁸¹ Fritz, Verena and Rocha Menocal, Alina (2007), op cit., p. 544.

⁸² European Commission (2007), "Towards an EU response to situations of fragility", Brussels: EC.

⁸³ In this respect, see René Lefort (2009), "Ethiopia's famine: deny and delay", *openDemocracy* 24/03/09.

⁸⁴ Fritz, Verena and Rocha Menocal (2006), "(Re)building Developmental States: From Theory to Practice", London: ODI, p. 31 and throughout.

⁷⁸ Meyer, Stefan and Schulz, Nils-Sjard (2008), "From Paris to Accra: building the global governance of aid", Madrid: FRIDE.

⁷⁹ Fritz, Verena and Rocha Menocal, Alina (2007), op cit., p 542.

on foreign firms involved in natural resource extraction. Likewise, richer methods of governance assessment might be able to explore whether a government's claims that it is spurring development can be assessed, and if necessary dismissed. But in all likelihood, the international community will be obliged to tolerate a grey area of statehood - in countries such as Angola or Ethiopia - that claim to be embarking on the road to rapid development, while incurring numerous intentional abuses of human rights and governance flaws on the way.

Conclusions

The search for a way to halt the widening gap between the world's poor and rich, or to cure the festering sores of badly governed countries, has become urgent. While lifting billions of people out of poverty, globalisation has also reinforced the paralysis of countries unable to seize the opportunities it has provided. For very poor, fragile states, it has made escape from the initial conditions of political and economic existence almost impossible. In middle-income countries afflicted by fragmented elites or internal crisis, it has made the reconstruction of a national consensus on development considerably harder and more complex, although Brazil has proved that a resurgence is still possible.

At the same time, the developmental state paradigm is not the magic bullet it might at first seem to be. Closely tied to historical circumstances and leadership dynamics, the policies and powers that it embodies can easily be captured and distorted by interest groups and unscrupulous leaders. Global conditions, moreover, are not promising: an array of rules demand a level playing field for the industrialised world and countries essaying catch-up, while multinational companies segment the market and, on occasion, reinforce bad governance.

However, the miracles of North-East Asia, long ignored or shunned by an international community set on rolling back the state, do provide a set of valuable

insights. These are not policies, but pointers: issues that an aspiring developmental state must address if it is to build the capacity and expertise to achieve rapid sustained growth. On the basis of the seminar debate, these include the following:

1. **State capacity is essential.** To build this, continuity of policy and a certain protection of bureaucrats from the effects of political change are important, even if beneficial results only emerge over the long-term.
2. **States must control themselves.** Otherwise the black holes of statehood are rapidly filled by alternative actors, criminal forces and non-productive collusion, all encouraged by illicit ties to the international market.
3. **Political systems must be inclusive.** Only resilient states can hope to become developmental, although the precise method of political inclusion depends on circumstance. Post-conflict or crisis countries may be better suited to inclusive one-party states than political pluralism. Efforts to foster greater social equality are essential for both stability and growth.
4. **Global rules must adapt to the need for catch-up.** It is impossible to stop income divergence without real and meaningful special treatment for poor and unstable countries, particularly in trade, investment, finance and intellectual property.
5. **Countries must look for knowledge.** Low-skill manufacturing is no longer a way out of poverty. Instead, planners and politicians must look for ways to capitalise on their knowledge endowments, or devote energies to improving educational standards..
6. **Donors must look beyond numbers.** Richer assessments of national governance, combined with a greater interest in economic growth over poverty targets, are needed if donors are to bring about sustainable development.

It is clear from these six points that no developmental model can be sold to an eager fragile state. At the very least, however, these recommendations may offer some guidance through the complex and turbulent changes in global governance and the world economic system that now appear to have begun.

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Despite their high poverty rates, the Asian tigers defied all expectations in the decades after World War II. Through meticulous state planning and coordinated national effort, the developmental states of the region managed to achieve sustained rapid growth, enabling them to reach the income level of the Western economies - and even surpass them.

For years, however, the international community dismissed these economic miracles as the effect of Asian cultural and institutional values that could not be replicated elsewhere. In other developing countries in Africa, Latin America and Asia, the same policies of state planning and intervention led to ruin. The absence of democracy and a reliance on highly cohesive societies suggested that these successes were oddities, not models.

But in a two-tier world, marked by a widening breach between the richest and poorest countries, the appeal of the developmental state is growing. For the world's fragile states, where both economic performance and institutional capacity is weak, and where illicit activities and ungoverned spaces are spreading fast, the need for new approaches is urgent. This report, based on a seminar of experts from four continents held in Madrid, asks what lessons can be salvaged from the developmental state for today's poor and fragmented nations.

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