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978-0-521-83670-8 - State-Directed Development: Political Power and Industrialization in the Global Periphery

Atul Kohli

Excerpt

[More information](#)*Introduction**States and Industrialization in the Global Periphery*

Legitimate states that govern effectively and dynamic industrial economies are widely regarded today as the defining characteristics of a modern nation-state. Ever since Western countries developed such political economies a few centuries back, those left behind have sought to catch up. Among late developers, countries such as Japan and Russia avoided being colonized by consolidating their respective states and adopting alternative strategies of industrialization, with varying results. The search for development among late-late-industrializers of Asia, Africa, and Latin America intensified mainly after the Second World War, when numerous activist states emerged as sovereign. It is clear from the vantage point of the end of the twentieth century that state-led development efforts have been more successful in some parts of the global periphery than in others. This book looks at the role states have played in fostering different rates and patterns of economic development, especially via deliberate industrialization.

States in most peripheral countries of Asia, Africa, and Latin America are important, active economic actors, engaged in varying patterns of state intervention. In some developing countries the state's economic role has come to be associated with both rapid industrial transformation and enhanced equity. In other cases, by contrast, governments and bureaucrats have pilfered the economic resources of their own societies, failing to stimulate economic growth and facilitating transfer of wealth into the hands of unproductive elites. In yet other cases, state intervention is associated with mixed outcomes: States have helped to solve some important economic problems, while ignoring other problems and creating new ones.

This study undertakes a comparative analysis of the state as an economic actor in developing countries. Why have some of these states been more successful at facilitating industrialization than others? This question really has two components: What features distinguish state intervention in the more successful cases from intervention in the less successful cases? and How does one explain varying state capacities to choose and implement

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economic decisions? The first question of patterns of state intervention focuses both on the state's policy choices and on its relationship with such key economic actors as business and labor. By contrast, the second question, concerning state capacities, looks to the institutional character of the state itself, an identity often assumed well before the political elite initiated deliberate industrialization. This book then is about patterns of state construction and patterns of state intervention aimed at promoting industrialization.

It is mainly an inductive study that seeks a general understanding of the state as an economic actor in developing countries via detailed analyses of four major developing countries of the twentieth century: South Korea, Brazil, India, and Nigeria (see Table 1 and Fig. 1, below). These cases provide a range of variation in state capacities to pursue economic transformation, from a fairly effective, growth-promoting state in South Korea to a rather ineffective and corrupt Nigerian state, with Brazil and India providing mixed cases. What helps to explain these variations? Indeed, this is a key puzzle in late-late-development.

The main argument of the book, drawn from comparative historical analysis of these four countries, is that the creation of effective states within the developing world has generally preceded the emergence of industrializing economies. This is because state intervention in support of investor profits has proved to be a precondition for industry to emerge and flourish among late-late-developers. Patterns of state authority, including how the politics of the state are organized and how state power is used, have decisively influenced the economic context within which private economic decisions are made. They are thus important, nay, critical, for understanding varying rates and patterns of industrialization. Patterns of state authority, in turn, often exhibit long-term continuities. Colonialism in the first half of the twentieth century, especially, was defining of the state institutions that emerged in developing countries, and that in turn molded their economies in the second half of the century.

### I. Some Clarifications

The focus of this study requires, if not a justification, at least some preliminary clarifications. Three brief caveats are in order.

First, it is clear that development involves a lot more than economic growth and that variations in economic growth reflect more than underlying variations in industrial growth. Moreover, any study of the role of the state in industrialization must attend to issues of agricultural growth and income distribution. Nevertheless, the primary focus of this study is on the political and policy determinants of industrialization, because industrial growth is a key determinant of any country's overall economic growth,

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and economic growth remains a core element of any understanding of development.

Second, a central concern with the economic role of the state in development really does not require any justification. It is more than an idiosyncratic assertion to hold that states are important economic actors in developing countries and thus worthy of serious scholarly interest – even if rates of economic growth reflect a host of other factors. In this regard one can note numerous variables that influence a given country’s economic performance over a specific period, including world economic conditions, resource endowments, differing starting points, demographic factors, national price regimes, patterns of savings, levels of technology, and entrepreneurship. For their part, however, historians of economic processes repeatedly emphasize the significance of institutions, especially the role of government. Lloyd Reynolds, for example, concluded his major study of economic growth in the “Third World” by observing that the analysis of underlying economic factors does not fully reveal the “mystery” of “sources of sustained growth.” What is missing from the economic models, according to him, “can be labeled as political. Government matters.”<sup>1</sup> W. Arthur Lewis similarly noted in a presidential address to the American Economic Association that one building block of any full understanding of “the engine of growth” would be “a theory of government, where government would appear to be as much the problem as the solution.”<sup>2</sup> More recently, a number of scholars have gone further, suggesting that an activist state has been a key ingredient of rapid development, especially in parts of East Asia, and that, conversely, malfunctioning states have contributed heavily to developmental failures, say, in sub-Saharan Africa.<sup>3</sup> The *prima facie* case for a broad focus on state and development is thus strong.

<sup>1</sup> See Lloyd G. Reynolds, *Economic Growth in the Third World, 1850–1980* (New Haven, Conn.: Yale University Press, 1985), 413–14.

<sup>2</sup> W. Arthur Lewis, “The State of Development Theory,” *American Economic Review* 5 (March 1984): 8.

<sup>3</sup> See, for example, Peter Evans, *Embedded Autonomy: State and Industrial Transformation* (Princeton, N.J.: Princeton University Press, 1995); Stephen Haggard, *Pathways from the Periphery: The Politics of Growth in the Newly Developing Countries* (Ithaca, N.Y.: Cornell University Press, 1990); Robert Wade, *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization* (Princeton, N.J.: Princeton University Press, 1990); and Alice Amsden, *Asia’s Next Giant: South Korea and Late Industrialization* (New York: Oxford University Press, 1989). A recent assessment of this “developmental state” literature is Meredith Woo-Cumings, *The Developmental State* (Ithaca, N.Y.: Cornell University Press, 1999). For the role of the state in African cases, see Richard Sandbrook, *Politics of Africa’s Economic Stagnation* (Cambridge: Cambridge University Press, 1985). A recent collection in which a group of economists emphasize the role of institutions in economic growth, including the role of public institutions, is Dani Rodrik, ed., *In Search of Prosperity: Analytic Narratives on Economic Growth* (Princeton, N.J.: Princeton University Press, 2003). This volume came to my attention only as the present study was going to press.

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Finally, there is the issue of case selection: Why have Korea, Brazil, India, and Nigeria been chosen?<sup>4</sup> Two brief and preliminary justifications for case selection will suffice for now. First, these four are large and significant developing countries: Nigeria, for example, is the most populous country in sub-Saharan Africa, as is Brazil in South America (see Table 1, below).<sup>5</sup> Any meaningful generalizations about state and development would necessarily have to apply at least to these cases. Moreover, the general ideas developed below are actually examined against more cases than a focus on four countries may suggest. For example, detailed analysis of countries over time provides other cases within a single country, and some further check on propositions will be provided by examining them briefly against other cases, especially within each region. Thus, for example, I return in the conclusion to a consideration of how well the propositions developed with reference, say, to the Korean case apply to other successful East Asian cases or, similarly, the extent to which the propositions developed with reference to Nigeria help to explain other African failures. And second, as already noted, these four cases provide a range of variation – from effective state intervention in Korea to an ineffective state in Nigeria – that helps to frame the analytical puzzle: What explains such variation in developmental efficacy?

## II. The Intellectual Context

As an investigation of both state construction and state intervention in the developing world, this study addresses several interrelated scholarly debates. One of the more heated debates concerns the role of states versus that of markets in the process of late-late-development. A less well developed debate that this study engages concerns how it came about that some parts of the developing world acquired more effective developmental states than did others.

The systematic political and economic study of developing countries began only after the Second World War and grew rapidly thereafter. For some two to three decades the organizing framework was to seek generalizations

<sup>4</sup> Much can be said on this issue, and I return to some related concerns in due course, especially in the conclusion. Some basic development indicators of these four cases are summarized in Table 1.

<sup>5</sup> Other ready candidates for inclusion on the grounds of “large” and “significant” would have been China, Indonesia, Turkey, Egypt, and Mexico. Given its communist past, China was too much of an “outlier”; the Chinese case is nevertheless important for a discussion of “state capacity” and I consider it briefly in the conclusion. Egypt has been so mired in regional conflicts that it is atypical. Indonesia, Turkey, and Mexico, however, were all worthy of inclusion. The main excuse for not including them is limited scholarly energy. One useful comparative analysis that goes over some of the same thematic concerns as this study but with reference to Mexico, Egypt, Turkey, and India is John Waterbury, *Exposed to Innumerable Delusions: Public Enterprise and State Power in Egypt, India, Mexico, and Turkey* (Cambridge: Cambridge University Press, 1993).

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about the developing world as a whole, with an emphasis on determining how this world, the “Third World,” was distinct from the one composed of the more advanced and industrialized political economies. This approach held as much for political scientists and sociologists associated with the modernization framework as it did for radical dependency critics and for economists trying to carve out a niche for economic development studies within economics. Thus modernization scholars worried about the prospects for stability and democracy in the developing world, dependency scholars examined why dependent political economies were not likely to replicate the dynamism associated with early capitalism, and economic development specialists often argued that market imperfections so prevalent in the developing world necessitated state intervention and import substitution.<sup>6</sup>

But this early development literature seldom asked why some developing economies performed better than others. This is because in an important sense, it was simply too early to ask this question in the 1950s and the 1960s, as only in the 1970s did the dramatic variations in performance across developing countries, especially in rates of industrialization, start to become apparent. Only from then on did these variations become a central concern for development scholars. By contrast, insofar as the earlier literature shed some light on these issues of comparative political economy, it was only indirect: Modernization literature could be construed as suggesting that variation in economic performance may have something to do with the role of regime type: democratic versus authoritarian; dependency literature proposed that the same variations may instead reflect greater or lesser dependency on global capitalism; and it was implicit in the economic development literature that varying economic performance was considered to reflect the relative success of the state’s efforts to rectify market imperfections. These were important insights, some of which are incorporated into the empirical analyses below. We also revisit more specific hypotheses associated with these literatures in the conclusion. Suffice it to note for now that none of these earlier frameworks is up to the task at hand because they were not designed for the explicit purpose of developing sound political economy

<sup>6</sup> These are large bodies of literature and this is no place to discuss them. For one good review of the modernization literature, see Samuel Huntington, “The Change to Change,” *Comparative Politics* 3 (April 1971): 3, 283–322. Dependency literature is well reviewed in Gabriel Palma, “Dependency: A Formal Theory of Underdevelopment or a Methodology for the Analysis of Concrete Situations of Underdevelopment?,” *World Development* 6 (1978): 881–924. And the literature on economic development is usefully assessed in Albert O. Hirschman, “Rise and Decline of Development Economics,” in Hirschman, *Essays in Trespassing: Economics to Politics and Beyond* (Cambridge: Cambridge University Press, 1981); and Paul Krugman, “Toward a Counter-Counter-Revolution in Development Theory,” *World Bank Economic Review*, Supplement (Washington, D.C.: Proceedings of the World Bank Annual Conference on Development Economics, 1992, 1993).

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explanations of variations in rates and patterns of economic development across the developing world.<sup>7</sup>

The political economy debate on why some parts of the developing world have had faster-growing economies than others polarized in the last two decades of the twentieth century around a more neoliberal, promarket position, on the one hand, and a statist argument, on the other hand. The promarket position emerged nearly hegemonic, especially among some economists and development policy practitioners.<sup>8</sup> For its part, the statist argument, often articulated by interdisciplinary scholars of development, provided a cogent scholarly dissent.<sup>9</sup> This book hopes to advance this debate further yet by developing the existing statist position, though not by adopting an aggressive antimarket position. On the contrary, one of the themes of this study is that state intervention in rapid industrializers was often characterized by market-reinforcing behavior, understood in the sense of supporting profitability for private investors – and not as strengthening competitiveness or openness or, even less, as a state’s self-limiting proclivity. The state versus market mind-set thus is simply not very helpful for understanding how the interaction of states and markets has served to produce a range of economic outcomes.

Two claims at the heart of the promarket position on economic development are examined. First, there is the outward-orientation claim, which suggests that greater openness and greater competitiveness in the economy generate higher rates of production growth via more efficient allocation of scarce resources. And second, the laissez-faire claim holds that state intervention in the economy necessarily generates distortions that hurt economic growth. Although the outward-orientation position is the more compelling of the two claims, it nonetheless requires a number of qualifications about the importance of state intervention for export promotion and about the problem of identifying the causal direction between exports and growth. Moreover, the preponderance of the evidence indicates that

<sup>7</sup> I have critiqued the modernization and dependency literatures for their neglect of the autonomous and varying role of the state in development and the development economics literature for assuming that states will play a “welfare maximizing” role without a good understanding of when and how states might take on such a role. See “Introduction,” in Atul Kohli, ed., *The State and Development in Third World* (Princeton, N.J.: Princeton University Press, 1986); Atul Kohli, *The State and Poverty in India: The Politics of Reform* (Cambridge: Cambridge University Press, 1987), chap. 1; and Atul Kohli, “State, Society, and Development,” in Ira Katznelson and Helen Milner, eds., *State of the Discipline* (New York: W. W. Norton, 2002), 84–117.

<sup>8</sup> See, for example, Anne Krueger, “The Political Economy of the Rent Seeking Society,” *American Economic Review* 64 (1974): 291–303; Deepak Lal, *The Poverty of “Development” Economics*, Hobart Paperback no. 16 (London: Institute of Economic Affairs, 1983); and World Bank, *Development Report* (New York: Oxford University Press, 1991).

<sup>9</sup> Among others, see Wade, *Governing the Market*; Amsden, *Asia’s Next Giant*; and Evans, *Embedded Autonomy*.

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late-late-industrialization has always commenced under conditions of protection. As to the laissez-faire claim, there is a stunning lack of evidence for the proposition that less government facilitates more rapid industrialization in the developing world. On the contrary, the evidence shows that state intervention aimed at boosting investor profitability is strongly associated with rapid industrialization. This study investigates validity of these claims via detailed case materials, and the main findings – that there are serious doubts about these claims – are summarized in the conclusion.

The main dissent from the promarket position in contemporary development studies is offered by statist scholars who emphasize the constructive role played by state intervention in select, successful cases. This literature has carefully documented how numerous such state interventions – tariffs, subsidies, credit control, manpower training, technology promotion, and bureaucratic cooperation with the private sector and oversight – have contributed to industrialization and rapid growth, especially in East Asia. Other scholars have gone further, asking what sort of states are capable of such interventions and often emphasizing such variables as leadership priorities and/or the quality of bureaucracy.<sup>10</sup> The present study builds on this literature; indeed, it could not have been written without the foundation laid by these bold and original formulations. One argument that is central in this statist literature informs the thinking here as well – that successful state intervention often involves close cooperation between the state and private investors. At a popular level, this idea is often expressed in such characterization of East Asian political economies as “Korea Incorporated” or “Taiwan Incorporated.” At a more scholarly level, the idea is expressed as “embedded autonomy” being a precondition for successful development, an idea that suggests not only close cooperation between the state and business but also a measure of insulation for the bureaucratic elite so as to minimize corruption and “state capture” by private interests.<sup>11</sup>

Although the present study builds on the statist literature, it also departs from that literature in important ways. First, this study is as interested in the question of why some parts of the developing world have acquired more effective states than others as it is in the more widely discussed question of what characterizes effective, developmental states and what exactly such states do to foster rapid industrialization. This shift in focus demands a more

<sup>10</sup> A highly influential early such study, not of a developing country, but on reinterpreting the Japanese experience, was Chalmers A. Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925–1975* (Stanford, Calif.: Stanford University Press, 1982). The most significant recent contribution along these lines is Evans, *Embedded Autonomy*. See also the citations in n. 3.

<sup>11</sup> See Evans, *Embedded Autonomy*, passim but esp. chap. 1. There is some striking overlap between Evans’s book and this one. However, as explained immediately below, differences in the questions posed, modes of analysis, and the underlying theoretical orientation also loom large.

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historical orientation because the core character of these states was often acquired long before they started intervening in the economy to promote development. A comparative historical analysis, in turn, leads to a consideration of the role of varying types of colonialisms in molding different types of states across the developing world. Second, this study, in examining issues of state effectiveness, is as concerned with the political organization of the state as it is with bureaucratic capabilities. A central concern then is with power, as distinct from competence or information. And finally, when analyzing what exactly interventionist states do to promote rapid industrialization, I focus as much on issues of mobilizing basic factors of production as on improving the efficient use of such factors via upgrading technology or “learning by doing.” This shift, too, leads to a more detailed consideration of such issues as (1) the state’s capacity to collect taxes and thus to make public investments and (2) the state’s role in disciplining the labor force. In sum, the present study, while clearly a part of the scholarly statist dissent from the more neoclassical accounts of development, at the same time departs from many existing statist accounts by providing a more historical and political analysis of the state’s role in both promoting and hindering industrialization.

### III. The Argument

Industrialization involves social change. While its narrow outcome is an increase in industrial production from existing or new factories, a broader set of societal changes have also generally accompanied, if not preceded, industrial development. These include a situation of political stability, the availability of experienced entrepreneurs and of a capable urban work force and mobilizable capital, the emergence of a market for industrial goods, and the presence of a growing body of technical knowledge. It is not surprising that among the earliest, “spontaneous” industrializers, such as England, the process occurred slowly, over centuries, and was “caused” not by any single development but by the merging of several streams of underlying changes. It was Gerschenkron who first argued persuasively that follower countries within Europe did not reproduce England’s “spontaneous” model. Instead, he held, they needed a more organized initiative from banks or states to help to generate “a movement on a broad front” to help industry to take off by mobilizing capital, creating a work force, and facilitating technology transfer.<sup>12</sup> What was true for late-developers within Europe or Japan was, of course, doubly true for late-late-industrializers of the developing world. Since the mid-twentieth century, states have sought to promote industry in most countries of Asia, Africa, and Latin America. What is also clear from

<sup>12</sup> See Alexander Gerschenkron, *Economic Backwardness in Historical Perspective* (Cambridge: Harvard University Press, 1962), esp. chap. 1.

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the vantage point of the end of the century, however, is that this half-century of effort has seen considerably more success in some parts of the developing world than in others. Explaining these divergent pathways is the main task of this book.

Based on detailed comparative analysis of four countries that vary from success to failure, I argue that the way state power is organized and used has decisively influenced rates and patterns of industrialization in the global periphery. A core analytical task involves identifying different patterns of state authority and then tracing the impact of those variations on economic outcomes and probing the origins of the varying state types. The role of concentrated political power in helping states to set the agenda for their economies also needs to be understood. No quick summary of the argument can substitute for detailed empirical analysis. This is not only because the devil really is in the details but also because summary arguments may be more persuasive after digesting the empirical details. I return to the big picture again in the conclusion. At this time, it is useful to note four of the arguments underlying the book's comparative analysis.

### *State Types*

Referring to ideal types, I identify three historical patterns of how state authority is organized and used in the developing world, neopatrimonial states, cohesive-capitalist states, and fragmented-multiclass states. Although these labels are less than fully satisfactory, they are better than most others in use. In any case, the focus ought to be more on the patterns described by the categories than on the labels themselves.

In addition to centralized and coercive control over a territory, a defining characteristic of all modern states is a well-established public arena that is both normatively and organizationally distinguishable from private interests and pursuits. Unfortunately, for a variety of historical reasons, this distinction between the public and the private realms was never well established in a number of developing country states, especially African states. As a result, a number of distorted states emerged with weakly centralized and barely legitimate authority structures, personalistic leaders unconstrained by norms or institutions, and bureaucracies of poor quality. These states are labeled here as neopatrimonial because, despite the façade of a modern state, public officeholders tend to treat public resources as their personal patrimony. These are therefore not really modern, rational-legal states. Whether organized as a nominal democracy or as a dictatorship, state-led development under the auspices of neopatrimonial states has often resulted in disaster, mainly because both public goals and capacities to pursue specific tasks in these settings have repeatedly been undermined by personal and narrow group interests. Of the cases analyzed in this study, Nigeria best exemplifies this ideal-typical tendency.

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Cohesive-capitalist and fragmented-multiclass states are two of the other ideal-typical states to be found in the contemporary developing world. The more effective modern rational-legal states in the developing world tend to vary mainly along two dimensions: cohesion of state authority and the state's class commitments. Cohesion of authority is manifest at both the inraelite and the elite-mass levels, and variations in patterns of authority demarcate the more cohesive states from the more fragmented ones. Developing country states may also be narrowly committed to working with capitalists or may rest their power and goals on a more multiclass base.<sup>13</sup>

The cohesive-capitalist states, sometimes called developmental states, are situated opposite neopatrimonial states on the political effectiveness continuum.<sup>14</sup> These states are characterized by cohesive politics, that is, by centralized and purposive authority structures that often penetrate deep into the society. For a variety of historical reasons these states have tended to equate rapid economic growth with national security and thus defined it as a priority. In their pursuit of rapid growth, cohesive-capitalist states have carved out a number of identifiable links with society's major economic groups and devised efficacious political instruments. Especially notable among the social links is a close alliance with producer or capitalist groups. An important corollary of this political arrangement is a tight control over labor. The main political instrument of these states is, of course, a competent bureaucracy. Since a narrow elite alliance between the state and capital is difficult to hold together, politics within these units has often been repressive and authoritarian, with leaders often using ideological mobilization (e.g., nationalism and/or anticommunism) to win acceptance in the society. Cohesive-capitalist states in developing countries, such as in South Korea under Park Chung Hee and in Brazil during both *Estado Novo* and the military dictatorship, thus share some organizational and class characteristics with fascist states of interwar Europe and Japan.<sup>15</sup> (Obviously, however,

<sup>13</sup> Careful readers may wonder whether such other combinations as cohesive-multiclass and fragmented-capitalist are also possible. The short answer is yes, but generally not in the developing world. A well-organized social democracy, such as Sweden, may illustrate the cohesive-multiclass category, and the United States may be a good example of a fragmented-capitalist state. A fuller discussion of these state types is beyond the scope of this study, though some such issues are discussed in due course, especially in the conclusion.

<sup>14</sup> It will become clear in due course, especially in the section on Korea, why I prefer the concept of cohesive-capitalist states over "developmental states." Suffice it to note here that the idea that developmental states facilitate development strikes me as too obvious for both analytical and normative comfort. A label such as cohesive-capitalist states (in an earlier draft, I had used the term "neofascist states") instead both captures better a state's independent political characteristics – by which I mean the ideology, organization, and the underlying class alliances – and cautions observers to take note of the costs incurred by the type of "development" these states promote.

<sup>15</sup> Generalizing about "fascist-style regimes" during the interwar years, Claudio Segre notes that "within wide national variations, fascist states had certain characteristics and aspirations in