The State, State-Society Relations and Developing Countries’ Economic Performance

Thesis for the degree philosophiae doctor

Trondheim, April 2007

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The State, State-Society Relations and Developing Countries’ Economic Performance

PhD–thesis 2007
Department of Sociology and Political Science
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Norwegian University of Science and Technology, NTNU
Trondheim
Dedication

To

**Guy Mhone**, a friend and mentor; and an excellent academic and a true African, who passed away on March 1st 2005;

**Chima Ubani**, a selfless, committed comrade - a civic saint - and a friend who lost his life on September 23rd 2005 in the struggle for a just and democratic Nigeria;

and

“                            ”.
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<td>CBOs</td>
<td>Community Based Organisations</td>
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<td>CMs</td>
<td>Consultative Mechanisms</td>
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<td>CP</td>
<td>Congress Party</td>
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<td>CPC</td>
<td>Confederation for Production and Commerce</td>
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<td>CSP</td>
<td>Civil Service of Pakistan</td>
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<td>E-Growth</td>
<td>Equitable Growth</td>
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<td>EDB</td>
<td>Economic Development Board</td>
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<td>EOI</td>
<td>Export Oriented Industrialisation</td>
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<td>EPB</td>
<td>Economic Planning Board</td>
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<td>EPU</td>
<td>Economic Planning Unit</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GI</td>
<td>Governed Interdependence</td>
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<td>HDB</td>
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<td>HDI</td>
<td>Human Development Indicator</td>
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<td>HPAEs</td>
<td>High-Performing Asian Economies</td>
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<td>HPC</td>
<td>Higher Policy Committee</td>
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<td>IAHDI</td>
<td>Inequality-Adjusted Human Development Index</td>
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<td>JPPCC</td>
<td>Joint Public-Private Consultative Committee</td>
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<td>KIST</td>
<td>Korean Institute for Trade and Energy</td>
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<td>MAN</td>
<td>Manufacturing Association of Nigeria</td>
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<td>MIA</td>
<td>Multilateral Investment Agreement</td>
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<td>MITI</td>
<td>Ministry of International Trade and Industry</td>
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<td>NACCIMA</td>
<td>Nigerian Association of Chambers of Commerce, Industry, Manufacturing and Agriculture</td>
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<td>NEP</td>
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<td>PACE</td>
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<td>PES</td>
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<td>PPP</td>
<td>Purchasing Power Parity/Pakistan People’s Party</td>
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<td>R&amp;D</td>
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<td>SAPs</td>
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<td>TEAMA</td>
<td>Taiwanese Electric Appliance Manufacturers’ Association</td>
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<td>TI</td>
<td>Transparency International</td>
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<td>TINA</td>
<td>There Is No Alternative</td>
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<td>TNCs</td>
<td>Transitional Corporations</td>
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<td>UNDP</td>
<td>United Nations Development Programme</td>
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<td>UNU</td>
<td>United Nations University</td>
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<td>WDI</td>
<td>World Development Indicator</td>
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<tr>
<td>WDR</td>
<td>World Development Report</td>
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<td>WIDER</td>
<td>World Institute for Development Research</td>
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Acknowledgments

In 1995, an encounter I had with a young scholar, Jonathon Moses, who was a Visiting Professor at the Social Policy Programme, University Durban-Westville (now University of Kwa-Zulu Natal), where I was registered as a masters student, completely changed my life. Until this encounter, I never dreamt of registering for a Ph.D. In the course of our discussion, he encouraged me to pursue a doctoral study. He had such confidence in my abilities that he told me that he had no doubt in his mind that I will successfully complete a doctoral programme. I subsequently registered for a Ph.D with Jonathon as my advisor. Since our first encounter and my subsequent registration, he has been one of the main motivating factors in my studies. Even when I wanted to drop out of the programme, partly due to lack of funding and my subsequent return to South Africa, Jonathon advised me to persist. Over the years, his level of supervision has been unprecedented. He has read every chapter in this study several times. Some of the remarkable features of Jonathon’s supervision, which has served as a source of encouragement to me over the last eight years of my studies, is his invaluable comments, judgement and criticisms, as well as the speed with which he gave me feedback on all the chapters. In most cases, he sent me comments within 48 hours after the receipt of each chapter. Over the years we have since developed a friendship and he has become one of my closest confidants in the world. I have been so privileged to be supervised by such a dedicated scholar. I am profoundly grateful to Jonathon for his abled supervision, friendship and for believing in me. Without him, this project will not have seen the light of day nor will it have been completed.

I also owe a debt of gratitude to Peter Evans who created the roadmap for my academic endeavour and for his support since I started this project. The two months (April and May 1999) I spent with Prof. Evans at the University of California, Berkeley and his communication with me since then have been of immense importance in shaping the overall direction of this study. I have benefited greatly from his insights and his invaluable suggestions.

Over the years, I have received a lot of encouragement from friends and colleagues alike. Among these is Paul Opoku-Mensah (a true brother), who was
instrumental to my registering at the Norwegian University of Science and Technology, Trondheim. Ever since, Paul always encouraged me to complete this project so that we can focus on the more important task of Africa’s development. Thank you Paul for being a source of strength to me. I am profoundly grateful to Adebayo Olukoshi, Abubukar Momoh, Eddy Maloka, Thandika Mkandawire, Harry Boyte, Mammo Muchie, Gary Hawes and Rune Skarstein for their encouragement and support over the years.

I wish to thank Nkem Abonta, Samuel Donyina-Ameyaw and Masuma Farooki for teaching me quantitative analysis. Without them, this project would have been poorer. I thank Kunle Amuwo, Mary Farrell, Peter Houtzager, Joseph Ayee and Ali Cheema for reading and commenting on some of the chapters, comments that have enriched this study.

I also wish to thank Patrick Bond for hosting me at P&DM as a Research Associate upon my return to South Africa in 1999, as well as Jan Aart Scholte who facilitated my three and half months stay as a Visiting Fellow at the Centre for the Study of Globalisation and Regionalisation (CSGR), University of Warwick. The generous assistance of Jan and his staff made it possible for me to conduct the survey for the synergy data. I wish to sincerely thank the survey respondents (who are located in various parts of the world) whose responses enabled me to construct the synergy dataset.

I have received support from a number of institutions. Among these are the International and Areas Studies, University of California, Berkeley and the Centre for the Study of Globalisation and Regionalisation, University of Warwick that hosted me as a Visiting Scholar as well as the Graduate School of Public and Development Management, University of the Witwatersrand where I was a Research Associate. I also wish to thank the Centre for the Future State, Institute of Development Studies (IDS), University of Sussex that granted me a three week fellowship to work on the project. Thanks also go to the Nordic African Institute, Uppsala that gave me a grant to return to South Africa to undertake field work at the initial stage of the project. I express my appreciation to the Faculty of Administration and Social Sciences and the Department of Sociology and Political Science, Norwegian University of Science and Technology for the financial support it gave me in the course of my studies, especially the former for the completion grant. These not withstanding, this project has been
largely self-financed. In order to complete this project, I have had to use my annual leave or take leave without pay to work on the dissertation.

My comrades have been very supportive in the course of undertaking this project. They include Otive Igbuzor, Chom Bagu, Emma Ezeazu, Innocent Chukwuma, Chidi Odinkula, John Odah and Titus Mann, all of whom have continued the struggle for democracy in Nigeria.

Two of my friends and comrades, Robbie Mopp and Langa Zita have been important sources of strength. They have supported me in both my career and personal life, including making it easier for me to adjust to my adopted country, South Africa. Without them, I may have not adjusted so well to South Africa as my home. I also wish to thank Jeremy Cronin for introducing me to the South African political landscape and for his invaluable advice over the last 11 years.

Other friends that have been supportive include Yvonne Mhone and Pat Mhone. I experienced pains with Yvonne and Pat. Their love has been important source of strength to me. Thanks Yvonne and Pat for being so supportive. I am also grateful to Sam Agbo who has been my friend and doctor for the last thirteen years. Cynthia Hussey, Greg Hussey, Portia Maurice, June Bam, Daniel Plaatjies, Wole Olaleye and Ed Dengu deserve special thanks.

I will forever be grateful to my mom, Mrs Juliana Edigheji Obadago, who has always been an inspiration. She made me to believe in myself. Mom, your wise counsels have guarded my life. I am also thankful to my sisters and brothers, especially Vincent Edigheji, who scarified his education for mine, and Ajere Edigheji, who died in his infancy before I could meet him. My cousin, Eloho (Elleybee) Okpoziakpo, has provided important support. As we both grew up, we came to realise that with hard work, the sky is the limit for us. Thus at times, when I wanted to give up on this dissertation, Elleybee always reminded me of this important principle.

The conditions of the African people, especially the poor and their resilience and struggle to overcome injustice, exploitation, oppression and dehumanisation serve as inspiration.

Thanks to the countless number of colleagues and friends who I have not named for the simple reason that they are too many of them, who have provided me with one form of assistance or the other in the course of this study.

I am sincerely thankful to my late grand mother, Mrs Victoria Ujerekere, for her love and imbedding in me the qualities to love life, respect others and to work
hard. I am sure she is smiling in heaven that her little boy has achieved this great success.

Omano E. Edigheji
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South Africa

5 July 2006.
Abstract of the Dissertation

The State, State-Society Relations and Developing Countries’ Economic Performance

By

Oghenemano E. Edigheji

Doctor of Philosophy in Political Science

Norwegian University of Science and Technology, Trondheim, 2006

Developing countries have undergone different development trajectories beginning in the 1970s -- a period that coincided with the current form of globalisation. Most of these countries have experienced low economic growth, poverty, high unemployment, diseases and inequalities. Few others have witnessed an unprecedented high rate of economic growth combined with qualitative improvements in the living standards of their people.

The initial and pervasive discourse about these diverse developmental outcomes was cast in terms of the former set of countries having gotten the “economic fundamentals” wrong while the latter set of countries got the “basic economic fundamentals” right. A key thrust of this conceptual framework was that the market is the most efficient allocator of resources and that integration into the global economy depends on the ability of countries to get the fundamental rights. Once again, there seems to be a resurgence of the Smithian invisible hand, where markets were seen as the best protector of the public good. Within this framework, the state becomes almost irrelevant to the process of national economic reforms and integration into the global economy – indeed unimportant to successful economic transformation and public welfare.

By the 1980s however, a school of revisionist institutionalists had emerged to reassert the centrality of the state to economic transformation. Broadly, this school argued that the ability of countries to take advantage of the opportunities flowing from economic globalisation depends on the state’s capacity. Consequently, a number of state capacity theories were advanced to explain variations in national economic
outcomes among developing countries. Despite these various attempts, we lack a comprehensive state-capacity theory. Furthermore, most of these explanations relied on a hodgepodge of case studies, and few were comparative in nature. Although, these sorts of case studies are valuable for their mastery of details, most failed to operationalise how differences in state institutions lead to variations in national economic outcomes. The only existing study that has attempted to develop comparative indicators is limited to “Weberianness”, and by so doing excludes an important aspect of state autonomy. Worse, none of the studies provided measurable indicators for state-society relations as important domestic institutions. The discussion in this study is anchored in measurable indicators of state autonomy and (state-society) synergy across developing countries. Furthermore, the study focuses on equitable growth rather than a narrower concern with growth that has been the major preoccupation of most studies.

This study develops a number of operational indicators for state institutions and state-society relations for the purposes of comparing developmental outcomes across countries. It develops and compares the institutional characteristics of twelve developing countries. On this basis, two main hypotheses were tested in this study, namely (a) that successful economic performance (that is high economic growth combined with low inequality) is highly associated with autonomous state institutions that are synergistically tied to its socio-economic partners, and (b) that a country’s institutional attributes determine its capacity to effectively engage with the globalisation process.

Through the pursuit and application of comparative indicators, the dissertation concludes that, indeed, countries with highly synergistic autonomous (Auto-Synergy) institutions have achieved egalitarianism and high economic growth. But contrary to a priori expectations, it also concludes that in rare circumstances, such as in countries with rich natural resource endowments and initial income and wealth distributions that altered the ownership pattern and production relations, countries with low or no levels of Auto-Synergy can still achieve equitable growth.
Chapter One

Introduction

1.1: The Problem

One remarkable feature of developing countries since the 1970s is the variations in their economic performance. We can use the words of Castells (1998) to describe these variations in economic performance: most developing countries have transited to fourth world status and few others have transited to first world status. Therefore the central question that will preoccupy this study is which factors accounted for these variations in national economic performance among developing countries; I will return to this question shortly.

Those developing countries that can be classified in the fourth world category exhibit features of underdevelopment including low economic growth rates, low rates of savings, low manufacturing bases, extreme poverty, high unemployment rates, high illiteracy rates, homelessness, ravaging diseases and high levels of inequalities. The majority of people in these countries have no access to basic social and physical infrastructure such as potable water, electricity, good sanitation, roads, and healthcare. These problems are coupled with high illiteracy rates, especially among women. In fact, social exclusion--that is, “a process by which certain individuals and groups are systematically barred from access to positions that would enable them to autonomous livelihoods within the social standards framed by institutions and values in a given context” (Castells, 1998: 73)--is one of the main features of these countries. They are also mired in high rates of debt and considerably dependent on foreign aid. Furthermore, most of these countries have also experienced a declining share of Foreign Direct Investments (FDI). All of the above coupled with technological backwardness and increased external dependence have earned these countries the unenviable names of the "lost countries" and the "basket cases". Worse, countries that have missed out on the industrial revolution are likely to miss out on the information revolution as well.
In contrast, those developing countries that transited to first world status have witnessed high rate of industrialisation resulting in near unprecedented economic growth, coupled with a qualitative improvement in the living standards of their populace. Remarkably, these countries have been characterised by both high economic growth and egalitarianism (E-Growth). In general, some of these developing countries, especially the Newly Industrialised Countries (NICs) of East Asia, as well as countries like Malaysia, achieved spectacular economic growth,\(^1\) eradicated absolute poverty and more than doubled real income per head between 1960 and 1990. These countries have transformed their economies from a heavy reliance on the primary sector in the 1960s, to the high-valued-added service sector in the 1990s. They have also experienced substantial inflows of FDI. Development scholars of diverse political persuasions and international financial institutions alike have lauded the spectacular developmental achievements of the NICs. In applauding the NICs’ development model some development scholars note of South Korea that it was catapulted from a hopelessly backward nation, with a per capital Gross National Product (GNP) lower than that of Ethiopia and Haiti in 1962 to an economic powerhouse, highly industrialised, to become the eleventh largest economy in the world, and the twelfth biggest trading nation by the mid-1990s. Within the same period, South Korea attained first world levels of human development – in literacy, education, and medical care, etc. (Moon and Kim, 1996; and Kim, 1997; cited in Bach, 2001). Commenting on the development success of the Asian Pacific, including the Asian NICs, Castells (1998: 206) notes,

I think it is fair to say that the Asian Pacific has become the main centre of capital accumulation in the planet, the largest manufacturing producer, the most competitive trading region, one of the leading centers of information technology innovation and production…, and the fastest growing market.

In Africa, the developmental successes of Mauritius and Botswana are being celebrated as the continent’s miracles. Botswana, achieved sustained annual economic growth rates of 14 percent in the 1970s, 10 percent in the 1980s, and 4.7 percent in the last decade of the twentieth century (Edwards, 1999: 51). Starting as one of the most impoverished countries in the world with a GNP per capital of less than $80 a year in

\(^1\) Even in the phase of the global financial crisis which hit the region in the late 1997, the region achieved an annual average growth of 7.2% (World Bank, 2002: 237).
1966, Botswana leaped to become a middle-income economy with a per capita income of $1,800 in 1996 (Samatar, 1999).

The variations in national economic performance among developing countries are further evidenced when we take a look at economic growth. Between 1973 and 1992, the change in Gross Domestic Product (GDP) per capita was 172 percent and 107 percent in South Korea and Thailand respectively. In contrast, GDP per capita declined by 21 percent and 9 percent in Nigeria and Brazil respectively in the same period. In regional terms, while the ten Asian countries in Madison’s (1995) sample, have a GDP per capita growth of 89 percent between 1973 and 1992, in the ten African countries, GDP per capita declined by 23 percent, and in the seven Latin American countries, GDP per capita declined by 18 percent (see Castells, 1998: Table 2.1).

The variations in economic performance are also noticeable in how various countries have transformed their economic base. For example, compared to Malaysia, where in 1980 and 1998 agriculture accounted for 22 percent and 12 percent of GDP respectively, Nigerian agriculture accounts for 21 percent and 32 percent of GDP in 1980 and 1998 respectively. In other words, while the share of agriculture’s contribution to GDP declined in Malaysia, it has increased in Nigeria. Also while between 1980 and 1998 industry’s contribution to GDP in Malaysia increased from 38 percent to 48 percent, in Nigeria the share of industry’s contribution to GDP has declined from 46 percent in 1980 to 41 percent in 1998. And most of the industrial sector contribution to GDP has been in the oil sector. The contrast between Nigeria and Malaysia is even more apparent when we look at the share of manufacturing and the service sector’s contribution to GDP. In Malaysia, by 1980, manufacturing contributed 21 percent of GDP and it increased to 34 percent in 1998. In both periods, the service sector contributed 40 percent to GDP. In contrast, the manufacturing sector in Nigeria contributed 8 percent of GDP in 1980 and declined to 5 percent in 1998. Similarly, the share of the service sector contribution to GDP in Nigeria declined from 34 percent in 1980 to 27 percent in 1998 (World Bank, 2000).

Before, proceeding to discuss the two main approaches that attempt to account for the variations of developmental outcomes in developing countries, it is important to note another significant development in the same period (from the 1970s): the dramatic and fundamental changes in the world economy: increased integration of the global economy; deregulation of financial markets; liberalisation of trade; as well as
increased cross-border flows of goods and services facilitated by the emergence and dominance of informatics technology. Together, these changes displaced the space of place with the space of flows, characterised by timeless times: the culture of real virtuality (Castells, 1998; Karunaratne and Tisdell, 1996). This process is both inclusionary and exclusionary, posing dangers and offering opportunities, to individuals, territories, nations and regions across the globe. The divergent economic performance among developing countries has therefore occurred in the context of globalisation. This is not to suggest that globalisation is the cause of the variations in economic outcomes, but rather to indicate that they have occurred at the same time.

The above are indicative of the variations in national economic outcomes in developing countries. These divergent developmental outcomes that began in the 1970s continued in the period covered by this study (1991-2001). The central question that motivates this study is: Why have some countries been more successful than others in terms of achieving both economic growth and the redistribution of income and wealth (equity)? This is a question that should be critically interrogated by both policy-makers and scholars alike. The developing countries’ experience can be analysed in light of the lesson we learn from this interrogation. My point of departure is a hypothesis that states with transformative capacity, which is derived from autonomy and synergy (I will elaborate on these concepts in chapters 2 and 3), are likely to achieve equitable growth. A comparative institutional approach will therefore throw some light on the variations in economic performance of developing countries. This approach not only reasserts the continued relevance of the state but also the importance of the characteristics of state institutions in national economic development. Institutionalists stress the centrality of institutions and argue that policy outcomes and national economic performance reflect the characteristics of these institutions. In Weiss’ (1998) view, to understand why some countries have achieved better economic performance than others, we should “in each case look at the particular combination of states’ fundamental priorities, its architecture, and its linkages with key economic actors” (p. x). In a similar vein, Kohli (2004: 20 - 21) notes that:

A full understanding of why some states are more efficacious than others at facilitating industrial transformation has to be centered around a concept of power as a societal resource that varies in quantity and can thus grow or decline. Efficacious states simply have more power at their disposal than less efficacious ones: …Key determinants of this variation in state power for development are organisational
characteristics of state institutions, on the one hand, and the manner in which states craft relations with social classes… on the one hand.

To the institutionalists, economic growth and development rests on the state's transformative capacity.

This study differs from most existing studies in a number of ways. First, it will attempt to articulate a holistic state capacity theory. Second, it will create variables and indicators to measure state capacity. Furthermore, the study will develop indicators for state autonomy. In doing so, it will build on the Weberian tradition and the case studies on developmental states that have stressed the importance of a coordinating/super ministry to successful economic outcome. It will also develop indicators for state-society synergy. Thus for the first time, these variables and their relationship to economic outcome will be tested empirically. Third, unlike most existing studies, this study will move beyond a narrow concern with economic growth to focus on equitable growth, that is, economic growth and how its fruits are shared by all segments of society. In other words, the focus is on equitable growth and not growth on its own.²

Methodologically, most of the variables in this study will rely on cross-national statistics, derived from public sources. But this study also employs data on synergy that were gathered by way of a survey conducted by the researcher. On the basis of these cross-national data, we will be able to make comparison among twelve developing countries drawn from Africa, Asia, the Middle East, Latin America and the Caribbean. Through regression analysis, we will show correlations and test for significance. However, in order to make inferences about causality, the statistical analyses were will be complemented by narrative analyses.

The regression results reveal three patterns: 1) that autonomy is a significant and strong predictor of equitable growth; 2) that synergy is a poor predictor of equitable growth; and 3) when both independent variables are combined they produce a significant but weak predictor of equitable growth.

² I will elaborate more on these issues in the last section of this chapter.
1.2: Conventional Approaches to Explaining the Economic Variations among Developing Countries

The variation in outcomes among developing countries has received considerable scholarly attention. Some scholars have made a career trying to diagnose the sources of variation in economic performance among developing countries. As noted previously, this endeavour can be divided into two broad approaches, namely: the neo-liberal and institutional approaches.

In the last two decades of the twentieth century, the dominant view on the differing developmental trajectories was that those that the successful had gotten the market fundamentals right and those developing countries that failed had gotten the market fundamentals wrong. In other words, successful countries (success being measured in terms of growth) are those that have allowed the free rein of market forces through policies of liberalisation, privatisation, flexible labour markets, reduction of government spending and the general rolling back of the state. These policies are held out as universally applicable panaceas and the only road to development in developing countries.

Consequently, various governments in the developing world, including those with previously ‘socialist’ leanings, have ‘opted’ for neo-liberal macroeconomic policies since the 1980s. These policies have been touted as the only solution to the developmental crisis of developing countries. To a large degree, most developing policymakers have in fact fetishized neo-liberal socio-economic policies and globalisation. One classical example in this respect is South Africa where within government circles, globalisation is seen as being synonymous with an impotent state, or at worst, the end of the state, and an era of policy convergence. From this perspective, South Africa must adopt policies in line with the rest of the world. As an ANC Discussion Document states, "South Africa must resist the illusion that it can elaborate solutions that are in discord with the rest of the world" (ANC, 1996: 16) Thus South Africa must abandon command economics and take on board the globalisation of trade and financial markets. In this view, globalisation translates into making South Africa a "viable" proposition to investors. Former President Nelson Mandela succinctly captured this point thus: the South African government “must abandon its obsession with grand plans and make economic growth its top priority” (Mandela quoted in the Sunday Times, 30 July 1995). Economic planning came to be perceived as antithetical
to economic growth. I have only used this as an example of how neo-liberalism has come to dominate within government circles in developing countries.

In other words, this school holds that ‘There Is No Alternative’ (TINA) to developing countries’ engagement with globalisation. This position was articulated by the London-based weekly, *The Economist*, in its special publication entitled, *A Survey of the World Economy: The Future of the State*: “For poor countries, undeniably, it makes a big difference to the prospects for economic development, international integration is their fast route out of poverty. With small domestic markets, backward technology and inadequate capital, third world countries have everything to gain from ending their relative isolation and developing close ties with the rest of the world” (*The Economist*, September 20th 1997: 6). In this logic, developing countries should adopt policies that are in tune with the rest of the world. In other words, developing countries must engage, even uncritically, with the globalisation process as a means to obtain economic growth and development. The needs to build investors’ confidence and to generate economic growth have therefore become the dominant factors in recent discourse on developing countries’ political economy. The underlying argument is that for developing economies to be competitive in the global economy and to generate the expected growth, these countries must adopt free-market economic policies. Swyngedouw summed up the dominant logic of this school thus:

The propagation of this globalisation ideology has become like an act of faith. Virtually each government, at every conceivable scale of governance, has taken measures to align its social and economic policy to the exigencies and requirements of this competitive world (dis)order and the forces of a new ‘truly’ free-market-based world economy. In the light of the real or imagined threat of owners of presumed (hyper)mobile capital that they might relocate their activities, regional and national states feel increasingly under pressure to assure the restoration of a fertile entrepreneurial culture. Fiscal constraint has to be exercised, social expenditures kept in check, labour markets made more flexible, environmental and social regulation minimised, etc. This, then, is heralded as the golden path that would lead regional and national economies to the desired heaven of global competitiveness and sustained growth.

… National political elite, both left and right, finds in these arguments an excuse to explain away their inadequacy to link political programmes with an increasingly disenfranchised and disempowered civil society (Swyngedouw, 2000: 66).

Market fundamentalism has unleashed a major assault on the state, which is regarded as an enemy of development. In relation to developing countries, the argument is that most have failed to achieve economic success because of their
governments’ interventions that have impeded the free operation of market forces. Hence the state which was once a major player in developing economic development has seen its role diminished. Summers and Thomas (1995: 423 – 424) summed up this shift on the role of the state and development thus:

A remarkable transformation in the prevailing views about how governments can best promote economic development has occurred in recent years. Where it was once thought that government needed to occupy an economy’s commanding heights by allocating credit, rationing foreign exchange, ensuring against dependence, and operating key industries, today it is widely accepted that government’s responsibility for directing the production and distribution of goods and services should be much reduced and the private sector’s role much enhanced. It is in those tasks for which markets prove inadequate or fail altogether – for example, investment in education, health, or physical infrastructure – that government has a central role.

Policies of market fundamentalism suffer from several limitations. First, in spite of the adoption of policies along the lines of the Washington Consensus, most developing countries remained impoverished. This raises questions about the appropriateness of this approach. Second, the Washington Consensus has largely ignored the question of inequality. In his study for the World Institute for Development Research of the United Nations University UNU/WIDER, Cornia (2004: 1) observed that:

the policy reforms inspired by the Washington Consensus have broadly ignored the issues of high and rising inequality, of its impact on poverty and growth, and of the measures required to contain it. Some proponents of the Washington Consensus view high inequality either as a non-issue or an important issue about which nothing much can be done.

Third, even when the Washington Consensus recognises the importance of governance, it tends to by-pass the state or minimizes its role. It emphasizes civil society and decentralisation as alternatives to the state because it conceives the state as enemy of development. It is in this regard that the World Bank’s (2000) World Development Report 1999/2000 focuses on supra-national and sub-national institutions; and on globalisation and localisation.

The study before you grows out of a different perspective in three ways. First, this study assumes that national institutions matter. Second, it also assumes that the variations in economic performance among developing countries may well be due to differences in state capacity. Third, this study examines the nature of the relationship between economic growth and inequality: economic performance is defined in terms of equitable growth -- E-Growth -- rather than the narrow concern with growth alone. In other words, this study is also concerned with how the fruits of economic growth

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3 This special publication was part of the edition of September 20 – 26th 1997.
are shared among the different segments of the population in a society.

This study is located within the institutional framework, where institution implies:

a structural feature of the society … the structure may be formal (a legislature, and agency in the public bureaucracy or legal framework), or it may be informal (a network of interacting organisations, or set of norms). As such, an institution transcends individuals to involve groups of individuals in some sort of patterned interactions that are predictable, based upon specified relations among actors (Peters, 1999: 18).

This study therefore departs from most existing studies that defined institutions as the “rules of the game” (North, 1990: 3). Consequently, the works that grow out of this tradition focussed on property rights and the rule of law. The problem is that rules might themselves be dependent variables, depending on the nature of state internal organisations and state-society relations. For example, if bureaucrats are not recruited on merit and there is fragmentation within the internal structures of the state, they are likely to be beholden to special interests. In that context, state officials are unlikely to observe and enforce the rule of law even when such rules are constitutionally entrenched. Corrupt state officials are likely to subvert the rules rather than enforce them. It is within organisations that conflicts are mediated, compromises made and decisions made on how resources are distributed. Also, it is organisational characteristics that shape whether or not rules are enforced. Therefore as Evans (1995:1) has correctly argued, “… rules …must have a concrete organizational structure behind them”. We therefore need certain organisational structures of the state for the rules to be articulated and enforced. It is for this reason that this study defines institutions as organisational structures.

The last two decades have seen an increasing emphasis being placed on institutional factors to explain variation in national economic performance. This resurgence of interest in institutional analysis is partly due to the remarkable economic performance of the East Asian Newly Industrial Countries (NICs) and partly due to a recognition that the prescriptions flowing from the Washington consensus were worsening the development situation in developing countries. Consequently, the role of national institutions, especially state institutions and state-society institutions, were re-introduced into development discourse. Although there are differences among institutionalists (a description of which is the subject of chapter 2), in general this framework places emphasis on both the internal institutional characteristics of the state (autonomy) as well as the state’s relations to organised interest groups. The thrust of the institutional analysis is that the nature and character of the state, as well as the nature of the state’s relationship to socio-economic actors,
determine a country’s economic performance, including its capacity to improve the welfare of its citizens, attract investment and become globally competitive. It will be argued that states with robust, dynamic and flexible domestic institutions achieved better economic outcomes than those where such institutions were lacking.

In trying to identify the factors that gave rise to these astounding developments, institutionalists have outlined conceptual and analytical schema that emphasize the centrality of institutions (Amsden, 1989; Wade, 1990; Evans, 1995; Silva, 1996; and Weiss, 1998). They point to the role of a relatively strong state with a capacity for effective, selective, and sustained interventions. I will show that the institutional characteristics of the state are contributory factors to its socio-economic performance. This is relevant for developing countries as they attempt to promote economic growth and equity concomitantly. Although most of the existing studies have not systematically provided variables, this study will show that easily identifiable institutional features of successful countries include meritocratic recruitment, internal promotion and predictable career paths, as well as the presence of a coordinating ministry or body. These features are combined with synergistic relations, or strong and cooperative state-society relations measured by the presence of intermediate organisations and encompassing societal groups. As we shall see, the variations in degrees of these institutional attributes determine a country’s economic performance, as well as its capacity to engage with the globalisation process. From the perspective of this study, state capacity means not only “the ability of the state to design policies and programmes and implement them in an authoritative and binding fashion” (Schmitz, 2005: 2) but also the ability to engage with and elicit cooperation from societal actors around its developmental project.

I will adopt three benchmarks to measure coherent and robust state bureaucracies (that is state autonomy). Max Weber ([1904 – 1911] 1968) established the first two benchmarks that lend themselves to empirical verifiability. These are meritocratic recruitment (based on a combination of education and examination) and a clear (predictable) career path that provides long term, tangible and intangible, rewards (including security of tenure) for bureaucrats. The third criterion used to measure state bureaucratic coherence is the presence of a super ministry or coordinating body. These three organisational features, which are easy to measure across countries, constitute an important frame of comparison. In particular, we can expect that meritocratic recruitment and predictable career paths generate corporate coherence, competence and the ability to pursue long-term goals. This, in turn, would reduce the possibilities of rent-seeking behaviour. Evans and Rauch (1999: 749) have eloquently argued that “public administrative organisations characterised by
meritocratic recruitment and predictable, long-term career rewards will be more
effective at facilitating capitalist growth than other forms of state organisations”. Furthermore, a competent bureaucracy that is synergistically tied to its economic partners may assist the latter to overcome collective action problems. It can also provide necessary information to business and social interests in a way that enhances private investment and a distribution of resources to accommodate all interest groups in a society. Such relationships allow state agencies, business, labour and community organisations to best utilise their comparative advantages and relieve each other of the burden of tasks that each cannot do well (on its own). In other words, the complex division of labour between the state, business and society ensures an efficient utilization of society’s resources.

It is important to note that there are differences in the literature on this subject (see chapter 2 for a detailed discussion on this issue). One strand of this literature emphasizes the repressive nature of the state and weak societal interest groups as sources of state capacity. This strand thus argues that what matters is the ability of the state to impose its will over society (see Johnson, 1982; Migdal, 1988; and Wade, 1990). In effect the despotic power of the state, that is its arbitrary control over its surrounding social structure, is the primary concern of this school of thought. They therefore privilege the internal organisation of the state in the analytical and conceptual frame. In contrast, the second strand argues that state capacity is derived from its ability to elicit cooperative relations from organised interest groups (see Evans 1995; and Weiss, 1998). This is referred to as the infrastructural power of the state, that is, “the capacity to penetrate society to extract resources from it, and to cooperate with social classes and groups in achieving collective goals” (Hobson and Weiss, 1995: ch. 1). This means that this approach emphasizes both the internal organisations of the state and its relations to non-state actors. Both schools however, have a common position that institutions not only matter but determine the state’s transformative capacity. But unlike the former perspective, this second strand emphasizes both the internal organisation of the state as well as state-society relations. To date, the latter relations have been confined to state’s relationship with business.
1.3: The Approach of this Study

This study is located within the institutional approach, but it will go beyond the aforementioned analytical and conceptual schema by focusing on the transformative capacity of the state. By transformative capacity we mean “the ability of policy-making authorities to pursue domestic policies adjustment strategies that, in co-operation with organised economic groups, upgrade and transform the industrial economy. These strategies encompass both structural shifts: from declining to expanding sectors, as well as technological diffusion and innovation; and the creation of industries, products and process” (Weiss 1998: 5). In this information age, transformative capacity also involves the ability of states to strategically upgrade their industrial sector, facilitate the location of sunrise industries within their territories, as well as aggressively undertake massive investment in Research and Development (R&D) since global competitiveness is driven by technological innovation. One of the shortcomings of existing studies is that they limit transformative capacity to state capacity to foster an accumulation strategy. In this respect they share a common characteristics with the neo-liberals’ framework that primarily concerns itself with economic growth (and, as noted above, ignores the question of inequality). This study departs from the existing works as it conceives of transformative capacity as the ability of states to distribute the gains of economic development to the general populace. Therefore, it defines transformative capacity as the ability of the state to foster E-Growth. The transformative capacity of the state, it will be argued, is derived from autonomous state institutions and from cooperative relations between the state and organised interest groups. Thus, unlike the existing studies, this study develops a holistic state capacity theory that links the state simultaneously to business and civil society. In other words, this simultaneity of relations is an important source of state capacity. It proceeds to specify how this relationship can be measured.

It is clear from the above that state-society synergistic relations constitute another important level of analysis in this study. These relationships are determined by the presence or absence of intermediate bodies where stakeholders -- business, labor, civil society and the state -- engage with one another to formulate, monitor and evaluate economic and industrial policies. Such relations, as noted earlier, are based on reciprocity and trust. Through the interactions provided by intermediate bodies or consultative mechanisms (CMs), the state and society are able to negotiate and build
consensus around a transformative project. In the process, each carries out activities where it enjoys comparative advantages and relieves the other of such tasks. This sort of cooperation enhances policy success.

Another factor that determines state coherence is the presence of a shared transformative project between political and bureaucratic elites. In most cases, the need to survive in the face of external or internal enemies is the basis of a shared transformative project. Economic transformation is thus a means to a political end: political legitimacy.

The success of a transformative project, to a large degree, depends on the presence of encompassing private interests: business associations, labor unions and civic associations. These are the counterparts of a coherent state. As argued in the proceeding section, encompassing societal interests provide for easy interaction, information sharing and effective coordination of policy between all stakeholders in the society. In such situations, the state is able to tailor services to meet the needs of a diverse population.

At this juncture it is important to note that in spite of the increased consensus that differences in national state-society institutions and their relations account for variations in national economic performance, existing studies (with few exceptions) have not provided comparable indicators to measure state autonomy. Although most studies from the institutional perspective stress the importance of state autonomy and interest group participation in economic policy-making in particular and public policy in general, they have not developed measurable indicators on this important source of state capacity. This has made it difficult to check, empirically, the generalisability of their claims. This study aims to anchor this discussion in measurable indicators of state autonomy and synergy across developing countries. In the doing, we might hope to stimulate further scientific research on these issues. In addition, while the importance of equitable growth or shared growth is being recognised, existing studies have not developed indicators on how this should be measured cross-nationally. This study attempts to fill this void as well.

Existing studies in the institutional approach have tended to focus on the developmental success of certain countries, especially the Asian NICs, at the expense of less successful cases. As a result, they have not shined much light on Africa’s developmental failures. This is the first casualty from the lack of clear comparative indicators: otherwise rich case studies lack clear indicators and variables of state
capacity. Hence, it is often difficult to make comparisons across countries. In the absence of operational indicators, scholars are tempted to dig for evidence to show that the East Asian states (for example) had the requisite capacity and therefore the foundation for their developmental success, while African and Latin American states are said to lack this capacity. Therefore the pre-analytical predisposition of researchers may have been informed by the categorizations of countries. The absence of cross-country comparable data, combined with neo-liberal attacks on the state, has resulted in a situation where African states have been given different labels. Mkandawire, one of African leading social scientists, has noticed this trend and consequently observed that:

If the state was given a central role in earlier views of the process of development in Africa the situation changed dramatically in the late 1970s and 1980s. The African state is today the most demonized social institution in Africa, vilified for its weaknesses, its over-extension, its interference with smooth functioning of the markets, its repressive character, its dependence on foreign powers, its ubiquity, its absence, etc. The state – once the cornerstone of development --- is now the millstone around otherwise efficient markets. It is now the “rentier state”, the “overextended state”, the “parasitical state”, the “predatory state”, the “lame leviathan”, “the patrimonial state”, the “prebendal state”, the “crony state”, the “kleptocratic state”, the “invented state”, etc…Although this inflation of epithets has reached high proportions in more recent years, …The many epithets underscore the fall from grace of the African state. It is now argued that not only has the state become dysfunctional in terms of management of larger societal issues, but also a real nuisance in la vie quotidienne of its citizens, as evidenced by the “withdrawal” from state-dominated economic and social spaces (Chazan, 1988a; Chazan, 1988b; Rothchild, 1992). Some even go so far as to conceive of the developmental schemes that completely circumvent or marginalise the state as non-governmental organisations, the private sector and local communities proceed almost surreptitiously with addressing issues of poverty and development without the encumbrance of the state (Mkandawire, 1998: 1 -2).

The point is that in the absence of measurable indicators for the sources of state capacity, there is a tendency for scholars to label states that have been successful as having the requisite state capacity, and to label states that have not achieved developmental success as lacking such attributes. In other words, the evidence may have influenced the various categorizations of countries. One way to overcome this is through the development of operational and objective indicators, which will enable researchers to make cross-country comparisons systematically. In fact, such an approach will enable researchers to test the link between institutions and economic performance. This is one of the primary objectives of this study: it aims to develop
indicators of institutions as a basis to explain variations in economic performance amongst developing countries. This study is therefore an attempt to operationalise the link between state capacity (state institutions and state-society synergy) and economic performance by developing measurable indicators for the purposes of comparing across countries. Development of comparable indicators, and the creation of a dataset on state autonomy and state society-relations will enable researchers and development agencies to explain variations in national economic performance between developing countries. In other words, this study will allow us to conduct a convincing empirical test of the posited link between state institutions and E-Growth. It is therefore hoped that this study can contribute to an understanding of why some developing countries have performed better than others. Such knowledge could be useful to policy-makers in designing requisite institutions, as well as to stimulate further research on institutional factors that underpin economic development – equitable growth.

1.4: Significance of the Study

Institutions not only matter but they determine the state’s transformative capacity. Institutions have not only been brought back, but they are alive and well. Also, institutional analyses have played a central role in explaining the different developmental trajectories of countries, especially developing countries. However, a major weakness of the existing studies has been their failure to articulate a state theory by which the state is link simultaneously to both business and civil society. This study attempts to fill this theoretical gap, a point to which I will return subsequently.

Another major limitation of the existing studies is that they are based on case studies (e.g., Evans, 1995; Amdsen, 1989; and Wade 1990). As such, they did not need to operationalise differences in state institutions and their relations to surrounding social structures. Instead, they focussed on the nature of institutions, and used this as a basis for explaining economic performance. One of the few studies that is comparative in nature is Evans and Rauch (1999), which examines the characteristic of state economic agencies in thirty-five developing countries to explain differences in economic performance. But even this major contribution is limited to an operationalisation of “Weberianness” -- not state autonomy as a whole. Also, the
study did not address/ operationalise the character of state-society relations as an essential variable in national economic performance.

In addition, there are marked differences within the institutional approach. While scholars like Midgal (1988) stress that a strong society undermines state capacity, others such as Evans (1997a) call for a strong society. But here a strong society is confined to civil society (to the exclusion of the business society). Evans uses the concept of state-society synergy to describe this relation. This study, as part of its main contribution, will depart from viewing strong state-strong society relations in terms of a zero-sum game, as envisioned by scholars such as Midgal (1988) to show that state-business-civil society relations enhance state capacity in a positive-sum game which enhances state capacity. The point being that a strong state and a strong society could be mutually beneficial to national development – this condition might enable both actors to share information, complement each other where they have comparative advantages and better utilise resources.

This study is also significant because of its theoretical contribution to the concept of state capacity. In particular, it adopts the concept of synergy and broadens it to include the simultaneous ties of the state to business and civil society, before developing ways to measure it. It departs from existing studies to show that state-business-civil society relations are a major resource of state capacity and a determinant of economic performance. The study is also significant because it aims to investigate the relationship between synergy and economic performance. For the purposes of this research, state-society synergy will be defined as institutional ties marked by the presence of formal institution/structures of interactions (policy networks) between the state and encompassing business associations, trade unions and civil society organisations. This focus on institutionalised ties is useful because it is here where policy decisions are made that shape outcomes. In other words, the synergy variable has three indicators: policy networks, encompassing societal actors and shared projects. Encompassing interest groups interact with the state via policy networks. This type of interaction is likely to contribute to the state’s capacity to successfully transform its economy and adapt to a rapidly changing global environment. It will therefore depart from existing studies to show that state-business-civil society relations are a major source of state capacity, and a determinant of economic performance. It will also demonstrate, empirically, the link between participatory/consultative structures and processes and economic performance.
Lastly, most existing studies focus on policy outcomes rather than systematically analyzing the workings of institutions in order to draw a link to economic growth and equity. This study attempts to operationalise the link between state-society synergy and economic performance in developing countries.

In the course of operationalising these variables, however, I experienced data limitation problems that caused me to continually shrink the analytical space of the study. Specifically, the sample size shrunk from forty developing countries (in the dependent variables) to sixteen countries (in the autonomy variable) and finally to twelve (for the synergy variable). The relative lack of data on the independent variables is partly due to the fact that researchers may not have seen the utility of cross-country comparable data. It might also be because for years, a neo-liberal (hands-off) approach dominated the intellectual discourse. As a result, the role of institutions was neglected. The relative lack of data has forced me to limit the study to twelve countries – this is the sample for which I have data for both the independent and dependent variables. These countries are located in four regions, namely Asia; sub-Saharan Africa; the Middle East and North Africa; and Latin America and the Caribbean. Of course, I would have preferred to test these arguments on a much larger sample (that would have yielded more robust findings), but there is not enough data to do this (across all variables). Unfortunately, this is a common problem in the social sciences. In spite of this we can still draw some conclusions from the study, even if they are somewhat tenuous. These conclusions might be useful coming at a time when the Washington Consensus has been considerably discredited and policy-makers and academics alike are looking for alternative ways to address the development crisis in the developing world.

Also, this study is timely because of the concerns in both academic and development circles that the current wave of globalisation is engendered inequalities within nations and among nations, and that if continued unabated, it will be unsustainable in the long-run.

While the study uses statistical methods to test the general relationship between independent and dependent variables (as well as their significance), it also relies on in-depth narratives to establish causality.

In adopting this approach, this study does not seek to be institutionally deterministic, as there might be several other relevant factors (e.g. geography, history, culture, natural resources, and so on). Rather, this study seeks to highlight the
importance of institutions to national economic performance – how institutions influenced economic outcomes. In addition, while globalisation might reduce the scope for national policy autonomy in certain areas, national economic performance is -- to a large degree -- still influenced by national institutional configurations, the subject of this study.

1.5: Outline of the Dissertation

This section outlines the dissertation. Chapter 2 reviews the debates of globalisation and its consequences for the role of the state in economic development. It presents various theories on the sources of state capacity and how they have been applied to developing countries.

Chapter 3 discusses the theoretical and conceptual framework of the study. Here a theoretical contribution to the study on sources of state capacity is attempted. Against the weaknesses of existing state capacity theories, this chapter introduces the concept of the Synergistic Autonomous State (SAS), emphasizing state-society relations as an important source of state capacity. This is done with the aim of conceptualizing how variations in state capacity account for variations in national economic outcomes, that is, equity and economic growth or equitable growth (E-Growth). This is an outcome where there is not only a high rate of economic growth, but that the benefits of growth are shared equally by all segments of society. Therefore this study emphasizes both economic growth and equity.

The subsequent three chapters, 4, 5 and 6 - the methodological chapters, attempt to develop operational indicators for the study. Specifically, chapter 4 operationalises and quantifies the dependent variable, E-Growth. Given the lack of a strong correlation between the two indicators, it collapses the two indicators into one index to constitute the dependent variable. The data covers forty developing countries for the most recent period, 1991 – 2001, derived from accessible, public sources.

Similarly, chapter 5 operationalises and quantifies the first independent variable for capturing the SAS: state autonomy. Based on existing data, derived from experts’ surveys, these data constitute the three main indicators of state autonomy: namely meritocratic recruitment, predictable career paths for senior economic bureaucrats, and the existence of a coordinating economic ministry for sixteen
developing countries for the 1970 – 1990 period. This chapter conceives of this variable, like the next, in terms of degrees (rather than types) and highlights the weaknesses and strengths of the data.

Chapter 6 operationalises and quantifies the second autonomy variable, state-society synergy. Because of the absence of existing data, this chapter introduces a new index, constituted from an experts’ survey, conducted by the researcher. These data cover twelve developing countries.

Different time spans (between the data for the independent variables and dependent variable) are used with an eye at establishing causality. Specifically, the temporal parameters for the independent variables are 1970 – 1990. It is from the 1970s that the variations in economic performance among developing countries become more glaring. The contemporary form of globalisation can also be dated back to the 1970s. The temporal frame of twenty years, 1970 – 1990, is long enough to have matured and started to effect the more recent period, 1991 – 2001 (the temporal frame of the dependent variables).

The empirical chapters (7, 8 and 9) are organised along comparative and cross-national lines with the aim of not only showing correlation but also causality between the independent and dependent variables. Chapter 7 discusses the relationship between autonomy and economic growth, autonomy and inequality, and autonomy and E-Growth with the aim of discovering the effects of autonomous state institutions on the dependent variables.

Chapter 8 looks at the relationships between state-society synergy and economic growth, synergy and inequality, and synergy and E-Growth. Here too, the aim is to examine the impact of synergy on the dependent variables. The last empirical chapter, 9, covers the association between the combined independent variable, synergistic autonomy (Auto-Synergy) and economic growth, Auto-Synergy and inequality, and Auto-Synergy and E-Growth. Here too, the aim is to establish causality between the independent and dependent variables.

Chapter 10, the concluding chapter, aligns the theoretical and empirical discussions of the previous chapters. Specifically, it seeks to do this through a discussion of the main findings of the study. I find that most countries with highly synergistic autonomous institutions tend to achieve E-Growth. I also find that contrary to a priori expectations, some countries have managed to achieve E-Growth without synergistic and autonomous institutions. These differences appear to be the result of
factors that are not incorporated in this study (i.e., not institution-based). Lastly, this work reveals how autonomy on its own is a better predictor of E-Growth than when it is combined with synergy.
Chapter Two

Globalisation and National Economic Variations: An Institutional Perspective

2.0: Introduction

The justification for this study was provided in chapter one. The present chapter reviews the literature on globalisation as it relates to the state (especially state capacity), noting that in spite of its diminishing role, the state continues to play a role in the globalised world. It also reviews some of the works on state capacity. In the process it is shown how existing state capacity theories do not consider how state autonomy can be complemented by simultaneous ties with business and society, and that their focus has been on achieving a rather narrow economic growth, regardless of how that growth is distributed in the population at large. In short, this chapter serves as an important background to the conceptualized framework of a holistic state capacity theory in the next chapter. The remainder of this chapter is divided into five sections. The first section briefly discusses the concept of globalisation, especially as it relates to the state. Section two focuses on the literature that sees weak societal actors as the source of the state’s capacity. The third section reviews the discourse on embeddedness, which stresses cooperation but continues to emphasise the state’s dominance over societal actors as its main source of capacity. Section four discusses state-society synergy, which is a more inclusive concept than embeddedness because it focuses on state-civil society relations. The last section reviews the concept of Governed Independence (GI), which stresses cooperation between the state and business community as the source of state capacity.

2.1: Globalisation and National Economic Variations

The meaning of globalisation has become a subject of intense debate and theorizing amongst scholars and policy-makers alike, as have the reasons why some countries are more successful than others at adapting to the challenge of globalisation. For the purposes of this study, globalisation refers to a process of unprecedented global economic integration marked by the deregulation of financial markets and the
The liberalisation of trade. The increased cross-border flows of goods, capital and services has been facilitated by the emergence and dominance of information technology, which has replaced the space of place with the space of flows and is characterised by timeless times: *the culture of real virtuality* (Castells, 1998; Karunratne and Tisdell, 1996). These developments have considerably weakened the capacity of the nation-state to engineer socio-economic transformation. Some extreme globalists like Kenichi Ohmae (1995), however, erroneously proclaim the demise of the nation-state. According to this school, the state has lost its power to engineer socio-economic transformation or to be seen as a meaningful unit for managing economic activities. Williams (1996) argues that trans-national networks and global authority structures erode the autonomy of nation states, dislocating and fracturing national decision-making. Still, there is now an increased realisation that the state continues to be relevant in the process of socio-economic development, in spite of globalisation. Thus while there is considerable consensus about the diminishing role of the state, it should also be recognised that the state has some role to play in a globalised world. Indeed, according to Helleiner (1994), it is a motif force of globalisation.

In particular, comparative institutionalists contend that the state remains a major *nexus* of economic transformation. Some institutionalists, such as Weiss (1998), even go so far as to argue that the state is the driving force and the locomotive of globalisation. Although this research locates itself in the institutionalist framework, it will depart from the sort of political determinist conceptualization of globalisation that is used by some institutionalists. This thesis posits the view that multifaceted factors such as the state, culture, technology, transnational corporations (TNCs), are the driving forces of globalisation (Robertson, 1992; and Castells, 1996; 1997). All of these forces reinforce and complement one other. In addition, the study is not about

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4 Even scholars such as Hirst and Thompson (1995) and Weiss (1998), who tend to dismiss globalisation, acknowledge these changes in the world economy. Just as attempts to dismiss globalisation are often off-mark, so too are attempts to emphasise just one or two components of these complex changes. See the magisterial works of Castells (1996, 1997 and 1998) for empirical evidence of these changes.

5 It is not the intention of this chapter to argue whether or not globalisation is driven by political, economic or technological factors. For the political determinism argument, see Helleiner (1994), Cerny (1996) and Weiss (1998); for technological determinism, see Castells (1996). 

6 After all, states have been the authors of such multilateral agreements as the GATT, the WTO rules and the recent (but unsuccessful) MAI. See also Eric Helleiner (1994) for a detailed exposition on the state’s role in driving globalisation.
state or institutional determinism; rather it is an attempt to show one major factor that accounts for why some states fare better than others, in achieving economic growth with equity, in spite of their increased integration with the global economy.

Common to institutionalists is the contention that the state remains a powerful player in the global economy and that creating conditions for economic growth rest on the state’s transformative capacity. Weiss defines transformative capacity as “the ability of policy-making authorities to pursue domestic policies and adjustment strategies that, in co-operation with organised economic groups, upgrade and transform the industrial economy. These strategies encompass both structural shifts: from declining to expanding sectors, as well as technological diffusion and innovation; and the creation of industries, products and process” (Weiss 1998: 5). In this information age, transformative capacity also involves the ability of states to strategically upgrade their industrial sectors, facilitate the location of sunrise industries within their territories, as well as aggressively undertake massive investment in Research and Development (R&D), since global competitiveness is driven by technological innovation. As it will be argued later, transformative capacity also involves the ability of states to distribute the gains of economic development to the general populace.

Transformative capacity, in turn, depends on a state-society infrastructure and institutionalised relations. Put differently, successful engagement with globalisation rests and depends on the state-society infrastructure (the capacity of the state and its relations to society). Differences in states’ transformative capacities, it is argued, account for differences in national outcomes (Johnson, 1982; Amsden, 1989; North, 1990; Wade, 1990; Evans, 1995; and Weiss, 1998). Even liberal economists such as Doni Rodrik (1997) concur. According to him, successful engagement by states with globalisation depends on the quality of society’s domestic institutions.

Most institutionalists have drawn attention to the centrality of state interventions -- or to be more precise, its transformative capacity -- to explain the unprecedented economic performance of certain countries in the last three decades of the twentieth century. One common feature of these countries, though in varying degrees, is the presence of rich state institutions that are insulated.\textsuperscript{7} This means that

\textsuperscript{7} As the World Bank (1997) has argued, the state needs to be insulated “[i]n the technical and often sensitive area of economic management… But the process by which broad policy directions and standards are set should not be from public discussion” (World Bank, 1997: 116-117). If technicality
the state is considerably insulated from immediate pressures from economic agents. As Seddon and Belton-Jones (1995) have argued, insulation from special interests enables the state to respond swiftly and effectively to changing economic conditions and adopt policies that are in the long-run interest of the economy. Insularity is therefore key to flexibility. Flexibility enables state institutions to efficiently adjust their goals and allocate resources in the context of changing economic constraints and opportunities (Killick, 1995). Acting swiftly and effectively means that the state is able to respond on time to changing global economic conditions with the appropriate measures by providing incentives that encourage the efficient allocation of resources and signal to firms their comparative advantage. As explained below, its in-house capacity enables it to anticipate changes and take measures to adapt to such changes. In other words, without such in-house capacity, the state will be unable to anticipate changes and to take appropriate measures in response to such changing circumstances.

Insularity means that the state is relatively autonomous or free from particularistic interests. Consequently, it is able to take independent action without being captured or unduly influenced by such interests. At the same time, however, it is embedded. That is, the state is immersed in networks of ties with its economic partners (especially businesses and their associations). This immersion in networks of ties reduces problems of collective action amongst partners (on the one hand) and between the state and its partners (on the other). Ultimately, this relationship enriches government policies. As Seddon and Belton-Jones (1995: 326) put it:

Insulation is not the same as isolation. Insulation is possible only if the relationship between the policy-making process and the wider political economy permits the effective regulations of both ‘the state’ and ‘civil society’ within certain broadly acceptable parameters. Effective insulation from immediate pressures of special interests enables policy-makers to respond swiftly and effectively to new circumstances; but the capacity to identify and implement appropriate policies to promote effective medium - and longer-term development requires the maintenance of strategic relations with wider civil society.

The argument goes further: states that are not insulated tend to respond to the short-term interests of particularistic groups. This results in policy incoherence, rather
than adaptability, responsiveness and flexibility. The goals of such states are likely to be derailed by special interests.

Rich and robust internal institutions are able to mediate the effects of changes in the global economy. The presence or absence of rich domestic institutions accounts, in all probability, for differences in national outcome. Put differently, it is the interactions between internal institutions and the global economic relations that considerably shape domestic economic outcomes. It should be noted that successful countries not only react to changing situations; they anticipate changes and act in advance. Consequently, these countries are able to exert considerable control over and shape the global political economy.

As part of their adaptation to changes in the global economy, these states are developing various forms of linkages/networks with business, civil society, international bodies, local and provincial governments as partners in the transformative project. In other words, states enter networks of power-sharing arrangements with other centers of authority in order to achieve their transformative goals. In addition, a number of studies have shown that successful states are endowed with political elites imbued with a sense of the transformative project. This is necessary for them to build and develop the necessary linkages and organisations (Johnson 1982; Amsden, 1989; Wade, 1990; and Evans 1995). Several development scholars such as Kieh (1996), and as acknowledged by the World Bank (1997), have shown that development projects have foundered due to the absence of a political class that is committed to the transformative project. In some instances, there has occurred what Michael Burawoy calls “economic involution, that is, an economy that eats away at its foundations, by channelling resources from production to exchange and, in some cases, to unwanton consumption” (Burawoy, 1997: 150, emphasis added).

The commonality ends here, as there are divergent views on the nature and sources of state power. Consequently, various theories have arisen concerning the state and sources of state capacity. I now proceed to examine these theories on the sources of state capacity.

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8 Rich and robust state structures refer to the cohesiveness of the state’s internal institutions. These must, at the same time, be agile to adapt to a changing global economy. These state structures have the

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2. 2: Dominance over Economic Groups as a Source of State Capacity

Early characterisations of the developmental state tended to equate it to a strong state that initiates and imposes policies on a subordinated society (Johnson 1982; 1987; Wade, 1990; and Castells, 1998). In this regard, a fragmented and weak society is seen as an essential prerequisite for the state’s capacity to initiate and implement its economic policy. This *statist* conceptualization of state power is premised on the assumption that the state achieves its sets of goals in spite of opposition by dominant economic actors. In Johnson’s (1987) view, the developmental state interacts with the private sector from a position of pre-eminence in the pursuit of its set objectives. The developmental state, according to him, privileges policies that favour growth, productivity and competitiveness over distribution or consumption. The importance of the presence of a pilot agency and an insulated bureaucracy, as well as a shared ideology of growth between the politicians and the bureaucrats, are noted by Johnson as essential factors for successful industrial transformation. In other words, these are attributes of transformatory capacity.

Wade’s *Governed Market Theory* (GMT) is a variant of this *statist* approach. According to him, GMT “emphasizes the developmental virtues of a hard or soft authoritarian state in corporatist relations with the private sector” (Wade, 1990: 29). This is seen as a source of the state’s autonomy. Wade introduces the concepts of state *followership* and *leadership*. The former means that the state adopts programmes/policies that are proposed and initiated by the private sector, while the latter implies that the state takes initiatives and steers the private sector to adopt them. From this logic, it is only when the state steers or prods industry to do something that it would not have done otherwise that the state is seen as making a real difference with respect to investment and production patterns. What this distinction attempts to show is the dominance of the state over society. Put differently, GMT emphasizes an authoritarian and corporatist character of the state, such that the latter is able to impose its objectives on its private partners in spite of any opposition by the latter. GMT has three central features, according to Wade (1990: 26), namely, “(1) very high in-house capacity to gather and analyse data, which enables the state to anticipate and respond to, changes in the global economy, be it in technology or market conditions.

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9 This is following the tradition of Migdal’s (1998) strong societies and weak states thesis.
levels of productive investments, making for fast transfer of newer techniques into actual production, (2) more investment in certain key industries than would have occurred in the absence of government intervention, and (3) exposure of many industries to international competition…”

Through various policy scenarios, the state guides and coordinates the economy; it organises the business sector through trade and technology policies, and uses credit as a basis for successful upward mobility and competitiveness in the global economy. At the initial stages of development, access to and allocation of credit were particularly important in the state’s ability to govern the market. Over time, such states have undertaken “sustained effort in technological development with government-sponsored programmes of technology acquisition, and technology innovation, emphasis on manufacturing for exports; industrial policy, shifting from low technology to medium technology, then to high-technology industries…” (Castells, 1998: 224). Put differently, governments in these countries adopted policies that aimed at reducing risks, providing information, promoting R&D, removing irrational anti-trust barriers and encouraging the training and retraining of the labor force (Johnson, 1984).

Scholars such as Daniel Okimoto, using policy network analysis, have criticized the statist approach. According to him, policy networks are either more important than, or at least of equal importance as, the state in formulating and implementing effective policy. In his view, the success of the state is largely due to complementary markets’ structures, which provide multiple points of entry for state intervention (Okimoto, 1989). The state and capital utilise these multiple points of entry or networks to influence each other. Often the result is a consensus-building process rather than the sort of state dominance emphasized by Wade. Kuo’s analysis falls within the policy networks’ theory approach. According to him, “The state remains the single most important actor in the economy. Yet its impact on economic development is determined not simply by the characteristics within the state… but ultimately by the networks and institutions that link the state to other actors in the economy” (Kuo, 1995: 18). He further contends that both the state and capital utilise these networks to influence each other, resulting in a consensus-building processes rather than state dominance. Also, business associations are not only able to resolve collective action problems amongst themselves but also between capital and the state.
A closer look at Kuo’s analysis reveals that it collapses into a business leadership thesis; that is, capital takes the initiatives, while states just follow. As we shall see below, who initiates policy is of less significance than the cooperative relationship between the state and its economic partners although the state still plays the coordinating role. Kuo’s empirical work acknowledged this coordinating role of the state.

2.3: Embeddedness as a Source of State Capacity: The Blending of Dominance with Cooperation

Peter Evans’s (1995) embedded-autonomy theory complements and builds upon both GMT and policy networks’ theory. In a comparative study of three developing countries, Brazil, India and Korea, Evans demonstrates that variations in economic outcome rest on what he calls embedded autonomy. Autonomy means the presence of coherent state agencies that are able to formulate and implement coherent developmental goals. Expressed differently, autonomy means the ability of the state to behave as a coherent collective actor that is able to identify and implement developmental goals. Implicitly, the developmental state is not overwhelmed by particularistic interest groups. The Weberian bureaucratic attributes – meritocratic recruitment, long-term career rewards and corporate cohesion are essential ingredients of the developmental state or a state with transformatory capacity. Highly-qualified and highly-paid bureaucrats resourced these economic bureaucracies. Cohesion of the bureaucracy fosters autonomy in the developmental state. Key features of the internal organisations of the state, according to Evans, are the presence of a super ministry (which is relatively insulated from key economic groups) that is charged with coordinating industrial transformation; prestige-laden economic bureaucrats; and a robust intelligence-gathering infrastructure (strong in-house capacity for information gathering). These features enhance state autonomy and capacity for strategic policy-making in response to changing global economic conditions (or policy adaptability).

Nevertheless, caution must be taken not to overemphasize the significance of bureaucratic coherence as the larger political environment also conditions the state’s capacity and the success (or otherwise) of a developmental project. In the absence of a political class that shares the same transformative project with the bureaucratic elite, the developmental project is likely to founder.
Furthermore, according to Evans, bureaucratic autonomy is not in itself sufficient, as it must be complimented by embeddedness. This implies “a concrete set of connections that link the state intimately and aggressively to particular social groups with whom the state shares a joint project of transformation” (Evans, 1995: 56). This type of social tie “binds the state to society and provides institutionalised channels for the continual negotiation and renegotiations of goals and policies” (Evans, 1995: 12). According to Evans, it is this seemingly paradoxical combination of corporate coherence and connectedness that provides the structural basis for successful state involvement in industrial transformation.

The success of embeddedness rests on corporate coherence and the integrity of the bureaucracy. A state that is autonomous but not embedded is unlikely to achieve its transformatory objectives. This is because in such circumstances the state will not be able to take advantage of “institutional ties, policy networks, deliberative councils and the like, which link government and industry in the information-exchange and policy-making process, as well as ensure effective implementation” (Weiss, 1998: 55, emphasis added). Furthermore, autonomy without embeddedness could easily result in a predatory state. On the other hand, according to Evans, connectedness without a cohesive and dynamic internal state structure will leave the state incapable of resolving “collective action problems” of surpassing the individual interest of particularistic groups. The logic is that states which are more effective in implementing and achieving their transformative goals are those that combine bureaucratic insulation with intense immersion (embeddedness) with key social groups. It is such domestic linkages, both formal and informal, between relevant state agencies and their private partners, which enable the former to gather sufficient information for the purposes of coordinating policy formulation and implementation. By extension, these connections enhance the robustness of the state apparatus. Embeddedness thus provides a mechanism for feedback and information-sharing coordination between the government and capital. Eduardo Silva (1996) came to the same conclusion in his study of Chile. He stresses that where capital participates “in

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10 Evans defines predatory states as those that eat away their resources. Such states are averse to both growth and redistribution. Predatory states are but the property of the political leadership. Politicians and bureaucrats use the state to promote their selfish interests. Mobutu’s Zaire and Marcos’ Philippines are two examples of predatory states. See Evans (1995) for a detailed analysis of predatory states.
the agenda setting, formulation, and implementation stages of the policy process enhances its belief that the policies will actually work…it will trust that solutions to thorny policy problems will be reasonable” (Silva, 1996: 301). Such a situation, he argues, creates/enhances investors’ confidence to invest.

As it was initially conceptualized, embeddedness suffers from several limitations. Evans recognised the first of these, which is that embeddedness was limited to state-capital relations to the exclusion of civil society. That is to say that the concept of embedded autonomy did not explore how the participation of civil society could enhance both the design and implementation of socio-economic policies, a point that will be expanded upon later. Cognizant of this, Evans (1995) subsequently called for a broadening of the concept to mean state-capital-society relations so that the state could be able to take advantages that come with civic or society engagement in the transformative project. This, however, does not address a very fundamental question: how is the relationship structured, and as Weiss (1998) has pointed out, how does it differ from corporatism? The differences between embeddedness and corporatism can be found in the regime goal. According to Weiss (1998), corporatist arrangements privilege (re)distribution of income and wealth, while the analysis of the developmental state theory demonstrates the contrary: that is, developmental states privilege productivity, growth and competitiveness over welfare issues. Second, embeddedness involves a top-down policy formulation, just like state corporatist arrangements, which, I argue, is not sustainable in the long run. It also continues to emphasise the authoritarian character of the developmental state. From Evans’s theoretical premise, the state only has transformative capacity when its social partner -- in this case, capital -- is relatively dependent on and subordinated to the state. Not surprisingly, most ‘Asianist’ scholars (including Evans) foresee the demise of the developmental state, as capital becomes internationalised and autonomous. This is premised on the assumption that a powerful industrial sector would lead to a reduction of state capability. In fact, Evans (1995) advanced the gravediggers’ thesis, arguing that the social forces that the state brought to being, become its gravediggers. While this might indeed be the case, the key to success is centralised flexibility and an administratively-innovative state apparatus. Such rich and robust domestic state structures could mediate the effects of globalisation.
Before concluding this section, I should draw attention to one basic assumption of the developmental state theory. Most writers on the developmental state (including Johnson, 1982; Wade, 1990 and Evans, 1995) have concluded that as capital becomes internationalised and autonomous, the state’s capability will be reduced. The argument goes as follows: the social actors that the developmental state brought forth become its nemesis. In other words, at maturation, the social groups that the state helps to create develop a distinct interest from that of the state; hence they undermine the state’s capacity. This assumption is fraught with several limitations. In particular, it ignores the cooperative dimension between the state and organised interests in those societies that were instrumental to their enhanced capacities.

2.4: State-Society Synergy: Cooperation as a Source of State Capacity

In his next book, Evans (1997a), attempted to address the exclusion of civil society from the developmental process entailed in embeddedness. Thus, he came up with the concept of state-society synergy or mutual empowerment. By synergy, the state enters networks of ties with civil society and taps into community norms, informal and formal, in its transformative project. Unlike embeddedness by which the state treats capital with mistrust and at arms length, synergy involves state-society relations built on “trust and reciprocity” (Evans, 1997a: 2) in pursuit of its transformative project: improving human welfare and enhancing productivity. In addition, synergy guarantees the autonomy of both the state and society, with the state providing the overall guidance. Trust and reciprocity, according to this framework, become the basis of the state’s transformative capacity and are a major determinant for variations in developmental outcomes across countries. Rather than emphasizing dominance over its social partners, synergy emphasizes cooperative relations with society (civil society) as the source of state autonomy and effectiveness (or transformative capacity).

Through the concept of synergy, Evans (1997a) says that the existence of a robust civil society reinforces state capacity and vice-versa. In addition, as Heller points out, synergistic relations between the state and civil society not only augur well for redistribution but also for economic growth or capital accumulation (Heller, 1997). This is because synergistic relations, between the state and society, create the institutional forms and political processes required for negotiating class compromises.
through which redistribution and growth are reconciled. Synergy results in the output of civil society becoming the input for the state, and vice-versa. In other words, such relations are mutually rewarding to both the state and civil society.

Although it comes from a different ideological orientation, the World Bank (1997) has accepted the need for increased participation of civil society in policy-making and implementation. It says that civic engagement increases openness and transparency, increases incentives for participation in public life and consequently lessens the distance between citizens, communities and the state. The Bank’s market ideology and privileging of civil society was part of the neo-liberal attempt to minimise the role of the state in development. This is what Evans (1997b) calls the eclipse of the state thesis. The point though is that, ultimately, through its participation, civil society is able to exercise pressure on the state to improve the delivery and quality of public goods.

While the notion of synergy represents a major contribution to the debate on the state’s transformative role, and in explaining variations in developmental outcomes between countries, synergistic relations are curtailed when confined to state-civil society relations, to the exclusion of capital. In this way, Evans failed to develop an integrated state theory, that is, a state theory that simultaneously accommodates state-business-society relations. Does this mean that the state cannot have relations with both capital and society at the same time in carrying out its developmental project? As it will be argued in chapter three, where the state is simultaneously linked to capital and wider civil society, it is able to formulate and implement coherent policies that accommodate their medium and long-term needs. This is likely to provide a stable socio-political climate and, subsequently, continuity in economic policy. This is a major condition for policy adaptability. We shall return to this debate on synergy in the next chapter so that we could draw on its strengths in formulating the theoretical approach that guide this research project.

2.5: Governed Interdependence as a Source of State Capacity

Weiss (1998) has added her voice to the debate on state structures and state-society institutions as a basis for variations in national economic outcome. She calls her theoretical approach *Governed Interdependence* (GI), which, according to her,
involves central coordination founded on cooperation between government and industry. According to her,

GI refers to a negotiated relationship, in which public and private participants maintain their autonomy, yet which is nevertheless governed by broader goals set and monitored by the state. In this relationship, leadership is either exercised directly by the state or delegated to the private sector where a robust organisation infrastructure has been nurtured by state policies (Weiss, 1998: 38).

Unlike both GMT and embedded autonomy, GI rejects the premise that the state’s ability to impose its decisions over its economic partners is crucial to its transformative capacity. Thus, it emphasizes cooperation between the state and capital rather than the domination of the former over the latter. According to her, what is of central importance is the state’s ability to use its autonomy to consult, negotiate and elicit consensus and cooperation from its social partners.

GI encompasses both the coordinated and cooperative quality of that power. It describes a system of central coordination based on the cooperation of government and industry. “Policies … are not simply imposed by bureaucrats and politicians, but are the result of regular and extensive consultation, negotiation and coordination with the private sector…” (Weiss, 1998: 39).

Consequently, the presence of a strong capital sector may not be inimical to the state’s transformative capacity. Indeed, the state requires a strong and well-organised private sector in its transformative tasks (this is in contrast to the concepts of GMT and embeddedness). This requires more complex bargaining and negotiations than when the latter is relatively weak (a condition that made it easy for the former to impose its agenda on society) and better economic outcomes are likely to be achieved under such arrangements. But as society advances and global competitiveness is driven by technological innovation, the role of the state has become more complex. However, this does not require a weak private sector but rather a strongly organised private sector that can engage the state in constant (re)negotiations, information-sharing and coordination.

This is a major contribution to the analysis of the factors that account for variations in developmental outcomes between countries. Weiss, in contrast to Johnson and Wade, contends that the ability of the state to impose its will on society is a poor predictor of developmental effectiveness, although this might be useful at the early stages of development. She opined that, “Over the long run, what really matters
is whether the state is able to use its autonomy to consult and to elicit cooperative responses from the private sector” (p. 49). This emphasis on cooperation between the state and capital is one major contribution of Weiss to the debate of the state’s transformative capacity and subsequently one of the most important factors that account for variations across countries - this study will attempt to verify this claim. Cooperation not only confers credibility on the state and its policies, but it also allows for policy flexibility.

An emphasis on the cooperative approach entails a truism. Although Evans (1995) did not put it this way, he alluded to this by his use of the concepts of demiurge, midwifery and husbandry as the categories of roles performed by the state. According to him, the role(s) performed by the state depend on particular sectors because some roles are more suitable to certain sectors than others. Furthermore, the role(s) performed by the state might also be conjunctural. A major factor for explaining variations in economic outcome is therefore flexibility by the state’s economic bureaucracy in its response to rapidly changing global conditions.

Dore (1987; cited in Weiss, 1998) notes that this collaborative approach to industrial and economic policy-making not only enhances the transparency of economic policies but also subjects them to public scrutiny. Public policy is thus unlikely to degenerate to clientelism, although some scholars such as Olson (1982) make a contrary claim. The point however, is that the institutionalisation of a cooperative relationship between the state and organised interest groups is likely to minimise state capture. It also has the advantage of capital claiming ownership of the policy and would therefore work for its successes. Furthermore, the state would be better positioned to determine the new frontier of technological innovation and areas of global competitiveness. Such a collaborative approach increases openness and transparency in government policy-making and thereby lessens the possibilities of rent-seeking or government policy being captured by individual business interests. Investors tend to be attracted to countries where the rules of the game - incentives structures, tax structures, and so on - are clearly defined, are not subject to arbitrary decisions of government officials, and are accessible to the public. Put differently, rather than being a zero-sum game, relations between a strong state and robust capital sector could become a positive-sum game. The absence of a strong state would make it difficult for capital to achieve its set goals, and vice-versa.
The usefulness of GI, in addition to its emphasis on autonomy, is what I will call *collaborative embeddedness* as a major factor that enhances the state’s transformative capacity, not only in policy formulation but also in its implementation. In this context, Weiss contends, the initiator of a policy is less relevant than the negotiated relationship between the state and business. The state however, continues to play the guiding and coordinating role. This puts to rest the leadership-followership logic associated with Wade’s GMT.\(^{11}\) This is because under GI, the relationship between the state and capital takes the form of what Weiss calls disciplined support, public risk absorption, private-sector governance and public-private innovation alliances.\(^{12}\) According to her,

In a context where the hammering out of policy measures and the constant negotiation over details are the norm not the exception, it is not a question of ‘who gets their way in spite of opposition’, but rather, from the point of view of the state agency, whether a business proposal fits within the state-defined guidelines, and from the point of view of business, whether a government proposal can be collectively agreed upon (Weiss, 1998: 79).

What is clear from this discussion is that GI places less emphasis on who initiates policy, unlike GMT and embedded autonomy or policy networks theory which emphasize state dominance and business dominance respectively. This is because both the state and capital often take initiatives, but within a defined and negotiated framework. The state however, retains a coordinating and guiding role either by exercising leadership or delegating authority to business interests. What is crucial here is the existence of an interdependent relationship between the state and its economic partners.

Another essential feature of transformative capacity, according to Weiss, is the presence of encompassing industrial associations. The presence of encompassing associations provides for easy interaction, information exchange and effective coordination not only amongst business associations but also between the state and capital. Because cooperation with its social partners is so crucial for the success of its transformative task, the state deliberately nurtures business associations where they

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\(^{11}\) This would also refute Kuo’s (1995) assertion that the state does not initiate developmental policies but by corporatist business associations. If the assertion of GI is correct, it will also make irrelevant his contention that state capacity increases through pressures from the business community.

\(^{12}\) See Weiss for a detailed discussion of these forms of government-business relations and consequently the role of the state in industrial transformation.
are weak and facilitates their creation where they are not in existence (Edigheji, 1997). Encompassing associations, as the literature on corporatism has shown, make it easier for intra-industry consensus on the one hand, and agreements between capital and the state on the other (see Katzenstein, 1985; and Scharpf, 1991). Through such collaborative networks, the state facilitates the sharing of technology and market information between firms, as well as the pooling together of resources. In addition, it enables the state and capital to share the cost of economic transformation such as training and retraining of workers, acquisition of new technology, etc. This is all the more important in the informatics age characterised by the astronomical costs of R&D.

Kuo succinctly captured the importance of government relations with an encompassing business association. According to him:

> [e]ncompassing associations resolve collective action problems such as coordination of production and sales, provision of club goods (e.g. sharing of technology and markets information), negotiation between upstream and downstream producers, and networking with foreign buyers and sellers. In terms of state-business relations, these associations, as representatives of their respective business sectors, provide a forum for their members to articulate their interests. Then the associations can conduct research, engage in internal negotiation, filter out unrealistic and inconsistent demands, and finally, formulate concrete policy recommendations. The association also routinely participates in the decision making and implementation of national economic policies, monitors against detrimental policies and distorted implementation, and offers policy feedback to decision makers (Kuo, 1995: 36).

Through the state-informed coordinated public-private cooperation, the state is thus able to socialize the risk of transformation by relieving capital from bearing the entire cost of raising capital, finding new markets, developing new products and upgrading of skills (Weiss, 1998: 48). In such circumstances, the state or capital could take initiatives and negotiate with the other. Similarly, the state could take initiatives and delegate to industry or business associations to implement them. As Kuo has shown, the Taiwanese state delegated to the Taiwanese Electric Appliance Manufacturers’ Association (TEAMA) the power to issue export licenses and to control the import of certain products. TEAMA was able to carry out this task because of its cohesive nature. Such coordinated state-capital relations helped Taiwan to transform its industrial structure, upgrade its technology and capture new markets, as well as upgrade both the technical and management skills of its workforce.
A major weakness of the concept of GI, like the concepts of GMT and embeddedness, is that it conceives of state connectedness only in terms of capital, to the exclusion of broader society. The evidence presented by Weiss indicates that where the state is only linked to civil society, the state has been more prone to redistributive policies than those that emphasize production. Implicitly, GI suggests that state-civil society relationship is unfavourable to economic growth. This study will test whether or not this is the case, empirically.

Weiss attempts to make a distinction between transformative capacity and distributive capacity. In her view, transformative capacity means the ability of the state to coordinate industrial change to meet a changing global context, while distributive capacity refers to the state’s capacity to distribute income and wealth. Accordingly, she contends that states with transformative capacity achieve better economic performance, both in terms of economic growth and equity, than countries with distributive capacity. In between lay states with dual capacities, which combine both transformative and distributive capacities. From this logic, we would expect that such states perform better than those with only one of the two capacities.

However, on a closer examination of her thesis, it is clear that the distinctions between both sets of capacities are blurred since almost all states have an element of transformative and distributive capacities, making it difficult to test empirically. By contrast, this study takes as its point of departure a reference to the transformative capacities as states with capabilities to engineer both growth and redistribution simultaneously. This study therefore offers an alternative conception of transformative capacities. In other words, it can be hypothesized that states with transformative capacity do not only ensure the promotion of industries that are essential for its long-run welfare, but also ensure that the fruits of transformation are distributed to the vast majority of its population.

Borrowing from Linds (1992), Weiss’ analytic framework leads her to the concept of a catalytic state in the era of internationalisation (she disputes the concept of globalisation). According to her, “Catalytic states seek to achieve their goals less by relying on their own resources than by assuming a dominant role in coalitions of states, transnational institutions and private-sector groups” (Weiss, 1998: 208). The concept of a catalytic state confines the sources of state power to regional, global alliances, as well as cooperation with business. This fails to recognise the importance of state alliances with other centres of power.
In contrast to Weiss, Castells’ (1998) concept of a *network state* suggests that state capacity is also derived from alliances between the national state with provincial and local governments, in addition to regional and international alliances. Consequently, sources of state strength may not be confined to upward alliances, but may also include downward alliances. This involves considerable decentralisation and delegation of power from the national to the provincial and local governments. Through the concept of the network state, Castells shows that variations in national economic outcomes are derived from the state’s ability to recognise these other centers of powers and to enter networking arrangements with them in promoting its developmental project. These networks with regional and international bodies, as well as the decentralisation of powers to provincial and local government, are other sources of state capacity. Consequently, we might expect that the ability of states to establish linkages with these other nodes of authority can account for much of the variation in national economic outcomes or differences in economic performance between countries. This is the subject of the next chapter.

Although this is an important contribution to the debate on national variations and state capacity, Castells did not theorize it in any detail. In addition, another limitation of the network state thesis is that it provides no room for civil society/community engagements, nor does it see these engagements as additional factors that enhance state capacity.

2.6: Conclusion

This chapter began by arguing that state institutions determine national economic outcome. It is clear from the literature that there lacks a holistic theory on state capacity. In the developmental state literature, especially Evans’ contribution, it is clear that state autonomy enables bureaucrats to act in a coherent fashion and commits states to a long-term view of their economies, rather than a focus on short-term gains. In addition, corporate coherence enables the state to strategically engage with its social partners. The impact of autonomy on economic performance is one of the primary concerns of this study. Among most of the theories, however, there are major differences on how the relationship with society impacts state capacity. While Johnson and Wade would see state dominance over society as a source of its transformative capacity, Weiss’ GI and Evan’s concept of synergy see state capacity
being derived from cooperative relations with society. In synergy, the state is linked to civil society to the exclusion of business, while GI links the state only to business.

In terms of objectives of the state, most of the existing theories, GMT, embeddedness and GI focus more on the process of accumulation, with little regard for how the fruits of economic success are shared among the various population quintiles in society. Although, the concept of synergy has equity concerns, it has limited applicability in that it is an exclusionary process: business is not conceived as one of the stakeholders in the development process. This study will therefore explore the association between synergy and economic development, that is, growth and equity.

It is therefore clear from the above literature reviews that there exists no holistic theory of state capacity, a theory where the state is simultaneously linked to business and civil society. It should also be clear that here are good reasons to expect that such a theory could be useful. It is to this need that I turn in chapter three: to develop a holistic theory on state capacity.
Chapter Three

Synergistic Autonomy: Towards a Holistic State Capacity Theory

3.0: Introduction

This study of the state’s transformative capacity and its role in social and economic transformation will go beyond most current analytical frameworks. In all of the theories discussed in chapter two, the state is either linked to capital or to civil society: such linkages are seen as sources of state capacity. These state theorists share one thing in common: they fail to articulate a state theory that simultaneously accommodates capital and civil society as the basis for equitable growth (E-Growth), also referred to as shared growth (Campos and Root, 1996). Does this mean that there is no analytical framework that can link the state to both civil society and capital at the same time that will have positive economic outcomes? Put differently, can the state’s alliances with both capital and civil society not be a source of its capacity and consequently economic growth and equity?

It is this void that the theory of the Synergistic Autonomous State (SAS) is meant to fill. It should, however, be noted that the concept of SAS is built upon and complements the existing theories discussed in chapter two. This will become evident in the argument that follows. This chapter seeks to demonstrate that the sources of state capacity lie in the state’s internal institutional structures (autonomy) and its simultaneous ties with capital and civil society - synergy. Therefore, unlike Evans (1997a) who limits the concept of synergy to state-civil society relations, I offer an alternative conceptualization of synergy. In this study, state-society synergy is defined as the sharing of power and collaboration between the state, capital and civil society within an institutional framework that enhances the capacity of the state to foster equitable growth. At the same time, this conceptualization places limits on the ability of the state and social actors to act arbitrarily, and thus promotes accountability of state officials to broader societal interests. Compared to existing studies that limit synergy to government-civil society relations, this study adopts a more inclusive approach to the concept of synergy in terms of both its objectives and institutional configurations. By synergy, I mean four-part relations, including: 1) the state; 2) business; 3) trade unions; and 4) civil society. In addition, and unlike existing studies
where the economic effects of synergy are located on the redistributive side, this study argues that synergistic state-society relations generate both economic growth and equity effects. It is however, important to note that existing studies have not tested whether synergy or a coordinating ministry can explain growth and equity. This test will be provided in chapters 7 and 8 of this study.

A central argument in this chapter is that a synergistic autonomous state (SAS) is immersed in concomitant networks of relations with different nodes of power. This is especially the case in an era of globalisation characterised by “multiplicity of linkages and interconnections between the state and societies” (McGrew 1992: 23). This approach is the most useful conceptual tool to explain these relationships and thus the sources of state capacity to engage with the globalisation process. In other words, the SAS is best suited to tap into these various networks engendered by globalisation. How these relations are structured however, vary across countries, over time and sectors.

This chapter is divided into two sections. The first section explains the need for equitable growth (E-Growth) or shared growth.  

3.1: Institutional Character of a Synergistic Autonomous State and Equitable Growth

This section attempts to define the institutional character of the synergistic autonomous state (SAS), which are the sources of its transformative capacity. By transformative capacity, I mean the state’s capabilities to engineer/promote E-Growth. It should be remembered that all the state theorists introduced in chapter two were unable to articulate a theory that simultaneously accommodates capital and civil society, the main subject of this chapter. The main proposition of this study is that states with coherent bureaucracies that are synergistically tied with their surrounding social structures tend to achieve better economic performance – E-Growth. Flowing from this, I postulate that variations in state institutions and variations in state-society
relations account for differences in national economic performance. The reminder of this chapter is an attempt to set out the theoretical context for this hypothesis.

### 3. 1. 1: Equitable Economic Growth (E-Growth)

In the last two decades, the discourse on economic restructuring has been dominated by the neo-liberal approach, which emphasizes markets as the most efficient allocator of resources. John Williamson (1990) has coined the now popular phrase to describe this approach. According to him, the Washington Consensus “had little to say about social issues...and almost nothing to say about the environment” (Williamson, 1990: 83). As he subsequently explained, “I deliberately excluded from [my 1990] list [of Consensus tenets] anything that was primarily redistributive...because ... I felt ... that it was contemptuous of equity concerns” (Williamson, 1993: 1329). The main but narrow concern of this paradigm was to get the fundamentals right—fiscal discipline, labour market flexibility, privatisation and trade liberalisation—as the vehicle for global competitiveness and economic growth. The benefits of growth will then trickle-down to the vast majority of the population. The state should therefore avoid a direct redistribution policy, which they argued would undermine the growth prospect of a country. But quite the contrary, investment in human capital have the potential to lead to social inclusion and economic growth. In general, the Washington Consensus paid lip service to issues of redistribution and its negative political and economic consequences. If it was worried about question of equity, this worry was relegated to the background – something that has to be addressed later. Its main and immediate concerns were technical views of economic development – liberalisation, macroeconomic stabilisation and privatisation. Given the little attention paid to equity by the Washington Consensus, it is not surprising that income inequality has risen in most developing countries since the 1980s (Cornia, 2004).

Since the 1980s, the trickle-down approach informed the World Bank –IMF imposed structural adjustment programmes (SAPs) in most developing countries. From Africa to Latin America, the adoption of neo-liberal policies was followed by socio-political upheavals, in some cases food riots. The protests were due to the fact that policies based on market fundamentalism did not address issues such as mass poverty, disease, pervasive illiteracy, and income and wealth inequalities that plagued...
much of the developing world. In some cases, such policies not only exacerbated these crises but also threatened democratic governance. This suggests that although economic growth is important, it is not a sufficient condition for democratic development.

This study departs from the neo-liberal approach. Consequently, I will argue that although economic growth is important, the vast majority of the population should share in its benefits through provision of a social safety net for the poor. The motivation for focusing on distributional issues is not just normative: such a strategy can generate potential economic and political benefits. These are grounded on recent thinking in development economics.

Until recently, most observers assumed that there was a negative correlation between inequality and economic growth and that a high level of equity is bad for economic growth. Hence, some scholars and development institutions focused on the trade-off between inequality and growth, the argument being that redistributive policies tend to hamper growth. This tendency is aptly captured in the title of a journal article by Li and Zou (1998), to wit, “Income Inequality is not Harmful for Growth: Theory and Evidence”. But recent research points to the complementarities or synergy between equity and growth: that high equity is good for growth. This research is grounded on sound theoretical foundations. The main arguments, which I will discuss subsequently (although not in any particular order) have been grouped by Knowles (2005) into three main models, namely: the political economy model, the socio-political instability model, and the imperfect capital markets’ model.

The argument is that equitable distribution of income and wealth has positive spin-offs on investment and growth. In a review of twenty-three empirical studies, Benabou (1996: 2) concluded that “initial inequality is detrimental to growth” and is bad for poverty reduction. I will highlight the reasons for this significant negative correlation between inequality and growth. Similar conclusion has been reached by other scholars such as Ravallion (n.d: 16) who points out that “On balance, the existing evidence using cross-country growth regressions appear to offer more support for the view that inequality is harmful to growth than the opposite view, which was prevailing in development economics for decades”.

To explain this relationship, the first, political economy, model points out that a low level of inequality creates conditions for growth as it is likely to result in higher rates of savings and investment. Conversely, “Unequal distribution will lead to
pressure through distortionary taxes, hence reducing growth” (Knowles, 2005: 2). The second, model, the imperfect capital model, argues that high levels of equity are likely to result in efficient use and development of human resources, with positive effects on economic growth. We are reminded by Bardhan and Bowles (n.d: 3) that “recent developments in inequality itself may have adverse incentive effects, leading to lower levels of work effort, less on-the-job learning, restricted opportunities to undertake productive investments in both education and business, while limiting the scope of co-operative problem-solving…”

The third model, the socio-political stability model, points to the positive socio-political benefits of E-Growth: E-Growth is likely to have positive spin-offs on economic growth. These potential effects have been articulated by the Managing Director of the International Monetary Fund, Mr Michel Camdessus. He points out that “greater income equality…can help secure support crucial for reform and sustainable growth” (Camdessus, 1995: 3). In a similar vein, Gershman and Irwin (2000: 19) point out that:

…recent studies suggest that greater initial equality, not inequality, is beneficial for growth itself. Initial equality also enhances the degree to which GDP growth enables poverty reduction. One study estimates that annual per capita GDP growth of 10 percent “would reduce the incidence of income poverty by 30 percent in relatively egalitarian societies… and by only 10 percent in less equal societies.

A growth where the fruits are not equally shared and the vast population continues to live in poverty would result in domestic social and political instability. This in turn could adversely impact economic growth as has been seen in both Indonesia in the late 1990s and Argentina at the turn of the twenty-first century. Taking the argument of the likely adverse effects of inequality on economic growth further, Benabou argued that “socio-political conflict reduces the security of property rights, thereby discouraging accumulation” (Benabou, 1996: 4). Insecurity of property rights discourages investors, and consequently leads to low growth.

The social and political crisis that led to the eventual fall of the Suharto dictatorship in Indonesia in 1998 was partly due to the fact that, in spite of decades of economic growth, the country’s income and wealth remained concentrated in a few hands with the majority of the people living in poverty and misery. In turn, socio-political instability, as in the Indonesia case, adversely impacted on the economy as it
undermined investor confidence and the growth prospect of a given country. \(^{14}\) In addition, in order to optimally utilise its resources and achieve overall efficiency an economy may require a shared growth (although there might be exceptions such as the US). The words of Stiglitz (2000: 5) are apposite in this regard:

… an economy in which wealth is concentrated in few hands may not only be less productive—as agency costs lead to undermining of productivity—but there is actual scope for government intervention to make both workers and capitalists better off. There are pecuniary externalities that arise that have real consequences. The distortions associated with static resource allocation may be increased over time, through distorted incentives to innovative…. 

The recent socio-economic crisis in Argentina must forewarn those, especially in emerging economies, that are pursuing growth without paying attention to the social and political impacts of unbridled liberalisation and globalisation. This also brings to mind the question of socialization of risks that comes with economic liberalisation and competitiveness measures — policies aimed at improving the living standards of the vast population needs to be addressed. As Rodrik (1995) warned, if the tension between the imperatives of economic liberalisation and the need for the provision of social insurance for the vast majority of people is not managed intelligently and creatively, it is possible that the domestic consensus favouring open markets may erode, and be replaced by a generalised resurgence of protectionism. A number of commentators and scholars from diverse ideological backgrounds are expressing concerns about the adverse negative social and political effects of globalisation, and are consequently advocating that states must devise mechanisms to share the fruits of economic growth with the vast population (Rodrik, 1995; Castells, 1998; and Stiglitz, 2002). In fact, Stiglitz (2002: 4) has gone so far as to argue that the goal of development should be “sustainable, equitable and democratic growth”.

Earlier, in a paper delivered at the World Institute of Development Economic Research (WIDER), Helsinki, though not using the same phrase, Stiglitz (1998) made the case for what I term E-Growth. In his words, “We seek equitable development, which ensures that all groups in society, not just those at the top, enjoy the fruits of development” (Stiglitz, 1998: 46). This, among other things, is to ensure economic, social and political stability. In other words, to ensure social cohesion and political

\(^{14}\) FDI flows to Indonesia fell from a peak of $4.7 billion in 1997, which was the beginning of the socio-political unrest, to less than $0.4 billion in 1998 (UNCTAD, 2001).
support for economic reforms requires that all share the fruits of growth. As Campos and Root (1996: 2) put it,

Sharing gave the less fortunate a stake in the economy, thereby discouraging disruptive activities and diminishing the risk of regime failure. It enabled the regimes to concentrate on promoting rational economic policies by reducing the need to constantly contend with the issues of redistribution: when everyone starts out under less desperate conditions, there will be less concern with choosing policies strictly for their distributional consequences. Growth-promoting policies were more durable over the long-term and more credible to the business community. Shared growth resulted in broad support for the regimes. The regimes, then, could avoid standard interest group pressures to provide privileges and thus could mitigate capture by narrow interests. A virtuous circle was ultimately affirmed: investment increased, spurring growth and higher real incomes, which reinforced the credibility of the regime, further stimulating investment and economic expansion.

Equitable development is therefore desirable for sustained growth. But there are contrasting cases. Uganda and Botswana, countries that are held up by the World Bank and the International Monetary Fund (IMF) as African success stories, have achieved economic growth without equity. Indeed, their growth has come in the midst of increasing poverty, marked by increasing unemployment, underemployment, inequalities and the informalisation of their economies. Inequalities are also growing in these countries. In Uganda for example, the share of income received by the highest 10% income quintile increased from 27.2% of total income in 1989/90 to 31.2% in 1992/93. In the same period, the share of received income received by the lowest 20% income quintile decreased from 8.5% to 6.6% of total income (World Bank, 1993; World Bank 2000). In Botswana, often hailed as “an African miracle” (Samatar, 1999) by virtue of being one of the fastest growing economies in the world in the last two decades, the growth has been marked by increasing inequalities, with the richest 20% receiving 59% of total income and the poorest 40% receiving 12% of the total income and a Gini coefficient of 0.54 (Kerapeletswe and Moremi, 2001). Inequitable growth in Botswana results from three related features of the country: 1) the political leadership’s inclination not to radically address social inequalities; 2) the absence of a strong and encompassing civil society that could engage the state in addressing issues of equity; and 3) the unwillingness of the political leadership to nurture strong civil society and form synergistic relationship with it (Samatar, 1999). Whilst the Botswanan state is autonomous, strong and encompassing, the country lacks both civil society groups and synergy. However, the jury is still out as to whether these
countries will continue to pursue quantitative growth while ignoring the qualitative improvement of the material conditions of their people.

I will add a fourth model, which I term the equity-poverty nexus. This is because equity probably has a poverty-reduction effect. Thus, in addition to its contribution to growth and socio-political stability, high levels of equity can reduce poverty and make qualitative improvements in human conditions. In this study, equity means that all groups in society benefit equally from economic growth. Although there is no consensus yet in the empirical work, some studies point to the fact that a reduction in inequality seems to lead to a reduction in absolute poverty. In other words, high inequality could undermine efforts at poverty reduction. According to Ravallion (n.d: 11) “there is ample evidence to support concerns that high or rising inequality is putting a break on the prospects for poverty reduction through growth”. Birdsall (2005) has persuasively demonstrated the harmful effects of inequality on growth, using developing countries as examples. According to her:

In developing countries inequality is usually economically destructive; it interacts with underdeveloped markets and ineffective government programmes to slow growth – which in turn slows progress in reducing poverty. Economic theory suggests why: weak credit markets and inadequate public education mean only the rich can exploit investment opportunities. Middle income and poor households cannot borrow and miss out on potentially high returns on their own farms and small business ventures for example – often higher returns than the rich are getting on their capital. The most able children of the less rich miss on education and skills that would maximize their own economic prospects and their countries’ own growth (Birdsall, 2005: 1).

Both Benabou (1996) and Birdsall (2005) suggest the initial high concentrations of income and land in Latin America were significant impediments to growth. In contrast, the equal distribution of income and land were instrumental to the high growth rates in East Asian countries. Hence Benabou persuasively argued that “initial inequality is detrimental to long-run growth” (Benabou, 1996: 2).

There are therefore strong theoretical grounds for focusing on E-Growth rather than the narrow growth concerns of neo-liberalism. Against this background, the remainder of this chapter focuses on the institutional characteristics of SAS and the likely interactions between the institutional characteristics and institutional objectives.
3. 2. 1: State Autonomy and Equitable Growth

State autonomy is one of the major sources of the transformative capacity of the Synergistic Autonomous State (SAS). Autonomy here is defined by the Weberian bureaucratic attributes of the state models discussed in chapter two, that is, its insularity, coherence and the fact that it is staffed by qualified and highly-paid human resources who are committed to corporate goals. Meritocratic recruitment, predictable career paths and the presence of a coordinating ministry are likely to have important positive impacts on economic equitable growth. In this section, I will set out the E-Growth imperatives of state autonomy. I will begin by discussing the possible effects of autonomy on growth and then proceed to discuss its likely associated impacts on equity.

In a competitive global economy, bureaucratic elites must have the requisite knowledge and expertise to analyze complex economic information and advise the political elites on the global economy. In addition, these elites must take the necessary steps to be taken for their economy to attract investment, create jobs, extend basic services to the general populace, as well as mitigate the adverse effects of globalisation. Given that political leaders appointed to cabinet positions do not often have a background in their policy area, they must rely on the expert advice provided by the economic bureaucratic elites.

The importance of skilled economic bureaucratic elites to fostering economic growth and equitable development cannot be overemphasized. Especially in developing countries—where the state is an economic planner, regulator, and provider of basic services—the state requires knowledgeable and insulated bureaucratic elites who are capable of proposing solutions to its problems, as well as effectively utilising national resources to meet shared needs.

There is a convergence of views in academic and development circles that meritocratic recruitment is likely to ensure efficiency and to minimize corruption.15 Also, meritocratic recruitment is likely to foster esprit de corps – the camaraderie spirit that will enhance the capacity of the state. Such a bureaucracy, however, needs to be complemented by a political leadership that sets the context for transformation

15 Although from a different ideological orientation, the World Bank has increasingly come to recognise the importance of institutions to efficiency in government. See *World Development Report 2000/2001*. 

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and ensures the accountability of the bureaucratic elite. This, in turn, ensures that resources are allocated to meet economic and social needs, improves service delivery by the state and facilitates growth in the private sector. Bureaucratic coherence would enable the state to mobilize the collective, aimed at expanding market share (Weiss and Hobson, 1995), and thereby enhance global competitiveness. The contrasting case would be one where recruitment is based on patronage. In the latter, inefficiency is likely to be the norm as officials are more likely to be loyal to their mentor(s), rather than to organisational goals. Such bureaucracies would divert resources from productive, income-generating and life-improving activities to wasteful consumption activities. Meritocratic recruitment therefore minimizes corruption. In contrast, where bureaucratic recruitment is based on patronage, there is greater degree of corruption. This is a drag on economic growth.

Where bureaucratic elites have predictable career paths, they are likely to identify with organisational goals, which would create disincentives for the individual maximization that comes through corrupt practices. They are therefore more likely to effectively utilise resources for the well-being of the nation – expanding the productive economic base of the country and gearing resources that will improve peoples’ lives. In contrast, even the best-conceived policies are likely to fail in countries where the bureaucratic elites are more concerned with their own protection and individual maximization than the success of the programme (Peters, 1989: 191). Such a condition fosters rentierism and public policies will not be predicated on any rational economic sense or collective well-being of the society. Instead, policy becomes largely a function of particular special interests and individual maximization. In fact, there are numerous stories where the state has become the source of primitive accumulation for state officials in the developing world, with adverse effects on E-Growth. In the absence of autonomy, the state tends to be overwhelmed by particularistic economic interests and is, therefore, less responsive to broad interests. The collapse into clientelism could further undermine the capacity of the state to formulate policies that promote collective goals.

Evans and Rauch (1999) have powerfully argued the strong connection between state autonomy and economic growth thus:

…predictable and rewarding career path, and meritocratic recruitment, increases the propensity of state officials to advocate public infrastructural investment rather than consumption expenditures. Since the returns from public infrastructure investments
depend essentially on their “systemness,” the coherence … should enhance their effectiveness. Likewise, the reduction in individual maximizing (i.e. corrupt) practices should reduce the implicit tax on the private sector that such practices represent… shared perceptions of the state… as dependable, predictable, minimally competent and itself committed to long-term growth makes investment appear less risky. Competent bureaucracies can help individual entrepreneurs overcome coordination problems that may be especially crucial in instigating new activities. They can also turn informational resources into public goods in ways that increases the likelihood and effectiveness of investment. Respected bureaucracies could act as “honest brokers” in overcoming collective action problems among exporters (Evans and Rauch, 1999: 8).

It however needs to be pointed out that where the state uses its autonomy to promote narrow interests or promote the wrong sectors, such as the Malaysian state promotion of heavy industries in the 1980s, it is likely to have negative consequences on national economic development. Also, the state is likely to face opposition from actors not favoured by its policies, which in turn may impede growth. It is for this reason that the state needs to build cooperative relations with social actors (I will return to this subject in the next section). In addition, it is important that rents are not only transparently allocated but that beneficiaries meet certain performance requirements. As Aoki et al. (1996:14) have persuasively argued that “if policy-induced rents are provided on the condition of fulfilment of an objective criterion, they may induce private agents to supply more goods that are undersupplied in the competitive process”. In fact policy-induced rents that are transparently distributed are likely to force private agents to act to further the development objectives of the state.

A super ministry, or intelligent state agencies, is another component of autonomy that has important growth imperatives. The literature on developmental states generally recognises a super ministry as one of the major factors that account for their success. A super ministry is likely to enhance the capacity of the state to set a clear vision of transformation, align programmes from various ministries/departments with the national vision, and build consensus around its transformative agenda. The presence of a super ministry enhances state coherence. This in turn would enable bureaucratic elites to take a long-term view of transformation and channel investments from declining sectors to sunrise, technological innovative sectors that will enhance a country’s competitiveness in the global economy. State coordination is another important factor for successful economic transformation. As has been succinctly argued by both Johnson (1982) and Evans (1995), industries are able to successfully anticipate change in the global
economy due to the coordinating role of pilot agencies. That Japan and Korea have excelled in, and dominated, the global informatics sector is because this sector has been targeted by the pilot agencies. In other words, in both countries, the state created a focal point and channelled resources towards its attainment. As Chang (1994) notes, where the state creates a focal point or consensus around which decisions are made, it helps to reduce transaction costs, adapt to changing local and global conditions, as well as shape the global economic conditions.

Equitable advantages are also derived from an autonomous state bureaucracy. Because state officials identify with national goals, they minimize corruption with potential positive effects on E-Growth. Implicitly, autonomous state bureaucracies reduce taxes that would have been imposed on citizens where state officials are corrupt. Furthermore, bureaucratic elites are more likely to utilise resources efficiently and provide services to meet the needs of the population. Autonomous state agencies would be able to extract resources, e.g., taxes from the population, and channel them to provide services such as healthcare, education and other basic infrastructures that will improve the welfare of the population. In contrast, as we have seen in most African countries, the endemic corruption by states officials reduce the tax base as citizens avoid paying taxes to governments they see as diverting public funds into their private pockets. Weder (2002) reminds us that corruption also increases the costs of doing business and raises the break-even point for investment projects, thereby lowering economic activities. This, in turn, serves as a disincentive to invest with a negative effect on growth.

Autonomy would not only enhance the capacity of the state to promote global economic competitiveness and technological upgrading/innovation but autonomy is also likely to enhance the state’s capacity to adopt measures that enable the fruits of such changes to be shared by the larger society. In fact, it can be argued that autonomy combined with synergistic relations would enable the state to promote equitable development, including programmes to transform and improve the skills of the workforce and the promotion of life-long learning. It does this by either facilitating access to training programmes or subsidizing training by firms. In addition, autonomy tends to enhance the state’s capacity to facilitate sunrise industries to invest in its territories and thus increase demand for labour. The latter results in an increase in workers’ skills and income, which in turn leads to an improvement in the general standards of living. The casual observer may not appreciate the significance of
these types of redistributive/equity policies. As Weiss (1998: 153) has correctly argued:

… distributive outcomes involve more than simple welfare benefits. More important than outright transfer per se, … they include measures that promote greater equality of income distribution, such as those aimed at keeping people in jobs (rather than social security) or supporting the retraining and relocation of workers in declining industries, or initiatives sustaining self employment … active labor-market measures …

This is not to say that all state intervention leads to development success and the location of sunrise industries. History abounds with states that have misdirected investments and overstretched their capacities, with catastrophic consequences for national development. But state institutional dynamics and composition, including the presence of a political leadership that clearly understands and defines the need for transformation, makes a huge difference. Coherent within its institutions, these institutional dynamics can enable the state to plan carefully, anticipate change, ratify mistakes immediately, be focused and not overstretch its capacity and resources, and signal to the private sector about new opportunities. This was the case in both Malaysia and Korea, which were able to review policies and adjust programmes to meet changing circumstances in order to be globally competitive. In fact autonomy is a likely candidate to enhance the capacity of the state to embark on systemic planning (at times by trial and error), prodding entrepreneurs to invest in new sectors, signalling new markets and in some cases, to use Peter Evans (1995) words, midwifing new industries—all of which have strong economic growth imperatives. The literature on the East Asian region has shown that autonomy was instrumental to the state’s capacity to encourage both local and international capital to invest in high-value-added economic activities that propelled them to high growth economies. With capable internal institutions and coordination of economic policy, the East Asian states were not only able to articulate their goals but also “fostered growth by encouraging the business community, … to make long-term investment and upgrade organisation and management” (Campos and Root, 1996: 29).

Scholars such as Campos and Root (1996) have also drawn attention to the likely relationship between autonomy and E-Growth. They argued that autonomous states are able to induce the non-elites “to make short-term sacrifices in exchange for larger benefits in the long-term” (Campos and Root, 1996: 29). Pointing to East Asia
for example, they argued that the state fostered and implemented “highly visible wealth-sharing mechanisms – such as land reform, free primary education, and free basic health care” (p. 29), through which they secured the support of the non-elites for the growth process. In turn, this discouraged the non-elite from embarking on disruptive actions that could have undermined investors’ confidence in the economy, unlike the situation in most transition economies in the developing world. Furthermore, wealth sharing is a virtuous circle – it increases the income and wealth among citizens which in turn leads to higher savings and an increase in domestic capital formation.

Another important component that is worth highlighting is the autonomy-profit-investment nexus. Although there are exceptions, it is generally recognised that high profits (accumulation of capital) generate vigorous investment activities (You, 1999). Autonomy tends to enhance the capacity of the state to formulate and implement policies that would improve the profitability of investments. These include policies to reduce investment costs through, among other things, low interest rates, low import duties for investment goods, provision of industrial infrastructures, etc. In addition, autonomy is likely to enhance the capacity of the state to successfully formulate and implement policies to reduce the risks of investment, particularly in targeted sectors seen as crucial for the state’s project of rapid economic transformation. These include greater coordination of policies and regulation of investments. You (1999) has eloquently captured this as follows:

East Asian governments reduced risks by coordinating private sector investment according to their carefully planned development strategy. This coordination went beyond simply indicating which areas to invest in to regulating the overall amount of investment to private excessive investment and organizing recession cartels. All these reduce risks considerably… (You, 1999: 54).

This discussion suggests that autonomy enhances the capacity of the state to promote E-Growth.

3.2.2: Synergistic State-Society Relations and Equitable Growth

Unlike the concepts of developmental and catalytic states, the concept of state-society synergy stresses the importance of the state’s simultaneous relations with business and civil society, as well as to regional and international bodies, as the source of its capacity. Put differently, synergistic relations are characterised by a
multiplicity of alliances, interconnectedness and linkages with these other centres of power. The traditional tripartite relations are an apt example of these multiple ties. In certain instances, however, civil society organisations are being included. Such as in the case of Barbados, where civil society groups – the churches and retired persons’ associations – participate as observers (Fashoyin, 2001). The same is true of Mexico, beginning in 1987. These multiple linkages have become important sources of the state’s capacity. In the remainder of this section, I will set out the argument for the likely E-Growth imperatives of synergistic state-society relations.

I will begin with the conceptual frame of synergy. Unlike Evans (1997a), who defines synergy in terms of state-civil society organisations and a focus on equity, the concept of synergy in this study implies institutionalised relationships between the state and multiple nodes of power. At the national level, synergy encompasses state-business-civil society relationships. In other words, the conception of synergy in this study is more inclusive and has a more holistic objective. Therefore, in terms of objective, my conception of synergy accords with that of Heller (1997), but differs from him and Evans (1997a) in terms of the institutional characteristics of synergistic state-society relations. This is because I have adopted a more inclusive approach, which, as I have noted earlier, invokes synergy as collaborative power-sharing at the state-business-civil society nexus. It should be pointed out that the degree of such relationships with either capital or civil society groups can vary over time, and different policy issues. The concept of synergy implies state immersion of ties with multiple centres of power based on trust and reciprocity. Such relations are characterised more by cooperation and inducements by the state of its partners than by discipline or the imposition of the state’s will over the former. Such linkages, coupled with the coherence of the internal state structures, are the defining features of synergistic autonomous states. These would enable it to act independently and resist pressures from powerful socio-economic interest groups. But this is unlike the concept of Governed Market Theory (GMT), or Johnson’s (1982) conception of the developmental state that emphasizes the authoritarian character of the state. It is an inclusive and democratic policy process and the state is unlikely to resort to positive repression. Rather, the state mobilizes inputs from its social surrounding and produces outputs to respond to that environment – business and civil society participate in agenda setting and policy formulation. In effect, this is a democratic policy process that involves both the state and society in policy-making and implementation.
Like Governed Independence (GI), synergy is based on cooperative relationships, but it departs from GI in that the concept of synergy stresses state-society relations that go beyond business and trade unions to include NGOs and community groups. In addition, I depart from GI, which defines transformative capacity only in terms of industrial transformation. In this study, transformative capacity denotes the abilities of the state to engineer growth and equity – a shared growth.

Furthermore, the concept of synergy stresses that the state establishes downward, upward and sideward alliances with robust, dynamic and voluntary, business, community, trade unions, community organisations, and so on, on the basis of reciprocity and trust. The presence of a robust and dynamic capital sector and civil society groups is of crucial importance because they are likely to complement the state in its transformative task. As will be argued subsequently, where the state’s socio-economic partners are absent or fragmented, a synergistic state brings into being or nurtures the same institutional and cultural resources to enhance its capacity to promote shared growth.

It should be pointed out that such relations are not free from conflicts. On the contrary, they tend to be contested relationships. However, conflicts are likely to be mediated, minimised and resolved within the cooperative alliances. As Yeatman (1993: 230; cited in Bakker and Miller, 1996) puts it, policies are “informed by ongoing and openly contested politics of voice and representation”. Nonetheless, conflicts are minimised and resolved through cooperative alliances, constituting a basis for an organised consensus over the transformative project. Bingman (1989) came to the same conclusion in his writing on government-business relations in Japan. The relative openness and transparency of the process, as well as its being rule-bound, are some of the strengths of this contested relationship. They are democratic and competitive processes. As a result, public policy is subject to greater public scrutiny and state officials are more accountable. In addition, the inclusion of civil society organisations, especially those representing the poor, has an important equity imperative. As White (1998) argues, elite groups, by means of their concentrated organisational resources, may serve to intensify inequalities in society, both in economic and political arenas, rather than correct them. They tend to support existing

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16 See Putnam (1994) for a detailed discussion of the concepts of trust and reciprocity.
social, economic and political inequalities, as well as being more disposed to top-down policy-making and elite pacts. Elite pacts may not coincide with the needs of the poor and the socially excluded, as they tend to reinforce existing inequalities. Participation of civil society in the policy process could provide an important counterweight to capital, which is mostly concerned with the bottom line - profits. It can be argued that a broad coalition of the state, business and civil society is more likely to tackle the problems of poverty, inequality, and low growth. This point is buttressed by Heller (1996) in his study of the Indian state of Kerala.

I will therefore argue that countries with synergistic state-society relations are more likely to achieve E-Growth than countries where synergy is lacking. Consequently, we can hypothesise that the low economic growth, the low technological base, and the low infrastructural base of most developing countries, coupled with mass poverty and high income inequalities, result from the lack of synergistic relations.

In fact, an inclusive process will not only enhance associational activities but it will also give greater legitimacy to democratic regimes, their policies and outcomes. These are products of inter-class accommodation, compromises and at times consensus, rather than those based on exclusion of key sectors of society, be it business or civil society, which in turn fosters conflicts among competing interest groups in society. Thus one advantage of synergy is that it is likely to foster contested cooperation between business and civil society. Working together in state-coordinated consultative mechanisms is likely to engender trust between these two usually conflicting sides.

Furthermore, because synergy is based on institutionalised relationships around specific policy areas – for example macro-economic policy, industrial policy, sectoral policy and poverty eradication policy,¹⁷ and so on – that are structured and

¹⁷ In countries such as Ghana where state-society relations were on the agenda, but the relationship was confined to narrow issues such as traditional labor market issues, the outcome of such mechanisms were limited. By implication, therefore, state-society relations should be structured in a way that they could address broad national policy such as macroeconomic policy and industrial policy. This position departs sharply from that being advanced by staff of the World Bank such as Nick Manning (2001) who argues that macroeconomic policy should be driven by insulated national and international technocratic elite and that consultative forums and deliberation councils should confine themselves to social and sectoral policy. I take as a point of departure that because the macroeconomic policy conditioned the environment in which sector policies take place, macroeconomic policy should come under the purview of national institutions of dialogue and consultation. Even in procedural democracy, debate and contestation of ideas are seen as important democratic processes. If that is the case, no issue should be ruled out a priori as not being subject to debate by stakeholders. This should be especially
rule-based – it enhances the capacity of the collective (i.e., organised interest groups), while imposing constraints on individuals in the design and implementation of public policy. This minimizes corruption and enhances the effective provision of public goods. This would enhance the chances of success for a transformative project. Through information sharing between the state and the aforementioned stakeholders, the state would be able to better channel resources to where they are most needed. Consultation and negotiations would enable stakeholders to listen to each others’ positions and to make decisions after due consideration. As a general rule, such policies would be more acceptable and lend legitimacy to the policy outcomes. This, in turn, could avoid the disruptive behaviour of stakeholders when they are not party to policies that affect their members and constituencies. Consultation, consensus seeking and information sharing among stakeholders have the characteristics generally associated with a good investment climate, and consequently economic growth.

Another central feature of a synergistic state is that, at the national level, the state would privilege relationship between the government and encompassing business associations and civil society organisations. A synergistic relationship of the state with encompassing business associations and civil society bodies has several social and economic benefits. Encompassing societal interests – business associations and civil society – have the potential to assist government-business-civil society to resolve inter-sectoral disputes, share information on economic and industrial transformation, provide business managers and leaders of civil society with a state-like perspective on economic activities, for example, trade opportunities, new source of technological innovations, employment generating possibilities, etc. The points made by Durand and Silva (1998) about encompassing business associations are applicable to other encompassing societal interests. They observed that:

encompassing business associations aggregate sectoral and regional interests, they generate policy consensus among business elites with divergent points of view…encompassing organisations help to overcome debilitating and developmentally counterproductive distributional struggles born of the selfish, narrow concerns of sectoral and regional associations…encompassing associations help to generate and train…leaders able to articulate and defend general interests instead of sectoral interests (Durand and Silva, 1998: 6).

so in a participatory democracy. Only an inclusive process will give macroeconomic policy greater
Indeed, through encompassing business associations and civil society groups, the state would be able to promote popular participation and forge a broad coalition in support of a vision of national transformation. Relationships with encompassing societal interests also reinforce the internal coherence and capacity of the state that would enable state officials to focus on the goal of national transformation. Synergistic relationships between the state and encompassing business associations and civil society groups thus have both economic and political benefits. Encompassing societal interest groups are able to pull resources together and because of their in-house competence to undertake sophisticated analyses on social and economic issues. Through such analyses, they are able to make more informed contributions to national policies. It also needs to be stressed that encompassing associations have potential political benefits: they are able to mobilize their members around policies emanating from the institutionalised relationship with the state and thus create a stable socio-political environment, which as I have noted above is a necessary condition for growth.

Because such a relationship combines the technical competence of participants and the presence of competing sides (e.g., business and civil society organisations), it gives legitimacy to adopted policies and smoothens their implementation. This is because the necessary trade-offs are made between setting conditions for increased investment, technological change, economic growth and job creation, infrastructural development, and issues of poverty alleviation. As Heller (1997) has poignantly argued, synergistic relations between the state, business, and civil society create the institutional forms and political processes required for negotiating class compromises through which the needs for growth and equity are reconciled. This trade off between technological innovation (some of which might bring job losses) and retraining of workers may be difficult to achieve without synergistic state-capital-society relations. State-business-civil society relations are thus a mechanism for negotiating compromises through which growth and redistribution are reconciled. Synergistic relations also promote accountability and transparency in socio-economic governance and thereby enable citizens to monitor state officials more effectively and thus reduce the risk of purely rent-seeking or self-serving policies. The resultant outcome is socio-political stability, as well as democratic socialization of material and cultural life.

credibility and legitimacy.
But synergy may raise the spectre of institutional capture with its associated rent-seeking that might undermine a reform agenda. Critics of cooperative alliances between state and society, such as public choice theorist Mancur Olson (1982), have argued authoritatively that such cooperation with economic actors generates “distributional coalitions” with the aim of securing from government private benefits for members to the detriment of the broader society. A state that is synergistically autonomous is likely to avoid the danger of institutional capture and rent-seeking precisely because of its internal institutional characteristics of meritocracy, insulation and stable/predictable career paths for bureaucrats, and the resultant identification with organisational goals. These institutional attributes, the openness and transparency earlier referred to and the fact that some of the consultative processes have built-in monitoring mechanisms, may not only lead to the reduction of bureaucrats’ susceptibility to rent-seeking pressures from interest groups but also might dissuade socio-economic actors from using institutional ties to seek personal favors. Commenting on the Malaysian experience of consultative relationships between the state and business (with token participation by labor and NGOs), Biddle and Milor (1999: 42) note that:

…the structured and relatively transparent discussions between government and business sectors made possible under the Malaysian Inc. policy has facilitated information-sharing and helped generate trust among economic stakeholders, has enhanced policy credibility in the eyes of the business community, and has diminished opportunities for gross corruption within the public sector.

Also, synergistic relations enable the state, business and civil society groups to share the costs of economic transformation such as training of workers, R&D, acquisition of new technology, as well as being able to tie wage increases to productivity.

Since the policy decision is an outcome of a consultative process, it is likely to enjoy wide support from interest groups, as the encompassing interests would be able to mobilize support for such a policy, leading to social and economic stability, a necessary condition for attracting investments. Because the rules that govern a particular industry, labour market issues, employment creation, technological innovation, and so on are set out through synergistic relationship of the state with (encompassing) business associations and civil society organisations, members are assured that the rules will not be arbitrarily changed. This brings predictability to the
economic environment. In those circumstances, industry would tend to concentrate on their business, and civil society will more likely work for the success of such policy. This would eliminate or at least reduce the tendencies of these societal actors to engage in rent-seeking activities and wastage of productive resources to curry favours from government officials. Since encompassing business associations and civil society groups have a large membership base they are able to mobilize support for outcomes of deliberations and negotiations with the state. Also, this tends to impose self-regulation on actors and thereby eliminates disruptive behaviour that could undermine national transformation. Encompassing business organisation and civil society groups are also motivated by their participation in policy making to comply with decisions taken, even in the face of adverse decisions in the short run. Such a state is likely to achieve better economic outcomes, including E-Growth.

By contrast, in states where state-society synergy co-exists with fragmented societal interests, the process of social compromises is likely to be impeded and would therefore achieve limited developmental success. This is because state officials have to contend with the narrow and sectional demands of societal actors, with the potential to derail the state from its goal – goal displacement. This is the case in most developing countries whereby state-societal relationships are with narrow and fragmented societal interests that have captured the state. For example, one of Africa’s leading political economists, Claude Ake (1996), lamented that African states have alienated organised interests from the policy and democratic process, thereby spreading resentment, inefficiency and corruption, and, consequently, the people do not support the state or its developmental project. Others have similarly noted that citizens and their organisations were seldom consulted about public policies (Bratton and Walle, 1997). At best, only societal interests with approved memberships were consulted by the state. Citing Kashir (1972), they concluded that the post-colonial African state tried to circumscribe political participation by shrinking the public arena. In most of postcolonial Africa, like a large number of developing countries, the state-society relations can at best be described as paternalistic. In addition, in most developing countries business associations and trade unions (and indeed civil society), are relatively weak, fragmented, and with limited resources to effectively engage the state. As a consequence, most states in developing countries demonstrate very little transformative capacity.
In such circumstances, the outcome is likely to be the distortion of policies and outputs as the state acts as a canteen: distributing favours to its clients rather than working for the long-term development of the economic and redistribute resources to meet the needs of the general populace. This is what one might call the privatisation of public policy or the privatisation of everything. Under such circumstances, the outcome is likely to exacerbate economic inequalities. The consequence would be social instability, a situation that would deter both local and foreign investors. Indeed, these conditions often lead to capital flight. Of course, there are exceptions—as the case of the emerging “little African Tiger”, Mauritius, demonstrates. Ethnically heterogeneous, and despite the consequent fragmentation of civil society groups, Mauritius has enjoyed shared growth. Brautigan (1997) attributes this to a shared ideology of Fabian socialism and export-led growth with equity by the Mauritian elites. A shared project by the political and bureaucratic elites can therefore be an important variable for ethnically-heterogeneous countries to reduce conflicts that might threaten and indeed undermine national development.

An additional advantage of synergy is that it strengthens and enhances the capacity of civil society, with likely positive economic impacts. Noting the complementarity of an autonomous state and a strong civil society, Evans argues that:

a sustained efflorescence of civil society may well depend on the simultaneous construction and presence of robust, competent organisational counterparts within the state. Conversely, a state-society synergy view implies that a move toward less capable and involved states will make it more difficult for civic engagement (Evans, 1997b: 82).

Likewise, global companies, according to Evans, require sophisticated and robust states for the enforcement of their property rights since such rights are critical to profitability. There is also a likely positive correlation between rich/robust state institutions that are synergistically immersed with their socio-economic partners and a high rate of economic growth with equity. Countries with such institutional infrastructures and a unified national agenda are better placed to negotiate with TNCs in general (and sunrise industries in particular) to be located within their national borders (gaining with it associated benefits - technological innovation, high skills, learning organisations and high valued added production). Kuo succinctly (1995: 42, emphasis added) puts it thus:
countries with such institutional infrastructure, have been able to facilitate linkages between FDIs and local producers. Close cooperation among producers and between the state and local producers gives the host country a better bargaining position vis-à-vis FDIs with regard to technology transfer and linkage effects... FDIs can benefit from cheap and timely local supplies by providing local producers with necessary management and technology know-how.

These factors are crucial both for the attraction and retention of FDI. This is particularly so because market agents require economic decisions to be predicated on reliable and predictable institutional frameworks. Predictability here implies a stable political climate: that the rules of the game (such as the incentive structures, tax system, competition policy, etc.) are coordinated, explicit, stable and accessible to investors and other economic actors. These become the basis for testing decisions of both private and public officials. States with such institutional infrastructures are able to facilitate alliances between TNCs and domestic capital. The reverse is the case where this is lacking. In this context, a synergistic state limits its role to what Gordon (1996) calls interstitial intervention, that is, relying less on direct substantive support than on organizing the interface of relatively independent sources of innovation so as to maximize its capacity.

Central to interstitial interventions, which are a product of globalisation, is the provision of incentives to the business community and the capacity of the state to monitor their compliance (incentives that are both market enhancers and would enable the state to achieve the goals of its transformative project). Asianist scholars have shown that the interactions between the state and the business community can enhance the effectiveness of economic policy (MacIntyre, 1994; Evans, 1995; and Campos and Root, 1996). Through various incentive mechanisms, the state is able to systematically monitor the performance of beneficiary firms. Penalties are meted out to those that fail to meet set targets while those that achieved set targets are highly rewarded by the state. Consequently, such countries are able to upgrade their industries, undertake technology innovation and capture (and even dominate) new markets (Johnson, 1982; Amsden, 1989; Wade, 1990; and Evans, 1995). Through this system of disciplined support, Weiss contends that such countries are able to create world-class industries, which are able to secure market share and minimize costs in the long run. Disciplined support is also a means for better utilization of public resources. This is because it ensures that public resources are geared towards the attainment of the most productive outcomes, either in the form of upgrading products,
lowering prices or expanding exports, upgrading skills, etc. Hence it is able to take advantage of the creative impulses that flow from globalisation.

In his study of countries in transition, Encarnacion (1996) notes that strong alliances between the state and other economic actors not only serve to improve the technical quality of economic transformation but also help to build a political basis of support for the particular reform strategy. This imposes self-regulation on actors and is conducive to E-Growth because it is in such situations that the state:

is capable of imposing the choices made by groups through a bargaining and negotiation process, the decisions are likely to be taken from one group and given to another. This means of policy making is, however, a relatively safe manner in which to adopt redistribution policy, since it ensures the participation of both winners and losers as well as ensuring the application of technical knowledge to the choice. These two characteristics - the technical knowledge of participants and the presence of competing sides – were important in legitimizing decisions. In Sweden, for example, the inclusion of all competing groups is important for the smooth implementation of policies adopted by pressure group representatives cooperating with government. Participation in policy making may be a sufficient motivation in itself to produce compliance with decision taken, even in the face of adverse decisions in the short run. In a situation in which elites may lack the cohesion and consensus necessary to implement decision, these legitimate interactions between interest groups and the state may result in policies of self-regulation and avoidance of disruptive activities (Peters, 1989: 162).

Again, policy-making predicated on synergistic relations is likely to both deepen democracy and create favourable climate for the investment community, both domestic and global. It is not controversial to suggest that a stable socio-political climate is a major attraction for foreign investors.

Similarly, successful participation and the ability to avail of advantages that flow from regional trading blocs and multilateral organisations is, to a large extent, dependent on cohesive and dynamic domestic institutions – autonomous state agencies linked synergistically to business associations and civil society organisations. This is more so as “[A]t present world trade, investment, and technology transfer are all cast in regional terms” (Edoho, 1997: 19). Successful transformation (achieving shared growth) is also contingent on state participation in (and interaction with) the various nodes of power including regional and global agencies of economic governance. This enables the state (and capital) to be able to gather the most up-to-date information, both in terms of market opportunities and technological advancements and signal to the private sectors to take advantage of such opportunities. Countries where this exists would be more successful in transforming
their technological basis, capturing new markets, undertaking infrastructural development and upgrading skills (than in countries where the state is unable to tap into these other nodes of power). Autonomy and synergy are however the basis for its capacity to successfully engage in regional and global institutions and processes.

Synergistic relations have important equity imperatives. Production and delivery of public goods (services) occur through a process Ostrom (1997) calls co-production, that is, the active involvement of citizens and their communities in the “process of defining and delivery of collective services” (Bakker and Miller, 1996: 352). Especially in an era of globalisation (with the drive towards outsourcing and privatisation of important social services), business associations and civil society bodies become important complements to the state. In the context of synergy, business associations and civil society groups play a complementary role to the state as implementing agents of public policies in areas where they have expert knowledge and skills. This ranges from direct delivery of basic services to enforcing particular policies on behalf of the state, as well as mobilization of citizens support for public policy. Citizens and their organisations therefore become agents of transformation rather than mere recipients of income transfers. The ability of the state to effectively engage civic associational life in the process of co-production depends on the existence of autonomous state institutions. Service delivery in such societies are more likely to “take into account the fact that norms and networks are marked by gender, race and other relationships of subordination and domination and are therefore more likely to adopt polices aimed at addressing these imbalances” (Bakker and Miller, 1996: 353, emphasis added). In other words, state-society synergy leads to equitable distribution of basic services.

E-Growth is more likely to be achieved in countries where governments tap into community norms of trust and reciprocity and involve citizens in the production and delivery of public goods than in countries where these phenomena are lacking. Through civic participation in the design and implementation of services, especially public goods, the state is able to assess the needs of the people and to channel resources to meet those needs. Furthermore, as has been acknowledged by the World Bank (1997), civil society participation in the design and implementation of policies reduces information gaps and transaction costs. It also leads to the smoother implementation of state policies, as well as the enhancement of their credibility and sustainability. Also, such civic norms, it is argued, could help to overcome market
failures and hence lower transaction costs and consequently improve the efficiency of the economic system (Ashan, 2001).

Another structural feature and source of the capacity of synergy is the presence of intermediate associations – statutory bodies (trade associations, industrial promotion agencies, advisory bodies, deliberative councils, etc.) made up of bureaucrats and representatives (of both labour and capital) of affected industries. Because they are crucial to the success of E-Growth, the state facilitates the setting up of such bodies as platforms where policy are negotiated and fashioned out. These are what the International Labour Organisation (ILO) generally refers to as social dialogue institutions, which may be permanent or ad hoc, and -- as rightly observed by Biddle et al. (2000) -- may be organised along industrial, sectoral, functional and even national lines. But unlike classical corporatist institutions, these may not only be composed of membership of peak organisations or limited to the national level but are widespread in the society from local to national, from specific to a wide range of issues, from sectoral to multi-sectoral and from micro to macro issues.

Policy networks or intermediate bodies are also important avenues for the systematic monitoring and evaluation of policies. If set targets are not met, adjustments are made through these avenues. Emphasizing the significance of these decision-making mechanisms, Weiss notes, “In so far as public and private decision-makers get together to exchange information and to coordinate actions, information gaps are minimised and each generally ends up making better decisions than if trapped in isolation” (Weiss 1998: 58). Policies designed and implemented through private-public cooperation also gain wider legitimacy than those that do not. There is a positive correlation between credible policies and high rates of investment and growth, as well as sustainability of programmes.

The attractiveness of the concept of synergy is that state relations to its socio-economic partners are not limited to the national government and apex organisations, as was in the social democratic states, but that such relations permeate the whole of society, from the national through the provincial to the local levels. Where these attributes exist, according to Bakker and Miller (1996), Burawoy (1997) and Castells (1998), local and provincial governments exercise considerable autonomy over socioeconomic and industrial policies rather than being mere implementors of central government policies.
Decentralisation of power to local and provincial governments does not necessarily entail subtraction of resources from the centre but rather it leads to the creation of new sources of revenue. Also, it does not mean the hollowing out of the nation-state as seems to be suggested by the World Bank (2000) in its World Development Report. Castells, writing on China, notes that “provincial and local governments invested in new market-oriented businesses, often in joint ventures with foreign investors, and became the source of “private” capitalist accumulation, as collective entrepreneurs who shared in the benefits of their enterprises” (Castells, 1998: 298). Burawoy (1997) came to the same conclusion in his work on China. According to him, rather than concentrating on resources they could obtain from the central government, provincial and local governments focused on the generation of resources from below. In other words, the nature of the relationship provided scope for investment opportunities (including local economic development) and subsequently, the creation of more national wealth.

The contributions of regional and local governments to national economic development are immense and indeed immeasurable. They provide vital supports and collective services to industry. In particular, according to Hirst and Thompson (1999: 274):

regional governments are the public articulation of industrial districts composed of small and medium sized firms, and are a major reason why such firms can be internationally competitive and enjoy advantages comparable to the economies of large firms. The existence of regional economic governance, of thriving industrial districts and of an effective partnership and division of labour between national states and regional governments is a central component of the success of national economies in world markets.

One of the foremost students of institutions, Robert Putnam (1993) illustrates the centrality of local and regional governments to local and regional economic developments in his path-breaking study of modern Italy. As he observes, local governments provided necessary social infrastructure and services, such as training, information on exports and technology firms located in the industrial districts. Firms in the industrial districts were encouraged to compete for innovation and efficiency, while cooperating in R&D, administrative services, raw materials purchases and financing. Coupled with the presence of active industrial associations, these firms combined both low vertical and high horizontal integration, which accounted for the
successful regions’ technological advancement and their flexible economic structure, the basis of their competitiveness in a globalising world.

Decentralisation is not without its problems. For example, we often find a lack of resources and skills in local communities and local civil society organisations to engage in the policy process, as well as the problem of coordination between various levels of government in developing countries. Still, decentralisation has distinct developmental benefits. As we noted above, it tends to make government responsive to their needs, strengthens associational life and political participation at the local level, and promotes bottom-up while de-emphasizing top-down inputs in political institutions and developmental processes. In addition, decentralisation encourages citizens to monitor and evaluate development projects, and through their participation would, in all probability, own such projects.

As part of the decentralisation process, front managers are given considerable leverage (and scope for initiatives) rather than being constrained by the rigidity that characterised the Fordist state model with its mass production and centralised state administration.

In concluding this section, I argue that synergistic state-business-civil society relations reduce collective action problems amongst industrial interests, on the one hand, and between capital and the state, on the other. Cooperation that flows from synergy would lead to the sharing of information and R&D cost. Ultimately, state-informed synergy would enhance the quality of policy. This is because negotiations and renegotiations of policy between business and state foster a culture of learning-by-doing on both parties, which in turn enhances the quality of economic policy. Consequently, through its interactions with other nodes of power, identified above, and through its independent actions, the state is able to provide the basic ingredients for global competitiveness and economic growth. These include health, education, job training, R&D policies, infrastructural development, competition policy, etc. Furthermore, synergy is likely to enhance the capacity of the state to ensure that the fruits of economic growth are equally shared by all segments of society. This thus entails a commitment to alleviation of both absolute and relative poverty. And because the policy process is inclusive, all the social partners make specific commitments to the attainment of the goals of shared growth.
3.3: Conclusion

From the foregoing discussion, we can expect that the Synergistic Autonomous State (SAS), due to its internal institutional framework – autonomy and synergistic relations with society – is likely to achieve E-Growth.

The main contribution of this chapter has been to suggest that the explanation for state transformative capacities lie in the internal capacity of state institutions and in their synergistic relations with various networks of power, nationally and globally. Variations in national economic outcome (growth with equity) therefore tend to depend on domestic institutions. These include insularity of a coherent and competent state bureaucracy staffed by qualified and highly-paid human resources and complemented by the presence of political elites with whom it shares a transformative agenda. Furthermore, this includes the existence of centralised yet flexible coordination, the presence of core economic ministries that are responsible for planning, gathering and analyzing information in-house, targeting of industries which the state deems as necessary for the long-term welfare of the economy, etc. In sum, autonomy and synergy, as the sources of SAS capacity, will lead to equitable growth.

This research intends to go beyond the existing research on the state’s transformative capacity by recognising that state relations are no longer confined to either capital or civil society. It takes as its point of departure that the state enters networks of ties (cooperative relationships) with various nodes of power including capital, civil society, provincial and local governments, as well as regional and international bodies in its transformative task.

States that can tap into these networks should achieve better economic outcomes - better utilization of resources to meet the needs of their population, increased investment and growth, etc. Consequently, the central hypothesis here is that the ability of the state to successfully engage with the globalisation process depends on society's domestic institutions, and it is institutional differences that account for variations in national economic outcomes.

Having set out the conceptual framework of this study, I will in the next chapter define and operationalise the dependent variable: E-Growth.
Chapter Four
The Dependent Variable: Equitable Growth

4.0: Introduction

In the previous chapter, I set out the conceptual framework for this study where I hypothesized that the Synergistic Autonomous State (SAS) brings shared growth or Equitable Growth (E-Growth). This means that E-Growth is the dependent variable of the study. In the present chapter, I will proceed to operationalise E-Growth. The first step in the process of operationalisation is to discuss what is meant by E-Growth and thereafter proceed with its empirical manifestation.

4.1: Defining the Variable

In the theory chapter, I highlighted the centrality of economic growth and equity to an informed understanding of SAS. For operational purposes, it is therefore appropriate that I clearly define these indicators in order to delimit the boundaries in which they are used. In doing so, my interest is to create indicators that can be validated. This is necessary in order to overcome one of the main shortcomings of previous work in the field of institutional analysis and economic development, especially those on the developmental state.

As I argued in chapter 3, E-Growth means a high rate of economic growth and equitable distribution of income and wealth. Following Sen (1997), equity here implies equality of benefits. E-Growth therefore means that the fruits of economic growth are shared equitably by all segments of society. This variable, E-Growth, therefore has two indicators, namely growth and equity. A description of these is the subject of the next section.

4.1.1: Economic Growth

The rate of economic growth is an important indicator of any country’s economic performance and it is generally measured by calculating the percentage change in real Gross Domestic Product (GDP) from one year to the other. It is
commonly acknowledged that the most important and widely used indicator to measure a country’s economic performance is GDP. It refers to the total value of goods and services produced or the wealth created in a country in a given year.

There are three methods of measuring GDP, namely, the product approach, the income approach and the expenditure approach. The product approach measures the value added of all the participants in an economy. In other words, this measures the total output of final goods and services (but does not include inputs/intermediate goods and services as that would amount to double counting of a country’s economic activity). The income approach measures the income received by all factors of production. This is constituted by adding compensation to employees, gross operating surplus, gross mixed income, and taxes minus subsidies on production and imports. The expenditure approach captures the spending on final goods and services (total output) by the different participants. The expenditure on GDP is constituted by consumption expenditure by households, investment spending by capital, government spending and expenditure on exports minus expenditure on imports. Suffice it to say that the production, income and expenditure methods all yield the same answer. As Mohr et al. (2004: 65) correctly observed, “the three methods essentially measure the same thing, albeit at different points in the circular flow”.

Both the income and expenditure measures are expressed in monetary terms at market prices that prevail, that is, at current prices or in nominal terms. GDP can be expressed in current prices (or nominal GDP) or at constant prices (real GDP). Nominal GDP measures the prevailing prices at the period in which GDP is being calculated. In other words, it is the total amount of money spent on GDP, while real GDP adjust/control for this value taking account of the effects of inflation in order to determine the actual quantity of goods and services making up GDP.

GDP can also be measured in international currencies, and these measures mostly employ one of two conversion methods: the current currency exchange rate (also known as the market exchange rate) and the purchasing power parity (PPP) exchange rate. The market exchange rate method calculates the value of goods and services using global currency exchange rates while GDP (PPP) accounts for the relative effective domestic purchasing power of the average producer or consumer within an economy. In other words, it measures the PPP of each currency relative to a selected standard, usually the United States dollar. The following statement by the World Bank is illustrative: “PPP measures the relative purchasing power of different
currencies over equivalent goods and services. They are international price indexes that allow comparisons of the real value of consumption expenditure between countries...The resulting PPP indexes measure the purchasing power of national currencies in ‘international dollars’ that purchasing power over GDP as the US dollar has in the United States” (quoted in Reddy and Pogge 2003:11). One advantage of the GDP (PPP US$) measurement is that it allows for a standard comparison of real output between countries.

All of the various measurements have an economy-wide version, and a per capita version. The latter, GDP per capita, allows us to measure the size of the economic activity relative to a country’s population. It is often used as an indicator of standard of living in an economy. Its use to reflect the standard of living has been criticised. After all, this is not—strictly speaking—a measure of standard of living. GDP is intended to be a measure of particular types of economic activity within a country. There are many types of economic activity (house-work, or informal markets, for example) that are not captured by the GDP measure.

Despite these shortcomings, I have decided to use the GDP measurement for this study because it measures the overall productive capacity of a society/economy. The focus on GDP by social scientists is premised on the assumption that, all things being equal (ceteris paribus), the expansion of the national cake, that is, its productive capacity, will lead to improvement in the material conditions of citizens. But we know in everyday life that “all things are not equal”, hence there is a strong need to focus on how the national cake is shared among citizens. But even if GDP leads to an increased standard of living, it does not address how various segments of society share the fruits of growth. In other words, GDP does not take inequality into account. But as discussed in chapter three, shared growth means that every segment of a country’s population should benefit equally from economic growth. This provides an important background to the next section which focuses on the equity.

Before proceeding to the next section, the list of countries for which I collected data on GDP growth (annual %) will be presented. The source of the data is the World Bank online, which is widely utilised as a reliable data source on GDP. The data are for forty developing countries (excluding the former Soviet Union and East European countries). These are the same countries for which I have data on the equity

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18 For a critique of current PPP measurement, see Reddy and Pogge (2003).
indicators. They are located in four main regions, namely Asia, sub-Saharan Africa, Middle East and North Africa, Latin America and the Caribbean.

Table 4.1: GDP in 40 Developing Countries, 1991 - 2001

<table>
<thead>
<tr>
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<tbody>
<tr>
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<td>Guatemala</td>
<td>3.9</td>
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<tr>
<td>Vietnam</td>
<td>7.5</td>
<td>Pakistan</td>
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<td>Singapore</td>
<td>7.0</td>
<td>Gambia, The</td>
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</tr>
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<td>6.6</td>
<td>Bolivia</td>
<td>3.5</td>
</tr>
<tr>
<td>Mozambique</td>
<td>6.5</td>
<td>Malawi</td>
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<td>Honduras</td>
<td>3.2</td>
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<tr>
<td>Korea, Rep.</td>
<td>6.0</td>
<td>Mexico</td>
<td>3.2</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>5.6</td>
<td>Morocco</td>
<td>2.8</td>
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<tr>
<td>India</td>
<td>5.5</td>
<td>Nigeria</td>
<td>2.7</td>
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<tr>
<td>Cambodia</td>
<td>5.4</td>
<td>Colombia</td>
<td>2.6</td>
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<tr>
<td>Yemen, Rep.</td>
<td>5.4</td>
<td>Brazil</td>
<td>2.6</td>
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<tr>
<td>Jordan</td>
<td>5.1</td>
<td>Madagascar</td>
<td>2.2</td>
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<td>Costa Rica</td>
<td>4.9</td>
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</tr>
<tr>
<td>Bangladesh</td>
<td>4.8</td>
<td>Paraguay</td>
<td>2.0</td>
</tr>
<tr>
<td>Burkina Faso</td>
<td>4.7</td>
<td>Kenya</td>
<td>1.6</td>
</tr>
<tr>
<td>Guyana</td>
<td>4.6</td>
<td>Jamaica</td>
<td>0.5</td>
</tr>
<tr>
<td>El Salvador</td>
<td>4.4</td>
<td>Burundi</td>
<td>-1.2</td>
</tr>
<tr>
<td>Thailand</td>
<td>4.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indonesia</td>
<td>4.3</td>
<td></td>
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</tr>
<tr>
<td>Ghana</td>
<td>4.3</td>
<td></td>
<td></td>
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<tr>
<td>Iran, Islamic Rep.</td>
<td>4.2</td>
<td></td>
<td></td>
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<tr>
<td>Egypt, Arab Rep.</td>
<td>4.2</td>
<td></td>
<td></td>
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<tr>
<td>Ethiopia</td>
<td>4.2</td>
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Mean: 4.2


Table 4.1 is constituted from the World Bank’s World Development Indicators (WDIs) online. The GDP data is the average for each country for the period, 1991 – 2001. Based on the sample of forty developing countries, we find that the sample mean for GDP is 4.2%. This mean can be used to establish a cut-off or threshold point for growth. This is, in effect, what Table 4.1 does: it cuts the sample of forty developing countries into two groups: those countries that have experienced higher than average growth rates; and those that have experienced lower than average growth rates. Thus, any country that enjoyed an annual GDP growth rate of 4.2% or more will be understood to have enjoyed high economic growth whilst a country with a growth rate lower than 4.2% will be said to have low growth. From the sample, and as evidenced in Table 4.1, twenty three and eighteen countries could be described as
having high and low economic growth, respectively. In the sample, a majority of the countries with high growth rate (ten) are located in Asia. This means that of the eleven Asian countries in the sample, only one, Pakistan, has a low economic growth rate. In contrast, a majority of the countries with low growth rate (nine) are located in Latin America and the Caribbean region. Therefore of the fourteen countries from the region, only five have high rate of economic growth. Of the nine sub-Saharan African countries, six are marked by low growth rates, while three of the four Middle East and North African countries, three experienced high rates of high economic growth.

4.1.2: Equity

Because there is no easy indicator to measure equity, one of the major tasks of this project is to specify how I intend to measure equity (and the justification(s) for such a choice). The first thing to note is that a number of indicators have been developed to measure inequality. These include the Inequality-Adjusted Human Development Index (IAHDI) developed by Douglas Hicks (1997). The IAHDI is an attempt to incorporate distributional concerns into the United Nations’ Development Programme’s (UNDP) Human Development Index (HDI) - an aggregation of three key elements of human well-being and quality of life, namely knowledge – measured by adult literacy, and the average number of years of schooling; longevity – measured by the average number of life expectancy; and income – measured by trying to construct a Gini coefficient (a concept that will be defined subsequently in this section) for each of these indicators. In other words, through the IAHDI, we can measure equity and inequality in other property spaces, e.g. longevity and education, rather than by income alone.

These multidimensional indicators of equity are useful but problematic. According to Klasen (2001: 4), “there are close causal linkages (with causality running both ways) between income … and most other non-income measurements…In particular… better health and education of the poor will improve their chances to escape income poverty; conversely, higher incomes will typically allow the poor greater access to health and education services.”

Higher inequality, he points out, increases poverty and reduces other welfare measures such as education and health. Reducing income inequality has positive impacts on these other measurements of inequality. Several empirical studies (e.g.,
Deininger and Squire, 1998) have shown that there is a very close correlation between income inequality and the average and the distribution of human capital. These have positive spin-offs on poverty reduction by giving the poor more resources and enhancing their human capabilities. In sum, lowering inequality has what Klasen calls, *triple effects* – it reduces poverty, increases growth and enhances the poverty impact of such growth. In an econometric study of twenty developing countries by Bruno, Ravallion and Squire (1998), in which they regressed the rate of the change in poverty on both change in growth (change in the survey mean) and the change in inequality (as measured by the Gini coefficient), they find statistically significant coefficients of -2.28 for the growth variable and 3.86 for the inequality variable. This implies that even a small change in the overall distribution of inequality can lead to sizeable changes in the incidence of poverty (Adams, 2003). It is in this context that we need to understand any reference in this study to poverty reduction – I assume that the greater the decline in inequality, the greater the reduction in poverty (reduction of income inequality and poverty reduction often go hand in hand, but not the other way round).

While multidimensional indicators of equity and inequality measurements are useful, such an approach faces a number of problems.

Surely the construction of inequality measures in these three dimensions based on Gini coefficients face conceptual as well as empirical difficulties. Inequality of longevity is a difficult concept intuitively… it is neither fully “objective” nor does it respond completely to transfers. “Rankings” of countries for inequalities by their Gini measures depends on their implicit welfare function of the Gini calculation. The data for distribution in all three dimensions have comparability and reliability problems (Hicks, 1997: 1293).

Consequently, in this study, I will use income inequality, which is a commonly utilised indicator in most empirical work in the social sciences on equitable distribution of income and wealth. A Gini index will thus be used as a proxy for equity. There seems to be an increasing consensus among academics and development practitioners that income inequality seems to be an appropriate way to measure inequality in a society. Income inequality is measured by using the persons, families, or households units in rank order, from the poorest to the richest, then dividing the hierarchy into fifths (quintiles) or tenths (deciles); and then computing either the average income deciles or quintile or the share that each groupings has of the society’s total income. This becomes a basis to compare the shares or average of
the rich and the poor. In other words, the Gini index measures the degrees to which incomes among households and individuals within a given society deviate from a completely equal distribution. It measures the area between the Lorenz curve and a hypothetical line of perfect equity. Defined in this way, the Gini index of 0 (zero) would represent perfect equity, and an index of 1 (one) implies perfect inequality.

One might ask why the focus on relative inequality instead of another form of inequality, that is, absolute inequality. These are two different concepts and they measure different things. Absolute inequality measures dollar differences in real income. By contrast, relative income inequality is measured in terms of ratios (Fields, 2001). I focus on relative inequality for three reasons. First, relative inequality is conceptually appealing because it measures the income of one group against another. It enables us to focus on the shares of each income group. Because it focuses on income ratios, it therefore enables us to compare the income of say the highest 10% deciles against the lowest 10% deciles. Relative income inequality is therefore a useful comparability tool enabling researchers to measure the income of say the rich against that of the poor, that is, the portion of the total income that goes to each group. But there is another reason why I have used the income inequality in this study. The dominant trend in the social sciences literature on distribution and development, from Simon Kuznets (1955) seminal work onward, uses such measures, hence I want to situate my study within this tradition, and by so doing ensure that my findings can be compared with others in the field. Lastly, I have not chosen absolute inequality because it always leads to the conclusion that economic growth must lead to an increase in income inequality. As one leading expert in the field of income inequality measurement, Fields (2001: 16), points out:

if absolute inequality measures were to be used, we would have to conclude as a practical matter that economic growth raises income inequality and economic recession always lowers it, because empirically the dollar differences in real income of the rich and the poor and the variance of incomes always increase with economic growth and decline with recession. If you choose an absolute inequality measure, you will get an answer, but if you choose a relative inequality measure, you will as often as not get a different one.

For these reasons, I have chosen a relative inequality measure for the purposes of this study.

Against this background, I proceeded to collect data on equity. Unfortunately, there is a lack of time-series, cross-country data on income Gini coefficients for
developing countries (that is, low to middle income countries). Consequently, I assembled a sample of developing countries in which data for the income Gini coefficient is available for the most recent period, 1991 – 2001. These data cover forty developing countries, excluding the former Soviet Union and Eastern Europe, for which income inequality is measured in the range of years 1991 to 2001. Each of these countries has data for only one year in the period covered. The source of this data is The World Bank’s *World Development Indicator* (WDI) Online (World Bank, 2003). This data on income Gini coefficients are therefore not in time-series form, they represent (approximately) the same time period, 1991 – 2001 in each country. This is to say that the country data are from different years in the reference period, 1991- 2001. But these single year data for my sampled countries are representative of the period because income inequalities do not change fundamentally from year to year or over a short space of time (Adam, 2003), unless where there are fundamental interventions by the state to rapidly change the income inequalities. Several recent empirical studies have all reached the same conclusion that income distributions generally do not change much over time – it remains very much inelastic (see, e.g., Adams, Jr, 2003). For example, in the developing world, GDP per capita grew by 26 percent between 1985 and 1995 (World Bank, 1997 cited in Fields, 2001) but the Gini coefficients barely changed over the same period (Deininger and Square, 1998, table 5). Hence I assume that data for any given year within the defined period, 1991 – 2001, would appropriately reflect the income distribution level in a society. I should also point out that it is common procedure in the social sciences to use Gini coefficients from different (but close) years as a basis of comparison.

However, the World Bank indicators have to be interpreted with some caution. They suffer both reliability and comparability problems. First, some countries’ distributional data are based on household data and others are based on personal (individual) data. One of the limitations of household data is that they tend to obscure intra-household distributions. Second, the data rely on estimates based primarily on household surveys, data obtained from national government statistical agencies and World Bank country departments. The problem with this is that the country surveys may differ in methods, definitions of income (and consequently the type of data

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19 This approach is consistent with that of the World Bank, in its celebrated publication, *The East Asian Miracle*, where it used the decade average because Gini data were available for different years in the Asian countries (World Bank, 1993b: 3).
collected), all of which make strict comparability difficult. Nevertheless, this problem is greatly minimised with the improvement and standardisation of survey methods. Third, although the WDI online did not indicate whether the data were based on consumption or income, I assume that like all World Bank’s WDIs, some of the country data are based on consumption, while others are based on income. This poses comparability problem. In particular, income tends to be more unequally distributed than consumption, and the latter is a better indicator of welfare than income. Due to the lack of consistent data on consumption, it is relatively common to combine both income and consumption data. Therefore, Hicks (1997) reminds us that in the social sciences there is precedence for using income and consumption in comparative exercises such as this. In spite of all the shortcomings with the World Bank’s data, they are the best income distribution data available for research of this nature. The country Gini score for the sample are established in Table 4.2 below.

Table 4.2: Gini Scores for 40 Developing Countries, 1991 – 2001

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<tr>
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<tbody>
<tr>
<td>Low Inequality</td>
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<td>High Inequality</td>
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<tr>
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<td>Gambia, The</td>
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<tr>
<td><strong>Mean</strong></td>
<td></td>
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<td><strong>0.44</strong></td>
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</table>


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20 The Malaysian score has to be read with caution. Official Malaysian government data show income inequality has declined consistently from 0.52 in 1970 to 0.44 in 1999 (quoted in Khan, 2002). If we were to take this into consideration and to remove the impact of the Asian financial crisis which tends to lower its growth rate in the period on which Table 4.1 is based, the Malaysian score would have
The mean income inequality coefficient for the forty developing countries in the sample is 0.44. I have used this (the mean value) to establish a cut-off point for equity. Countries with a Gini index lower than 0.45 will be classified as enjoying low inequality and countries with an income Gini index or more than 0.44 will be classified as having high inequality.

Half of the countries in the sample can be classified as egalitarian while the others are inequitable. Eight of the twenty equitable countries are in Asia. This means that majority of the Asian countries in the sample are highly egalitarian societies. A majority of countries (thirteen) that are highly inequitable are in Latin America and the Caribbean. Only three of the ten sub-Saharan African countries are highly equitable. Interestingly, all of the four Middle East and North African countries are highly equitable.

Having collected data for the two indicators, growth and equity, I will now proceed to construct the E-Growth variable.

4.2: Constructing the E-Growth Variable

In chapter three, I argued that while growth is desirable, growth by itself is not enough. I set out the socio-political and economic reasons for this position. Growth by itself does not lead to equitable development. As argued in chapter three, the absence of the latter is likely to lead to socio-political unrest with the potential to undermine democratic consolidation. I also highlighted the economic reasons why there is a need to go beyond narrow concerns for economic growth by focusing more on the distributional effects of growth. These arguments might be summarized again, briefly. In the first place, socio-political unrest, due in part to income inequality, will undermine investor confidence. Low investment levels lead to a slow down or decline in economic growth. In addition, socio-political upheavals will lead to macro-economic volatility with adverse effects on economic growth. Other than that, inequitable growth is unlikely to lead to maximum utilization of national resources necessary to ensure expansion of the productivity capacity of a nation and could thus be a drag on economic growth. For example, when the poor are deprived of opportunities to enhance their productive capacity to the fullest (due to the skewed

changed to 4, that is, it combined growth with equality. However, for consistency, I will retain its score based on the World Bank data.
distribution of income and wealth), society as a whole is the loser - it is depriving a potential segment of its population that could have enhanced its productive capacity. Thus there are efficiency reasons to focus on equity. It is for these reasons that I have given more importance to equity in the analysis. Against this background, I have created a 4-point index, depicted in Figure 4.2 below, for mapping out the conceivable variations in E-Growth. But before proceeding with that discussion, the point needs to be reiterated that my dependent variable has two indicators, growth and equity that are not correlated with one another.

We can begin by documenting the nature of the relationship between growth and equity. The next step is to conduct a correlation test on income Gini coefficient and GDP in order to verify whether or not these two indicators co-vary, that is, whether they move together in the same direction. This will enable me to score countries according to my 4-point index.

Based on World Bank data, I conducted a correlation test on growth and equity. The Pearsons correlation for this test is -0.172. This result means a negative and weak correlation between growth and equity. This is illustrated in Figure 4.1\(^{21}\) - a scatter plot of equity and growth, which shows that there is no correlation between these two indicators.

\[^{21}\text{See Appendix 1 for the raw data used in Figure 4.1.}\]
I should emphasize that this relationship raises a number of serious issues when trying to create a common indicator on the basis of two unrelated sub-indicators. Consequently, I collected more GDP data (expanding to fifty-nine countries) to run another test. In addition, this new data, the GDP per capita annual growth rate data, was for a longer duration, 1990 – 2000 (that is eleven years compared to the five-year period for the data used in the first test). The source of this data is the United Nations Development Programme (UNDP) *World Development Report* (WDR) 2002. I relied on the same source, the 2002 WDR, for its most recent data on Gini coefficients for the same countries. Again, like the previous test, the results show a negative and weak correlation between economic growth and equity. The Pearson correlation of the test is -0.279.

These findings are supported by empirical works of leading experts such as Deininger and Squire (1997), who show that there is no systematic link between growth and changes in aggregate inequality. But they do find a strong positive correlation between growth and reduction of poverty. In the same vein, Fields (2001: 62) surmised that “income inequality is no more likely to rise or fall when economic growth is low or negative”.

Thus, my dependent variable thus has two aspects/indicators, growth and equity, that are not positively correlated. In order to proceed with the operationalisation of this variable, I will need to collapse these two indicators. By so doing, I will create my own index for measuring equitable growth. Through such an index, I will be able to measure whether or not a country is said to have equitable growth. Through this process, I will be able to determine which countries have economic growth, equity and which have combined these two indicators, that is, those that have E-Growth.
The discussion above provides us with a conceptual mapping of countries. From the discussion, we can assume that the world can be divided into those that are rich and poor, equal and unequal. Four major trajectories then emerge, demarcating different countries based on their socio-economic performance, as in the following classification in Figure 4.2. The rows show the equity index and the columns depict the growth index. The negative sign in the rows can be interpreted as inequality and the positive sign as equity. In the columns, the negative sign can be interpreted as low economic growth while the positive sign means high growth. We can see from Figure 4.2 that there are four types of countries.

The first theoretical possibility, which I have assigned Country A, enjoys neither economic growth nor equity. Such a country is not only unable to expand its productivity capacity but is also not able to ensure an equal distribution of existing resources (income). The second hypothetical situation, Country B, enjoys economic growth but no equity. This is a country that is able to expand its productive capacity but unable to ensure that the benefits of that growth are equitably shared by all members of society. History is replete with such countries. The next possibility, Country C, enjoys equity but low to no growth. The fourth possibility, Country D, is marked by both high economic growth and is highly equitable – E-Growth.

This 2x2 matrix provides us with a basis for creating an index for E-Growth. Clearly, country D enjoys the best conditions, and Country A is worst off. The question is how to rank the middle countries (B and C). From the theoretical discussion in chapter three, the better situation is found in country D because it combines both growth and equity (score value of 4), followed by Country C which

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**Figure 4.2: Four Main Types of E-Growth Countries**

<table>
<thead>
<tr>
<th>Equity</th>
<th>Growth</th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>(-)</td>
<td></td>
<td>1</td>
<td>Country A</td>
</tr>
<tr>
<td>(+)</td>
<td></td>
<td>2</td>
<td>Country B</td>
</tr>
<tr>
<td>(-)</td>
<td>3</td>
<td>Country C</td>
<td></td>
</tr>
<tr>
<td>(+)</td>
<td>4</td>
<td>Country D</td>
<td></td>
</tr>
</tbody>
</table>

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Krongkaew (2003: 14) has applied the same schema in his work.
has equity but with low to no growth (score value of 3), Country B has an inequitable growth (score value of 2) and Country A, the worst scenario, has neither growth nor equity (score value of 1). These scores will be used subsequently in ranking countries in my sample. Giving the score value of 4 to countries with E-Growth status will generate less controversy. This would be the ideal case for most countries. In light of this it is unlikely that any country would want to combine low growth with high inequality. Therefore the score value of 1 assigned to countries in this category will be generally accepted by policy makers and academics alike, across the ideological divide. However, my ranking of countries that are highly egalitarian with low growth above countries with low growth and high inequalities might be controversial. The theoretical justification for this choice has been set out in chapter 3. Among other things, egalitarianism has some political and economic benefits, which growth, on its own, does not have. The higher ranking of egalitarianism over high economic growth can be justified on social justice grounds – it means equitable treatment of all persons in society. The political justification for the ranking includes the fact that it may lead to political stability, with likely positive effects on democracy and economic development. In addition, Boix (2003) has persuasively argued and has empirically demonstrated “that democratization and, particularly, democratic consolidation have been systematically bolstered by high levels of income equality” (Boix, 2003: 11). Importantly, equity also has some growth imperatives, which I have discussed in chapter 3. It is for these reasons that I have ranked equitable societies (although) with low growth higher than countries with high growth and high inequality.

Using the cut-off point provided by the mean values for growth and inequality as previously depicted in Tables 4.1 and 4.2, I can categorize developing countries according to the E-Growth index described in Figure 4.1 above. Countries that have more than 4.2% annual GDP growth and an income Gini coefficient less than 0.45 will received the highest score or value of 4 (equitable growth). Countries with an income Gini of less than 0.45 and a GDP growth rate less than 4.2% will be given the next highest score of 3 (equitable but with low to no growth). Countries that have a GDP growth rate and Gini coefficient that is above the mean will score 2 (inequitable growth). Finally, countries that have less than 4.2% GDP growth with an income Gini coefficient of .44 or more will be ranked 1 (low to no growth combined with high income inequality). This ranking is reflected in Table 4.3.
Table 4.3: GDP, GINI Index and E-Growth of Selected Developing Countries, 1991 - 2001

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td><strong>Countries with E-Growth</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>9.9</td>
<td>0.40</td>
<td>4</td>
</tr>
<tr>
<td>Vietnam</td>
<td>7.5</td>
<td>0.36</td>
<td>4</td>
</tr>
<tr>
<td>Singapore</td>
<td>7.0</td>
<td>0.43</td>
<td>4</td>
</tr>
<tr>
<td>Mozambique</td>
<td>6.5</td>
<td>0.40</td>
<td>4</td>
</tr>
<tr>
<td>Korea, Rep.</td>
<td>6.0</td>
<td>0.32</td>
<td>4</td>
</tr>
<tr>
<td>India</td>
<td>5.5</td>
<td>0.38</td>
<td>4</td>
</tr>
<tr>
<td>Cambodia</td>
<td>5.4</td>
<td>0.40</td>
<td>4</td>
</tr>
<tr>
<td>Yemen, Rep.</td>
<td>5.4</td>
<td>0.33</td>
<td>4</td>
</tr>
<tr>
<td>Jordan</td>
<td>5.1</td>
<td>0.36</td>
<td>4</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>4.8</td>
<td>0.32</td>
<td>4</td>
</tr>
<tr>
<td>Thailand</td>
<td>4.4</td>
<td>0.43</td>
<td>4</td>
</tr>
<tr>
<td>Ghana</td>
<td>4.3</td>
<td>0.40</td>
<td>4</td>
</tr>
<tr>
<td>Indonesia</td>
<td>4.3</td>
<td>0.30</td>
<td>4</td>
</tr>
<tr>
<td>Egypt</td>
<td>4.2</td>
<td>0.34</td>
<td>4</td>
</tr>
<tr>
<td>Iran</td>
<td>4.2</td>
<td>0.43</td>
<td>4</td>
</tr>
<tr>
<td><strong>Countries with Equity and Low Growth</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pakistan</td>
<td>3.8</td>
<td>0.33</td>
<td>3</td>
</tr>
<tr>
<td>Morocco</td>
<td>2.8</td>
<td>0.40</td>
<td>3</td>
</tr>
<tr>
<td>Ecuador</td>
<td>2.2</td>
<td>0.44</td>
<td>3</td>
</tr>
<tr>
<td>Jamaica</td>
<td>0.5</td>
<td>0.38</td>
<td>3</td>
</tr>
<tr>
<td>Burundi</td>
<td>-1.2</td>
<td>0.33</td>
<td>3</td>
</tr>
<tr>
<td><strong>Countries with Inequitable Growth</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Malaysia</td>
<td>6.6</td>
<td>0.49</td>
<td>2</td>
</tr>
<tr>
<td>Chile</td>
<td>6.2</td>
<td>0.58</td>
<td>2</td>
</tr>
<tr>
<td>Dominican Re</td>
<td>5.6</td>
<td>0.47</td>
<td>2</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>4.9</td>
<td>0.46</td>
<td>2</td>
</tr>
<tr>
<td>Burkina Faso</td>
<td>4.7</td>
<td>0.48</td>
<td>2</td>
</tr>
<tr>
<td>Guyana</td>
<td>4.6</td>
<td>0.45</td>
<td>2</td>
</tr>
<tr>
<td>El Salvador</td>
<td>4.4</td>
<td>0.51</td>
<td>2</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>4.2</td>
<td>0.57</td>
<td>2</td>
</tr>
<tr>
<td><strong>Countries with Low Growth &amp; High Inequality</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Guatemala</td>
<td>3.9</td>
<td>0.56</td>
<td>1</td>
</tr>
<tr>
<td>Gambia</td>
<td>3.7</td>
<td>0.48</td>
<td>1</td>
</tr>
<tr>
<td>Bolivia</td>
<td>3.5</td>
<td>0.45</td>
<td>1</td>
</tr>
<tr>
<td>Malawi</td>
<td>3.3</td>
<td>0.50</td>
<td>1</td>
</tr>
<tr>
<td>Mexico</td>
<td>3.2</td>
<td>0.52</td>
<td>1</td>
</tr>
<tr>
<td>Honduras</td>
<td>3.2</td>
<td>0.59</td>
<td>1</td>
</tr>
<tr>
<td>Nigeria</td>
<td>2.7</td>
<td>0.51</td>
<td>1</td>
</tr>
<tr>
<td>Brazil</td>
<td>2.6</td>
<td>0.61</td>
<td>1</td>
</tr>
<tr>
<td>Colombia</td>
<td>2.6</td>
<td>0.57</td>
<td>1</td>
</tr>
<tr>
<td>Madagascar</td>
<td>2.2</td>
<td>0.46</td>
<td>1</td>
</tr>
<tr>
<td>Paraguay</td>
<td>2.0</td>
<td>0.58</td>
<td>1</td>
</tr>
<tr>
<td>Kenya</td>
<td>1.6</td>
<td>0.45</td>
<td>1</td>
</tr>
</tbody>
</table>
Table 4.3 shows that of the forty countries in my sample, fifteen can be categorized as having E-Growth (equitable growth), five countries have equity without growth, eight countries have inequitable growth and twelve countries have neither growth nor equity. Most of the E-Growth countries are in Asia (indeed a majority (nine) of the Asian countries in the sample are notable for their high growth rate combined with egalitarianism). In contrast, a majority (seven) of the most unequal countries with low growth rates are in Latin America and the Caribbean. No country in this region has equitable growth. Only two of the eleven sub-Saharan African countries in the sample are marked with E-Growth while five from the region are highly inequitable and have very low economic growth rate. Four of the five Middle East and North African countries experienced E-Growth.

4.3: Conclusion

In this chapter, I have defined the indicators for growth and equity, and proceeded to collect data on them. I then conducted a correlation test in order to determine whether or not they are related. The test, supported by other empirical works in the field, shows a negative and weak correlation between economic growth and equity. Consequently, I collapsed the two indicators into one by developing a 4-point E-Growth index. This index constitutes the basis upon which the countries were ranked into four E-Growth categories.

Having operationalised my dependent variable, the next chapter, 5, will operationalise my first independent variable, autonomy. The aim is to create operational indicators for measuring state autonomy.
Chapter Five

The Autonomy Variable

5.0: Introduction

In chapter three, I stressed that the Synergistic Autonomous State’s (SAS) capacity is derived from its two component parts: the autonomy of its institutions and its synergistic ties with socio-economic actors. In the present chapter I will attempt to operationalise the first of these independent variables: state autonomy.

The first task in the operationalisation is to identify the indicators that can measure the autonomy variable. As noted in chapter three, autonomy implies the capacity of the state to act independently – to have an in-house capacity to formulate its policy positions – and on the strength of that capacity engage with societal actors. Autonomy has three main indicators, namely: meritocratic recruitment, predictable career paths for bureaucrats, and the state’s ability to coordinate its policies. The latter is marked by the presence of a coordinating ministry. In other words, the autonomy variable is defined by its Weberian attributes (meritocracy and career path) and the centrality of a coordinating ministry in shaping overall economic policies and programmes. This focus is grounded on an intellectual tradition (the new institutional approach to political economy) that gives primacy to institutions as organisations. This tradition covers areas such as the theory of the state (Levi, 1988), government organisation (Shepsle and Weingast; 1987), public administration (Weingast, 1984; and Moe, 1990) and international organisations (Keohane, 1984). This is unlike the dominant literature of new institutional economics that focuses on institutions as rules (see Furubotn and Richter, 2000). As a result, some conceptual background is necessary as a basis for the operationalisation that will follow in the remaining parts of this chapter.

This chapter is primarily intended to operationalise and quantify state autonomy, the first independent variable in this study. Quantification enables us to assess the effects of state autonomy on economic performance across different countries. The autonomy variable is conceived of in terms of degrees rather than types.
5.1: The Data on State Autonomy

This section provides an overview of the sources of data on state autonomy as a basis for constructing the autonomy scale. As noted above, although very rich case studies exist on state institutions in general and state autonomy in particular, there is a lack of adequate data for operational and comparative purposes. This lack of data and its implications for cross-national comparison is increasingly being recognised by scholars. At a time when international development agencies such as the World Bank, the IMF and the UNDP, as well as a range of academics from diverse ideological traditions, are stressing the importance of state institutions and public sector reforms as being fundamental to development, I expected it to be relatively easy to gather data on state autonomy. I was proven wrong. Indeed, the Organisation for Economic Co-operation and Development (OECD) stresses the essence of statistics: statistics are an essential element of policy-making in democracies, for decisions as well as policy evaluations (OECD, n.d). One is therefore puzzled that in spite of the emphasis on state institutions and recognition of the importance of measurable indicators, there is little (available) data on this crucial institutional infrastructure. While it is possible to find very rich case studies that document the state’s autonomy in the developing world, in the absence of data, it is difficult to make systematic cross-country comparisons.

This recognition has fuelled the need to develop cross-country comparative data on state institutions as a basis for understanding the source of state capacity or effectiveness. Most existing data on state institutions in the developing, as well as the developed world - with the exception of Evans and Rauch (1999), on which this study is based - have focused primarily on the nature of the political regime, electoral system, etc. More recently, however, a team of researchers from the World Bank (Thorsten Beck, George Clarke, Alberto Groff and Phillip Keefer) and their partner from the Swiss Department of Foreign Affairs (Patrick Walsh) developed a dataset that focused exclusively on political institutions, such as political systems and electoral competitiveness; preferences and parties; tenure, turnover and popular vote share of the Chief Executive and the Chief Executive’s Party; the legislature, electoral rules, checks and balances, and federalism, that is whether or not there are autonomous regions (Beck et al., 2001). Other World Bank staffers (Daniel Kaufmann, Aart Kraay and Massimo Mastruzzi, 2003) have developed their own
dataset of six *Governance Indicators*, covering 1996 – 2002. These indicators are clustered around three areas, namely: (1) the process by which governments are selected, monitored and replaced; (2) the capacity of the government to effectively formulate and implement sound policies; and (3) the respect of citizens and the state for the institutions that govern interactions.

These datasets share a number of commonalities: they both focus on the nature of the political regime, the manner of selecting leaders, civil and political liberties, and the rule of law. Kaufmann et al. were an exception in that they provided some indication on state capacity. There are indeed a host of international organisations that are primarily trying to develop data on state institutions. These include the *Freedom House* and *Polity* but from a more narrow conceptual frame of democracy. Such an approach -- while important -- might lead to investigations that have no clear relevance for the concerns of this thesis. Consequently, there is a need to focus on institutions within the state where economic policies are fashioned.

The dataset by Kaufmann et al. has an immediate appeal as it refers to “government effectiveness” and “institutions that govern the interactions between the state and society”. On closer inspection, however, institutions in this case are defined in the tradition of Ostrom (1986) and North (1990), which conceived of institutions as rules and legal norms. They define institutions as rules that govern and constrain the actions of actors. Hence the emphasis is on the rule of law and enforceability of contract. But the emphasis of this study is on institutions as state’s structures/organisations and consultative mechanisms between the state and societal actors. These are organisational arrangements that govern and structure the interaction between state and society because they are the arena for shaping and determining policies and their outcomes. They can take the form of organisations within the state or policy networks between the state and society, (although in this chapter, I am concerned with the state institutional arrangements). Towards this end, I situate my study within those such as Peter Evans that conceive of institutions in terms of structures.

As noted above, this study relies on the data of the path-breaking work by Evans and Rauch (1999). This dataset represents the first attempt by scholars to collect data on state autonomy, including its Weberianness, in order to ensure cross-

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23 The dataset can be located online at: [http://weber.ucsd.edu/~jrauch/webstate](http://weber.ucsd.edu/~jrauch/webstate).
national comparisons. It focused on the institutional/organisational characteristics of core economic agencies and covers thirty-five countries. This focus on core economic agencies is pertinent for the study because it deals with agencies that have a greater role in shaping and determining overall economic policies in the respective countries.

The survey, from which the data was constructed, covers the period 1970 – 1990. In other words, the dataset is not a time series, but it covers a single but long period. Some might criticize this on the grounds that such a long temporal span tends to hold the indicators as constant rather than time varying. This would be a wrong assumption. As the authors of the data point out:

Since bureaucratic structures are notoriously resistant to change, we felt secure in assuming that differences we discovered among bureaucratic structures could be considered characterise the beginning of the period (and, indeed, had probably been in place for some time prior to 1970), and were, therefore temporally antecedent to growth during the 1970 –90 period). Despite some … deterioration in the situation of bureaucrats over time…the bureaucratic structures antedated 1970 –90 economic growth (Evans and Rauch, 1997: 8).

They concluded that for the temporal frame of survey data, the bureaucratic structures in the population were relatively stable. They were, therefore, not oblivious to the time-varying nature of indicators of state autonomy but their survey was an initial step at quantifying state autonomy, and subject to replication by other scholars for different time periods. It is precisely on this basis that Court et al. (1999)24 not only elongated the Evans and Rauch dataset but also extended it to six African countries with different time spans incorporated into it. For the purposes of this study, the point is that the autonomy data represent or approximate an aggregate for the time period.

The Evans and Rauch dataset was constructed based on external expert surveys, in most cases with a minimum of three experts per country. Surveys that rely on external experts have their drawbacks. In particular, they tend to have problems of reliability and compatibility—making cross-national comparisons difficult. Experts from different contexts are likely to interpret even identical survey questions differently, which make cross-country comparisons a bit difficult. Indeed, the present dataset by Evans and Rauch gives room for different interpretations by respondents from different countries. For example, there are separate indicators for the Ministry of

24 The Court et al. dataset is located at http://www.unu.edu/hq/academic/pg_area4/excel/denmark.xls.
Finance; the Ministry of Economics (which covers Economic and Finance, Economic Affairs, National Economy) and another indicator for the Ministry of Trade/Commerce/Industry. Although consistent with Wade’s narrative of the Taiwanese experience (where the Ministry of Economic Affairs was a separate ministry), this is certainly a case of different and overlapping definitions. This is because in most contexts, all of these ministries are treated together as economic ministries. These classifications by Evans and Rauch therefore give room for double counting/classifications of certain ministries. For example, the Ministry of Finance might be counted twice, once as a separate ministry, then again as a Ministry of Finance and Economics. There are, therefore, some ambiguities that make cross-cutting comparisons somewhat problematic. In this format, coordinating ministries might be limited to a Planning Ministry, Secretariat, Commission or Board. But as we have seen in Chalmers Johnson’s (1982) path-breaking work on Japan, super or coordinating ministries might also include the Ministry of Trade and Industry. This highlights the problem of concepts that can have different meanings in different contexts, geography or time space. Consequently, using the same indicators in each context may lead to erroneous interpretations and inferences.

There are other problems with the Evans and Rauch data. For example, the duration of the period covered by the survey is between 1970 and 1990. The problem is that because these data are not in the form of a time series, they may not have captured institutional changes that are taking place within and across countries (although they alluded to the fact that there were not many institutional changes within the period). While students of institutional economics will point to the fact that institutions do not change radically over time, twenty years is a long enough period for noticeable institutional changes to take place. Also, since the 1980s, public sector reforms inspired by the paradigm of new managerialism are taking place across the globe, including developing countries where donor agencies and countries have made development aid conditional on the implementation of public sector reforms (Wohlmuth, 1998). This being the case, there might be some institutional changes that occurred which are not captured by the Evans and Rauch dataset. Therefore, a major problem is whether or not the respondents covered the same timeframe and also whether the responses can be taken as an average in terms of the bureaucratic structure for the period covered by the survey. We could therefore raise the following questions: (1) Did the respondents take into consideration some of the bureaucratic
changes taking place in the respective countries? (2) Did the responses only capture pre-changes or post-changes, or even both periods? Both of these questions beg for answers. Though we cannot address these questions in this study, we need to be aware of them.

Another problem with the dataset, common to surveys, is whether the respondents objectively answered the questions before them. For example, the dataset suggests that the Ministry of Finance is ranked as the most influential ministry in Nigeria. Those familiar with the Nigerian bureaucracy and policy-making terrain might pose two questions. First, what period did such responses cover? Second, do the respondents really provide an objective assessment of the Nigerian situation? All of those familiar with the Nigerian political economy would recognise that post-independent Nigeria has been characterised by military rule. Successive military regimes in Nigeria were marked by the personalisation of decision-making by the various heads of state (military presidents) and the centralisation of power in their offices. The literature on the Nigerian state bears testimony to this, to the extent that the Nigerian state has been described as a neo-patrimonial state (Edevbaro, 1999). This then raises the question of whether the survey and the data it captured reflect the situation on the ground in the various countries. Nevertheless, it is not uncommon for survey results not to meet \textit{a priori} expectations.

In spite of these problems associated with the dataset, it is the only data on Weberianness available in the world. Consequently, the dataset constitutes a major intellectual public good provided by its authors. A new dataset on state autonomy that covered a more recent period has been developed by Court et al. (1999) for the United Nations University-World Institute for Development Economic Research (UNU-WIDER) based in Helsinki, Finland. This new dataset is, however, an extension of the Evans and Rauch data. It extended the coverage of countries from Evans and Rauch’s 35 to 50 countries. In addition, the period covered is 1970 – 1998. I have not used this latter data because of a number of factors. First, it did not have data for all the countries for the two indicators of Weberianness. It only has data for \textit{career paths} for all the countries. Also, although the Court et al. dataset covers a more recent period, on closer examination, it shows that, for most of the countries, there is an apparent over-reliance on the Evans and Rauch data. In short, the Court et al. dataset only standardized the Evans and Rauch data. Consequently, there is a very significant
positive correlation (of 0.98) between the Evans and Rauch career and those of Court et al. for thirty-four countries.\textsuperscript{25}

Court et al.’s normalisation and extension of the Evans and Rauch data (before 1998) is perhaps based on the assumption that not many institutional changes occurred between 1990 and 1998. In other words, the conditions on career pathing (and, consequently, bureaucratic structures) remained virtually the same in the selected countries. For this reason, I rely on the Evans and Rauch dataset: clearly, following the logic of Court et al., we can assume that not many institutional changes have occurred over time. As a result, under conditions when my independent variable does not cover exactly the same time period as my dependent variable, I can assume that any institutional changes will not have an immediate effect. Consequently, we can assume that the institutional arrangements of the earlier 1990s may only begin to have an impact on economic growth and equity a decade later. It is because of this assumption of institutional rigidity that we can (and should) employ different time frames for the independent and dependent variables.

Having obtained data for the state’s level of Weberianess, I attempted to secure data for the remaining aspect of state autonomy: the presence of a super ministry. Again, I have relied on the Evans and Rauch data. But in doing so, there is a need to address further caveats: for instance, how do we identify a super ministry? What are its institutional attributes? Although there might be some slight variations in the institutional make-up of countries, super ministries or pilot economic agencies have some common identifiable characteristics which students of institutional economics have to look for in constructing their data on the subject matter. In addition to their Weberianess, super ministries play a central role in guiding and shaping the overall direction of their economies. However, this does not imply that super ministries are the only agencies affecting economic policies, as there might be competing ministries that also contribute to shaping the overall economic direction of a country. But super ministries are usually the leading state actor in the economy. Johnson alluded to this in his work on Japan when he noted that “Although MITI was not the only important agent affecting the economy…the particular speed, form, consequences of Japanese economic growth are intelligible without reference to the contributions of the MITI…The history of MITI is central to the economic and

\textsuperscript{25} Court et al. (1999) do not have data for Zaire.
political history of modern Japan” (Johnson, 1982: vii – viii). And as Evans (1999) reminds us, super ministries also serve as coordinating units, resolving jurisdictional competing policies among different ministries, while at the same time ensuring a coordinated and centralised approach to economic management. In some instances, these agencies exercise control over line ministries.

Furthermore, as the literature on the developmental state tells us, super ministries are usually not line ministries. Cheng et al. (1999: 91) note with respect to the East Asian developmental states that “all major economic planning units…were constructed outside of the formal bureaucratic structure”, at least in their early stage of development. The benefits of initially having these economic agencies outside the normal bureaucratic structures is that it ensures their independence and enables government to attract highly qualified people to such agencies through offering them higher pay outside the bureaucratic scale. But given their nature, as coordinating agencies, ministers of line ministries are also members and do indeed attend meeting of economic planning agencies. Nevertheless, they do normally have their own staff.

These are the sort of important considerations that I have in mind when utilising Evans and Rauch dataset to construct the super ministry component of my state autonomy indicator. It is therefore important to understand the rationale that lays behind the way they have grouped various agencies/ministries in the dataset. Against this background, I argue that the grouping of the agencies under variable Q105 (in the codebook) has a strong theoretical foundation and justification. The agencies clustered together in this option are Planning Ministry, Secretariat, Commission or Board (Development Board or Council or Development Bank). This variable has been derived from question in the questionnaire (see attached Appendix 2).

5.2: Constructing the State Autonomy Indicators

Although they may not represent all facets of autonomy, the three indicators of autonomy in this study, are meritocratic recruitment, career pathing and the establishment of a super ministry. At this juncture, we can proceed to construct three indices. The central proposition is that recruitment of civil servants and their promotion should be based on merit and that there should also be clear and predictable career paths (rather than positions being awarded through patronage). These conditions are coupled with the existence of a super ministry that plays a
central role in shaping and coordinating government overall economic policy and programmes. These three indicators of state autonomy are crucial for the development of, and commitment to, corporate ideology/vision and the consequent coherence of the state bureaucracy as a necessary condition for its effectiveness to engineer equitable growth. In other words, meritocracy and predictable career path are key sources of the capacity of the state to foster growth and equity.

*Meritocratic recruitment:* This indicator measures whether recruitment into the public service is based on merit. It is constructed from two questions, questions 4 and 5, in the Evans and Rauch survey. These are respectively coded SQ4 and SQ5. Question 4 is, “Approximately what proportion of higher officials in these agencies enter the civil service via a formal examination system?” Question 5 is: “Of those that do not enter via examination, what proportion have university or post-graduate degrees?” These questions deal exclusively with higher officials; that is, those that hold roughly the top 500 positions in the core economic agencies.

*Career path:* This indicator captures the degree to which there are clear and predictable career paths within the state bureaucracy for civil servants. This is what Court et al. calls “career opportunities” which is a composite of five questions. The first assesses the number of higher officials that are political appointees (question number 6 and coded SQ6) – the exact question is “Roughly how many of the top levels in these agencies are political appointees (e.g. appointed by the President or Chief Executive)?”; and the second evaluates the proportion of these appointees that have worked in the civil service before (question number 7 and coded SQ7) - the exact question is “Of political appointees to those positions, what proportion are likely to already be members of the higher civil service?” The third question asks how many of the top officials have made their career in one agency (question number 8 and coded SQ8) – the exact question is “Of those promoted to the top 2 or 3 levels in these agencies (whether or not they are political appointees), what proportion come from within the agency itself or (its associated ministry(ies) if the agency is not itself a ministry)?”; and the fourth seeks to know how many years a higher-level official typically spends in an agency (question number 9 and coded number SQ9) – the exact question is “Are the incumbents of these top positions likely to be moved to positions

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26 The codebook is located online at: [http://weber.ucsd.edu/~jrauch/webstate/codebook.html](http://weber.ucsd.edu/~jrauch/webstate/codebook.html). See Appendix 2 for a presentation of their survey questions used in this study.
of lesser importance when political leadership changes?" The fifth question investigates the career expectations of a new employee (question number 11 and coded SQ11) – the exact question is “What prospects for promotion can someone who enters one of these agencies through a higher civil service examination early in his/her career reasonably expects? Assuming that there are at least a half dozen steps or levels between and entry-level position and the head of the agency, how would you characterise he possibilities for moving up in the agency?”

Like those questions used to constitute the merit indicator, these questions apply only to higher officials (roughly the top 500 persons in the country) and especially those employed in all of the core economic agencies. Evans and Rauch normalised each of the indicators that made up a variable on the scale of 0 – 1, with 1 indicating the best option.

**Super Ministry**: This constitutes the third indicator in my autonomy variable. This indicator captures the importance of a Planning Ministry/Agency. This indicator is derived from Question 1 of the survey questionnaire, which required respondents to indicate the most important agencies in the central bureaucracy in shaping overall economic policy. The exact question is “List the four most important agencies in the central state bureaucracy order of their power to shape overall economic policy. (e.g. Ministry of Finance, Ministry of Industry and/or Trade and/or Commerce, Planning Board, agency or Ministry?)”. Those that listed super ministry has been coded Q105 and it was ranked first by at least half of the respondents for each country. This implies that the Planning Ministry, Secretariat, Commission or Board was rated first by at least half of the respondents as the most important agencies in shaping overall economic policy.

As we have already seen, the centrality of a super ministry is well covered in the institutional economic literature. It is usually the core economic agency. A super ministry where meritocracy and a defined career path prevail enhances the capacity of the Synergistic Autonomous States (SAS) to develop its goals, foster a developmental agenda and ensure its successful implementation. Such a ministry enables the state to have a holistic view of its programmes and to adopt a coordinated approach so that the activities complement one another, and also to ensure that the state does not overstretch its capacity.
Having constituted this aspect of my independent variable, the next task was to select the countries for which I have data on the dependent variable. Using this method of elimination, I selected sixteen countries to construct the Weberian scale (which combines merit and career scores). This means that of the 40 countries for which I have data on my dependent variable, the Evans and Rauch dataset only covers sixteen of those countries two aspects of the autonomy variable (which are meritocratic recruitment and career path), and consequently sixteen for autonomy; namely, Brazil, Chile, Colombia, Costa Rica, Ecuador, Egypt, Guatemala, India, Kenya, Korea, Malaysia, Mexico, Nigeria, Pakistan, Singapore and Thailand. Although this decrease in the number of cases is unfortunate, the population still has enough variation in both the dependent and independent variables to warrant this study – in fact they constitute a reasonably representative sample on both variables.

Based on this dataset, we find a significant positive correlation between merit and career path (see Figure 5.1). The Pearson correlation is 0.78, with an estimated p-value of 0.000.

![Figure 5.1: Scatter Plot of Career and Merit](image)

We can combine these two aspects (career and merit) into a scale that measures the degree of Weberianness. This Weberianness scale is depicted in Table 5.1, and is constructed by averaging the career and merit scores for each country. Thus, Thailand—the country in our sample that scored the highest on the
Weberianness scale—had a career score of 0.78, a merit score of 0.83, and a Weberianness score of 0.81, or \((0.78 + 0.83)/2\). This means that the autonomy variable has three dimensions (meritocracy, career paths and super ministry), each of which are accorded equal weight.

As shown in Table 5.1, the sixteen countries score from 0.23 and 0.81 in the Weberianness scale, with Colombia with the lowest score and Thailand with the highest score. No countries therefore scored a zero and none scored a 1, the latter would have represented complete Weberianness. Most of the countries (ten) scored less than 0.50 in the autonomy scale while only six countries scored 0.50 and above.

The problem with bivariate correlation coefficients of this sort, however, is that they provide only an indirect and incomplete indication of the actual pattern of overlap among these indicators of state autonomy. In order to make a more definite assessment, it is necessary to consider these indicators of autonomy in combination, and, by so doing, create the autonomy scale.

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27 The countries are ranked in descending order according to the value of their autonomy score.
The next step, therefore, is to score states in terms of their having a central planning agency/super ministry. Here again, I have to rely on the Evans and Rauch’s dataset. Like the data for Weberianness, the data for super ministries cover sixteen countries. They have been scored from 1-4 (which is a smaller variation compared to the variations in both the career and merit indicators). A score of 4 means that a super ministry is the most important agency in the central state bureaucracy for shaping overall economic policy. A score less than 4 means that the planning ministry was not the most important state bureaucracy in shaping economic policy. The ranking of countries has been normalised to range between 0 and 1, to conform to the scoring in the Weberian scale, and are listed in Table 5.2. This is in order to ensure that the three indicators of autonomy have equal weight.

Table 5.2: Super Ministry Scale

<table>
<thead>
<tr>
<th>Country</th>
<th>Super Ministry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Korea</td>
<td>1.00</td>
</tr>
<tr>
<td>India</td>
<td>0.75</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>0.75</td>
</tr>
<tr>
<td>Mexico</td>
<td>0.75</td>
</tr>
<tr>
<td>Egypt</td>
<td>0.75</td>
</tr>
<tr>
<td>Pakistan</td>
<td>0.75</td>
</tr>
<tr>
<td>Singapore</td>
<td>0.75</td>
</tr>
<tr>
<td>Brazil</td>
<td>0.50</td>
</tr>
<tr>
<td>Chile</td>
<td>0.50</td>
</tr>
<tr>
<td>Colombia</td>
<td>0.50</td>
</tr>
<tr>
<td>Ecuador</td>
<td>0.50</td>
</tr>
<tr>
<td>Guatemala</td>
<td>0.50</td>
</tr>
<tr>
<td>Malaysia</td>
<td>0.50</td>
</tr>
<tr>
<td>Nigeria</td>
<td>0.50</td>
</tr>
<tr>
<td>Thailand</td>
<td>0.50</td>
</tr>
<tr>
<td>Kenya</td>
<td>0.25</td>
</tr>
</tbody>
</table>

After the construction of both the Weberian (which is a combination of meritocratic recruitment and career path for core economic technocrats) and the super ministry scales, I proceeded to construct the autonomy scale for sixteen developing countries.

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24 There are 15 point variations/categories.
In constituting the autonomy scale, each of the indicators (career, merit and super ministry) is weighted equally with a score between 0 and 1. Autonomy is therefore defined in terms of the following formula:

\[ \text{Meritocracy} + \text{Career} + \text{Super Ministry} \]

Table 5.3: Autonomy Scale\(^{29}\)

<table>
<thead>
<tr>
<th>Country</th>
<th>Career</th>
<th>Merit</th>
<th>Super Ministry</th>
<th>State Autonomy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Korea</td>
<td>0.68</td>
<td>0.72</td>
<td>1.00</td>
<td>0.80</td>
</tr>
<tr>
<td>India</td>
<td>0.56</td>
<td>1.00</td>
<td>0.75</td>
<td>0.77</td>
</tr>
<tr>
<td>Singapore</td>
<td>0.67</td>
<td>0.85</td>
<td>0.75</td>
<td>0.76</td>
</tr>
<tr>
<td>Thailand</td>
<td>0.78</td>
<td>0.83</td>
<td>0.75</td>
<td>0.70</td>
</tr>
<tr>
<td>Pakistan</td>
<td>0.55</td>
<td>0.67</td>
<td>0.75</td>
<td>0.66</td>
</tr>
<tr>
<td>Malaysia</td>
<td>0.57</td>
<td>0.72</td>
<td>0.50</td>
<td>0.60</td>
</tr>
<tr>
<td>Mexico</td>
<td>0.52</td>
<td>0.46</td>
<td>0.75</td>
<td>0.58</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>0.36</td>
<td>0.56</td>
<td>0.75</td>
<td>0.56</td>
</tr>
<tr>
<td>Egypt</td>
<td>0.42</td>
<td>0.44</td>
<td>0.75</td>
<td>0.54</td>
</tr>
<tr>
<td>Brazil</td>
<td>0.28</td>
<td>0.58</td>
<td>0.50</td>
<td>0.45</td>
</tr>
<tr>
<td>Nigeria</td>
<td>0.31</td>
<td>0.50</td>
<td>0.50</td>
<td>0.44</td>
</tr>
<tr>
<td>Chile</td>
<td>0.26</td>
<td>0.54</td>
<td>0.50</td>
<td>0.43</td>
</tr>
<tr>
<td>Guatemala</td>
<td>0.29</td>
<td>0.33</td>
<td>0.50</td>
<td>0.37</td>
</tr>
<tr>
<td>Ecuador</td>
<td>0.22</td>
<td>0.39</td>
<td>0.50</td>
<td>0.37</td>
</tr>
<tr>
<td>Kenya</td>
<td>0.37</td>
<td>0.39</td>
<td>0.25</td>
<td>0.34</td>
</tr>
<tr>
<td>Colombia</td>
<td>0.13</td>
<td>0.33</td>
<td>0.50</td>
<td>0.32</td>
</tr>
</tbody>
</table>

As can be seen from the Table 5.3, there is a considerable variations in the autonomy variable, ranging from 0.32 to 0.80.

5.3: Conclusion

In this chapter I have constructed a scale to capture the study’s first independent variable: autonomy. It was constructed from existing data derived from experts’ surveys. From this data, I was able to generate an autonomy scale for sixteen developing countries. This is a reasonably representative sample as it covers a diverse range of characteristics in both the independent and dependent variables. The data cover the period 1970 – 1990. Problems associated with the temporal contours have

\(^{29}\) These countries have been ranked in descending order according to their autonomy scores.
been highlighted, but it is important to recognise that -- despite its shortcomings -- it is the only dataset in the world. In addition, the data for the autonomy indicators are not in constant terms, but are time-invariant. As such, we can assume that changes over time in the indicators could have been incorporated. But even this point is superfluous as the study noted that bureaucratic structures for the period covered by the data were remarkably stable. Lastly, given that the temporal span of the dependent variable in this study is for a more recent period, 1991 – 2001, and the temporal span of this independent variable is for an earlier period (1970-1990), it is therefore plausible to establish causality – in addition to showing correlation. Causality and the nature of the relations will be the subject of chapter seven. But, first, I proceed to chapter six, which deals with the operationalisation of the second independent variable: synergy.
Chapter Six
The Synergy Variable

6.0: Introduction

This chapter operationalises the second independent variable in the study: synergy. In chapter three, I defined synergy as the sharing of power and collaboration between the state, capital and civil society within an institutional framework, which enhances the capacity of the state to foster equitable growth. At the same time, it places limits on the ability of the state and social actors to act arbitrarily, and thus promotes accountability of state officials to broader societal interests. But for the purposes of operationalisation, I will focus on state-society relations at the national level as an explanatory variable for variations in national economic performance. Accordingly, I will focus on three key indicators of synergy, namely: policy networks, encompassing societal actors, and their influence on final economic policy. Encompassing societal groups interact with the state via Deliberation Councils, also known as consultative mechanisms (CMs). This type of interaction enables a SAS to successfully transform its economy and adapt to a rapidly changing global environment. In privileging encompassing associations, I have drawn on the corporatist literature, which argues that encompassing organisations tend to be more oriented (than fragmented associations) towards economy-wide performance (see Kenworthy and Kittel, 2003).

The argument is that consultations between the state and organised interest groups enhance the flow of information, generate trust between participating partners, and give credibility to socio-economic policies and their outcomes. As pointed out in the corporatist literature, consultative structures and processes between government and interest groups - the source of SAS capacity - lead to economic efficiency. This enhances the capacity of the state to navigate the creative and destructive impulses flowing from both the intensity and extensity of economic globalisation.

Unfortunately, in spite of the growing consensus in both academic and policy circles about the importance of societal actors’ participation in public policy in general (and socio-economic policy in particular), there are no data with which to

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30 Society here implies organised interest groups.
measure synergy. In fact, scholars and policy-makers alike have not paid much attention to developing operational indicators to measure state-society interactions in general, and state-society synergy in particular. This is partly because much of the emphasis on state–society relations is more about government policies, its behaviour and the reaction of business and civil society rather than on the institutional infrastructures of interactions (see Bowie, 1994 as an example of this approach). In other words, most existing studies, including those that attempt to operationalise corporatism, do not actually deal with interest groups’ participation to jointly shape and implement policies with economic bureaucracy. And some social scientists and development agencies wrongly use political rights (including freedom of association and the right to vote) as proxies for associational participation. In other words, they confine participation to its liberal conception.

As I have pointed out in chapter three, people’s participation in decision-making processes, including the implementation of programmes, is increasingly being recognised in both academic and policy circles. Consequently, the operationalisation of state-society synergy should empirically focus on organisational structures and processes of interactions. This is how Kenworthy and Kittel (2003: 13) summed up the paucity of data on participatory mechanisms: “…quantitative approaches using indicators of associational influence in order to make cross-country comparisons have been limited… or non existent” (emphasis mine). They argued that the various indirect indicators being used do not necessarily operationalise mechanisms and processes of interactions between economic technocrats and society, as well as the consequent impact/influence of interest associations on social and economic policy. Studies of corporatism, that have attempted to operationalise state-society relations, all fall short because of their preoccupation with wage-setting.

The point needs to be stressed at this juncture that if state-society interactions matter, so does the need for more reliable and valid data on synergy to allow for cross-country comparability. The only available data that I am aware of is Hyden et al.’s (2003) data that cover sixteen developing countries. But because of the intellectual premise of their work, which conceives of institutions in terms of rules, very little attention is paid to the organisational infrastructure of state-society relations or what Guy Peters refers to as “the structuring of relationships between the state and society” (Peters, 1999: 20). In addition, Hyden et al. limit consultation to government-business interaction. Although this dataset could function as a useful starting point for
this study, it only covers three of my existing country cases and a different time period.

To overcome the problem of a lack of synergy data, I have had to construct my own dataset. My aim has been to construct a dataset that will allow us to rate countries in terms of their degree of state-society synergy in a way that facilitates cross-country comparisons. The direct relationship between state-society synergy and economic performance will be one of the subjects discussed in chapter 8 and parts of chapter 9.

It needs to be stressed at this juncture that I am interested in state-society relations that deal with broad economic policy, a point that will be elaborated upon subsequently.

6.1: Survey Methodology

To generate systematic data on state-society synergy in developing countries, I conducted a country-experts’ survey, using a web-based survey questionnaire, administered in September 2004. The survey contained a number of questions relating to structures and processes of participation, the interest groups represented (the actors) and the influence of such consultations on final economic policy at the national level. A copy of the questionnaire and the raw data, respectively, can be found in Appendix 3 and Table 6.2. While an expert survey may not be able to capture all the nuances and salient aspects of synergy, it has allowed me to address some of its most important aspects. Indeed, the purpose of this survey was not to assess all the characteristics of state-society relations (synergy) that could lead to better economic performance. Rather, the aim was to provide some clear and identifiable indicators that could be used as an open and public starting point in scholarly works for evaluating the impact of differences or variations in state-society relations on economic performance. In the absence of comparable, cross-national data on synergistic relationships, we can never be certain of its effect on diverse economic outcomes. Hence I confine myself to three important aspects, namely the types of Deliberation Councils, hereafter referred to as Consultative Mechanisms (CMs) – statutory, informal, and ad-hoc; the actors involved; and the influence of participation on final economic policy.

31 The questionnaire is relatively short, containing only 7 questions, of which 2 – 4 were used to construct the final data.
Country experts, residing in and outside the countries, completed the questionnaires. Undoubtedly, experts’ surveys are not without problems. Because they are based on perceptions, such surveys can be very subjective. In addition, even experts in the same field can use concepts differently in various contexts. To overcome this problem it is useful for a researcher to include a box/space for respondents to provide comments as addendum, in addition to choosing from standard options/answers. This might throw some light on their responses, and where necessary for a researcher to revert back to respondents for clarifications. This was precisely the method I adopted in the survey.

Their shortcomings aside, expert surveys are common in the social sciences, as social scientists rely on experts to provide information that can be assembled as quantitative indicators to ensure comparisons across countries and over time. One advantage of using country experts survey in this study is that they are not only knowledgeable about the political economy of their respective countries but also on state-society relations – most have worked in this area for years if not decades and have established international reputations in the field. The major criterion for the selection of experts was therefore their scholarly works (books, chapters in books, journal articles and doctoral dissertations) in the country for which they are respondents. I was already familiar with the works of some of these scholars. For some others, I did internet searches for experts that have published on the role of the state in development in each of the sample country. These were how the experts were chosen. Once, I knew the names of the experts, I carried out further internet searches for their contact details, including e-mail addresses. Given their expertise on the subject matter, we can expect that the experts’ responses, with few exceptions, will mirror the real situation.

As pointed out above, experts’ surveys are greatly utilised in the social sciences. For example, the Rauch and Evans (1997) dataset from which I constructed the autonomy variable was based on an experts’ survey. Similarly, major research and policy think-tanks often rely on experts’ surveys. Worthy of note in this regard is Transparency International (TI) which annually publishes cross-country data on corruption from a number of surveys that are mostly based on experts’ perceptions. Besides its academic merit, experts’ surveys are time saving and cost effective, which is one of the reasons I deployed it in this study. With limited resources but with new
information technology, I was able to conduct the survey in a relatively short period of time and with very limited cost (namely the cost of follow-up telephone calls). Its merits aside, reliance on new information technology highlighted the problem of the digital divide that separates developed and developing countries, and the exclusionary and inclusionary logics of globalisation. Compared to universities in the developed world (with modern technology and functional websites), (some) universities in the developing world have no functional websites. As a result, it was easier to locate country experts in developed countries. This skews the number of respondents in the population toward those residing in the developed countries, - almost half (twenty four) are located in five developed countries compared to twenty-six respondents who are spread across fifteen developing countries (see Table 6.1).

Table 6.1: Locations and Number of Respondents

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>3</td>
</tr>
<tr>
<td>Brazil</td>
<td>1</td>
</tr>
<tr>
<td>Chile</td>
<td>1</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>2</td>
</tr>
<tr>
<td>Denmark</td>
<td>1</td>
</tr>
<tr>
<td>Egypt</td>
<td>3</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>1</td>
</tr>
<tr>
<td>India</td>
<td>1</td>
</tr>
<tr>
<td>Korea</td>
<td>2</td>
</tr>
<tr>
<td>Malaysia</td>
<td>3</td>
</tr>
<tr>
<td>Mexico</td>
<td>1</td>
</tr>
<tr>
<td>Nigeria</td>
<td>1</td>
</tr>
<tr>
<td>Pakistan</td>
<td>2</td>
</tr>
<tr>
<td>Senegal</td>
<td>1</td>
</tr>
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<td>Singapore</td>
<td>5</td>
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<tr>
<td>South Africa</td>
<td>2</td>
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<td>Switzerland</td>
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<tr>
<td>Thailand</td>
<td>1</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>3</td>
</tr>
<tr>
<td>USA</td>
<td>16</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>50</strong></td>
</tr>
</tbody>
</table>

Given that experts are always busy and at times inundated with surveys, some that is are unwilling to respond to survey questionnaires. Out of the twenty seven out of the seventy seven experts contacted, representing 35% did not respond to the questionnaire. While I experienced this problem in the course of administering the questionnaire, nudging and persistence enabled me to obtain responses to generate synergy data for twelve out of the sixteen countries within the period of one month. In
two of the countries sampled, Ecuador and Guatemala, I did not receive any response. But the good response rate overall is partly attributed to what some of the respondents call the “public good” of the project, a research area that is long overdue. While administering the survey and collecting responses were daunting tasks, it was, at the same time, intellectually rewarding, with surprisingly good cooperation from experts all over the world. Still, four prospective respondents questioned the utility of quantifying state-society relations, and refused to respond to the survey. This is not uncommon with country specialists in the social sciences. Without questioning the utility of qualitative methods, the problem with such a stance is that in the absence of quantifiable data, it is difficult to make cross-country comparisons. Some others also questioned the temporal framework of the survey, which they suggested did not correspond exactly to their respective countries (I will return to this subject shortly).

In general, however, country experts responded to the survey fairly quickly. Thus for example, compared to the Weberian survey (Evans and Rauch, 1997), which took about three years to collect 126 responses, I received about fifty responses within the space of a month. Of these, three were discarded because of apparent contradictions (and when respondents did not respond to subsequent queries for clarifications). The only response from Colombia was discarded because there was not enough information to be certain about how to code the state. Also, the two responses for Costa Rica were discarded because the experts provided contradictory responses, making it difficult to find a national average (which was how each country’s data was constituted).32

In some instances, respondents provided contradictory responses and at times even multiple options, which, when taken together (factored in), would make coding of the data problematic. With respect to the former problem, I requested such respondents, either by e-mail or by phone, to clarify the apparent contradictions. With respect to the latter, I requested (via e-mail or phone) such respondents to choose any of the standard options they considered as the “notional” average for that country and for the given period. Consequently, the score for each country draws on both the country rating and contextual comments by the experts (See Table 6.2 for the raw data

32 Only one of the respondents responded to the query for clarifications while the other did not. But the clarifications did not resolve the conflicting responses. If anything, it reinforced the perception that a national average could not emerge. Not much should, therefore, be read into the Costa Rican case; had the second respondent responded to follow-up queries, it would have been possible to code that country.
and changes that were affected following the comments and subsequent communication with respondents). Once constituted, data for each country data were sent to most of the country experts to corroborate the scoring. This increased the level of validity and reliability of the dataset.

Table 6.2: Raw Data of Synergy Indicators, 1970 - 1990

<table>
<thead>
<tr>
<th>Country</th>
<th>Types</th>
<th>Representations</th>
<th>Influence</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>N/Change</td>
<td>W/Change</td>
<td>N/Change</td>
</tr>
<tr>
<td>Brazil</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Chile</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Egypt</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>India</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Kenya</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Korea</td>
<td>2</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Mexico</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Nigeria</td>
<td>2</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Pakistan</td>
<td>2</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Singapore</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Thailand</td>
<td>2</td>
<td>2</td>
<td>1</td>
</tr>
</tbody>
</table>

N/Change = No changes made to the raw data
W/Changes = Changes made following comments by respondents

The figures in Table 6.2 should be interpreted as follows: (a) for types of Consultative Mechanisms (CMs), 0 = no CMs, 1 = Ad hoc CMs, 2 = Informal but Institutionalised CMs, and 3 = Statutory CMs or Deliberation Councils; (b) for Representations, 0 = No CM, 1 = state and business, 2 = state, business and trade unions, and 3 = state, business, trade unions and civil society; and (c) for influence of CMs, 0 = no influence, 1 = minimal influence, 2 = moderate influence, 3 = moderate influence and 4 = very influential.

A total of 44 responses (see Table 6.3) were used to constitute the data that will be subsequently presented in the later part of this chapter. Nevertheless (and importantly), the population covers the four categories of countries which I have spelt out in chapter 4, namely, countries with E-Growth (Egypt, India, Korea and Singapore, and Thailand), countries with high inequality and high growth (Malaysia and Chile), countries with equity and low growth (Pakistan), and lastly countries with low growth and with high inequality (Brazil, Kenya, Mexico and Nigeria). Therefore, in the final analysis, the sample of countries offers a good range of variation to
empirically examine how variations in the degree of synergy could lead to different types of national economic performance.

Table 6.3: Number of Experts for Data Construction

<table>
<thead>
<tr>
<th>Country</th>
<th>No. of Experts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>4</td>
</tr>
<tr>
<td>Chile</td>
<td>3</td>
</tr>
<tr>
<td>Egypt</td>
<td>3</td>
</tr>
<tr>
<td>India</td>
<td>3</td>
</tr>
<tr>
<td>Kenya</td>
<td>3</td>
</tr>
<tr>
<td>Korea</td>
<td>4</td>
</tr>
<tr>
<td>Malaysia</td>
<td>4</td>
</tr>
<tr>
<td>Mexico</td>
<td>3</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>5</td>
</tr>
<tr>
<td>Pakistan</td>
<td>3</td>
</tr>
<tr>
<td>Singapore</td>
<td>3</td>
</tr>
<tr>
<td>Thailand</td>
<td>6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>44</strong></td>
</tr>
</tbody>
</table>

A critical consideration for selecting countries was that they were those for which I have autonomy data. These, in turn, were selected because they are those countries for which I have E-Growth data. As Evans and Rauch pointed out, these countries have one common characteristic: they are all developing countries “still confronting the issue of industrial transformation during the period under consideration” (Evans and Rauch, 1997: 7).

In the same vein, the period selected for the survey was based on the need to have the same time period for both the autonomy and synergy data (1970 – 1990). To choose a different timeframe for the latter would limit their joint utility as explanatory variables for variations in national economic performance. Indeed, it would defeat the purpose of demonstrating the link between Auto-Synergy and economic performance. However, cognizance was taken of the fact that 1970 – 1990 (twenty years) was a relatively long period, within which there could have been changes in state-society relations, as well as changes in economic policy, within and across countries. It could also be argued that a major weakness of using this large temporal span is that it may not lead to a highly reliable means for measuring causality. Nevertheless, given that the temporal contours of the survey was inherited from the autonomy data, as well as

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33 Different numbers of respondents that are used to constitute the national average per country. This practice is widely prevalent in the social sciences. See, for example, the work of Court et al. (1999) carried out for the United Nations University.
the absence of data for a shorter time period, data for a longer span has been utilised to approximate the degrees of synergy in the population.

It should also be noted that it is primarily because of recognition of the problems associated with the long temporal span that a second time period, 1991-2003, was included in the survey. Although data for the second time period have not been included in the analysis of this chapter, they have been included as an Appendix 4 in hope that other comparatives might find them useful. The second temporal frame would enable us to detect if there have been some institutional changes in developing countries.

Furthermore it needs to be observed that no two countries sequenced their economic policies and state-society relations in exactly the same year(s). Hence a long time period is desirable, as this allows for a “notional” average to emerge for the purposes of cross-country comparison, while factoring changes between countries into account. Furthermore, as some scholars such as Kenworthy and Kittel have observed, “…policy formation is not a process that has a definite beginning and end but one that occurs over an indeterminate length of time, hence it is difficult to develop a clear sequencing” (Kenworthy and Kittel: 2003: 17). A long time duration is, therefore, desirable in a study like this one. Having said this, it should also be noted that the time period of the data is long enough for the degrees of synergy in the respective countries to have had an impact on economic performance within the period and even beyond. Hence, causality could still be shown, as the national economic performance data has a temporal contour of 1991 - 2001.

At this juncture, it is important that I spell out the factors that framed the temporal parameters of the survey – and there are a number of factors informing this choice. Besides the need to have the same temporal frame as that for the autonomy data, there are other important considerations, all of which are part of the attempt in this study to understand the different developmental trajectories of developing countries. The first factor in this regards, as Kohli (2004: 5) succinctly puts it, is that it is “only in the 1970s did the dramatic variations in performance across developing countries…start to become apparent. Only from then on did these variations become a central concern for development scholars”. Second, to a degree, the 1970s marked the beginning of the contemporary form of globalisation. As illustrations, the following three dramatic events suffice for now:
(a) The collapse of the Bretton Woods’ exchange regime. In 1971, the US unilaterally abandoned the convertibility of the dollar and ushered in an era characterised by flexible and floating exchange rates. Consequently, one of the dramatic changes in the global political economy occurred; that is, the financialisation and the rapid rate with which finances move across the globe, become a dominant feature of a new era. This is generally referred to as globalisation (Glyn et al., 1990).

(b) The end of the Fordist mode of production. The emergence of new information technology in the early 1970s changed remarkably the global production landscape (Lipietz, 1987; Jessop, 1992).

(c) Neo-liberalism or market fundamentalism becomes hegemonic in both intellectual and policy discourses. This resulted in pressure being exerted on developing countries to conform to perceived global economic imperatives. The late 1980s could be said to be the apogee of the Washington Consensus, although its decline did not happen until about a decade later.

In light of the above, a study that seeks to explain variations in development trajectories across developing countries in the context of globalisation, should take the early 1970s as a necessary point of departure. By 1990, the intensity and extensity of globalisation have become more pronounced. In addition, variations in development performance have also become more glaring. As such, a temporal parameter of twenty years, 1970 – 1990, is useful in that this is a long enough period for us to understand the institutional infrastructure of developing countries in navigating the sea of globalisation – and understanding the divergent developmental outcomes.

The survey focussed on CMs, both structures and processes, where the agenda of engagement is not confined to labour market issues but instead covers broad social and economic policies (including industrial policies, trade policy, and macroeconomic policy).

Like Compston’s (1997) study on corporatism, this study excludes wage-setting structures. Rather, it focuses on policies relating to employment, prices, growth and trade. Put differently, the policy areas of interest include: fiscal policy,
monetary policy, investment, overall industrial planning, trade policy, job creation and training, and employment law. The reasons for these choices are three-fold. First, as Compston (1997: 736) rightly observed, income policy represents “government participation in union policy-making rather than union participation in government economic policy-making”. Second, civil society organisations, as used in this study, do not normally participate in income policy. Third, and most importantly, most of the aforementioned policy areas, which I refer to as the macro-conditioning of development policy in developing countries, capture the depths of state-society synergy. They define the environment for micro economic and sectoral policies.

The approach in this study therefore differs from that of the International Labour Organisation (ILO), which focuses primarily on labour market institutions, and at the national level to tripartite labour market institutions – that is corporatism. The problem with the ILO approach is that it fails to take cognizance of the fact that labour market policies are shaped and conditioned by macroeconomic and industrial policies. As Weiss (1998) reminds us, corporatist institutional arrangements play a limited role in industrial transformation. In addition, the ILO approach fails to take account of the organisation of the state itself. It is for these reasons that we need to go beyond intermediation bodies that are confined to labour market issues. Although CMs and the policy issues they deal with may vary with time, they are within the general policy areas identified above.

6.2: Constructing the Synergy Indicators

I proceeded to construct three indicators for the synergy variable. As I have stated above, these indicators may not represent all attributes of state-society synergy. Nevertheless, they constitute important components for an (initial) academic inquiry, especially one that aims to test empirically the link between degrees of synergy and variations in country economic performance. The two indicators (nature and representations) will be rated in terms of types, while the third (influence) is rated in terms of degrees. The total synergy scores will take the form of “degrees”.

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6.2.1: Nature of Consultative Mechanisms

This indicator captures the types or nature of Consultative Mechanisms (CMs). It is derived from question number 3 that required respondents to indicate the type of CMs in the countries sampled. The exact question is “Which of the following best describe the nature of the consultative mechanism?”

The literature of state-society interactions has described various methods of interactions, which can be broadly defined as consultative mechanisms (Biddle and Jesse, 1999). These can be disaggregated as: (a) statutory CMs; (b) informal but institutionalised CMs (although not backed by law, they are institutionalised because consultations between the economic bureaucracy and societal actors are made on a regular basis – indeed a norm); and (c) ad-hoc CMs. It is important to distinguish between these three forms of associational participation in economic policy-making. In statutory deliberation councils, the state establishes formal institutions of dialogue between the state and associational interest groups. In such contexts, there are regular and compulsory interactions between state and societal socio-economic actors. Through such interactions, the latter is able to systematically make inputs on national economic policy. Thus the main distinguishing features of these two types of institutionalised CMs, is that the former is backed by law and the latter is not; hence they can be described as informal intermediation bodies. Lastly, ad-hoc and irregular CMs are (as the name implies) -- irregular. In most cases consultations are at the discretion of the state.

Deliberation councils and other forms of institutionalised CMs could cover macro, sectoral, and/or industrial issues. For the purposes of this study, I am concerned with institutionalised deliberation councils or CMs – namely statutory and informal mechanisms, as well as ad hoc CMs at the national level. To go beyond this would be a monumental task for a study of this nature. These institutional structures are the bases for consultations between the state, business, trade unions and civil society groups. In fact, deliberation councils are institutional structures of participation/involvement of citizens, represented by their interest/associational groups, in the decision-making processes (especially in a world when citizens feel that they are losing control over decisions that affect them). They provide space for organised interest groups to engage in face-to-face interactions with the state. By so
doing, citizens are able to jointly determine policy with the state. In some instances, these interactions take the form of formal negotiations between the state and its socio-economic partners. In others, the participating actors enter into formal and binding agreements. While in other instances, the agreements may not be binding (they might just be recommendations) but parties to agreements are required to coordinate and mobilize their members to achieve specific goals, which will not only benefit members of participating stakeholders but the nation as a whole. Being able to persuade members to abide by agreements gives societal actors greater influence over economic policy. This is what Schmitter and Streeck refer to as the “logic of influence associations’ exercise over public authorities” (Schmitter and Streeck 1999: 19). In some contexts, they are structures and processes for sharing information between the participating national stakeholders.

I should stress that the choice of national-level CMs is not made because of a lack of recognition of the centrality and importance of other levels of governance (which I have highlighted in chapter 3), but primarily to ease operationalisation. It is also because national macro-policies, which can be termed as the macro-conditioning of policies of provincial and local levels, set the parameters for policies and programmes at lower levels of governance. In fact, national economic policies frame and indeed define the context and parameters for policies at both local and provincial levels of government, especially in developing countries, which are under both internal and external pressure to align their economic policy to the dominant logic of market fundamentalism in the last two and half decades, in an effort to become globally competitive. It is therefore appropriate for a study of this nature to focus on national CMs.

Given the three categorisations above, I will then be able to rate countries in terms of their type of CMs. In particular, we can rate countries separately on a scale of 0 to 3, with 0 being given to countries that have no deliberative structures; 1 for countries that have irregular but ad hoc CMs; 2 for countries that have informal but institutionalised CMs; and 3 for countries that have statutory CMs. The statutory CMs are accorded a higher score value because they involve regular and formal contacts between economic actors with core government economic agencies. This means that there are formal contacts by non-state stakeholders to the state. In contrast,

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34 In most cases these informal consultative mechanisms do not have a permanent secretariat!
I have scored ad hoc policy networks/processes lower because societal actors, while they may be consulted as a matter of procedure, have no regular or formal contact with the state. Thus, the higher a country’s score on this indicator, the stronger its CM contacts. The influence of societal actors over policy depends on the discretions and invitations by the government to comment on government proposals. This might also take the form of the government inviting stakeholders to workshops on conferences as a mechanism for dialogue. Indeed, in this context, governments perceive economic policy formulation as its exclusive prerogative. The aforementioned categories of CMs are represented in Table 6.4. Specifically, the question to respondents was “Which of the following best describe the nature of the consultative mechanism?”

Table 6.4: Typologies of Consultative Mechanisms

<table>
<thead>
<tr>
<th>Score</th>
<th>Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>Statutory Deliberation Councils</td>
<td>Through legislation a formal consultative structure is established that requires government to consult with stakeholders around major economic policies.</td>
</tr>
<tr>
<td>2</td>
<td>Informal but Institutionalised Consultative Mechanisms</td>
<td>Although there is no law that requires government to consult with stakeholders, there are regular and formal consultations between government and its economic partners.</td>
</tr>
<tr>
<td>1</td>
<td>Ad-hoc Consultative Mechanisms</td>
<td>There is no law that requires government to consult with its economic partners but there are irregular interval consultations at government’s discretion with economic stakeholders.</td>
</tr>
<tr>
<td>0</td>
<td>No Consultative Mechanism</td>
<td>There is no law that requires government to consult with important stakeholders and, consequently, no formal consultations by government with stakeholders.</td>
</tr>
</tbody>
</table>

In this way, we can develop an index with four categories. The ranking on the types of CMs in the sample is presented in Table 6.5 below
Table 6.5: Nature/Types of Consultative Mechanisms, 1970 – 1990

<table>
<thead>
<tr>
<th>Country</th>
<th>Score</th>
<th>Score Normalised to between 0 – 1</th>
<th>Types of CMs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Korea</td>
<td>2</td>
<td>0.67</td>
<td>Informal but institutionalised</td>
</tr>
<tr>
<td>Pakistan</td>
<td>2</td>
<td>0.67</td>
<td>Informal but institutionalised</td>
</tr>
<tr>
<td>Singapore</td>
<td>2</td>
<td>0.67</td>
<td>Informal but institutionalised</td>
</tr>
<tr>
<td>Thailand</td>
<td>2</td>
<td>0.67</td>
<td>Informal but institutionalised</td>
</tr>
<tr>
<td>Brazil</td>
<td>1</td>
<td>0.33</td>
<td>Ad-hoc</td>
</tr>
<tr>
<td>Chile</td>
<td>1</td>
<td>0.33</td>
<td>Ad-hoc</td>
</tr>
<tr>
<td>India</td>
<td>1</td>
<td>0.33</td>
<td>Ad-hoc</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1</td>
<td>0.33</td>
<td>Ad-hoc</td>
</tr>
<tr>
<td>Mexico</td>
<td>1</td>
<td>0.33</td>
<td>Ad-hoc</td>
</tr>
<tr>
<td>Nigeria</td>
<td>1</td>
<td>0.33</td>
<td>Ad-hoc</td>
</tr>
<tr>
<td>Egypt</td>
<td>0</td>
<td>0.00</td>
<td>None</td>
</tr>
<tr>
<td>Kenya</td>
<td>0</td>
<td>0.00</td>
<td>None</td>
</tr>
</tbody>
</table>

Table 6.5 shows that of the twelve countries sampled in the period under consideration, 1970-1990, none had statutory CMs, four had informal but institutionalised CMs (namely, Pakistan, Singapore, South Korea and Thailand), six had ad hoc CMs (Brazil, Chile, India, Malaysia, Mexico and Nigeria), while two had no CMs (Egypt and Kenya).

6. 2. 2: The Breadth of State-Society Synergy - The Actors

The second index of the synergy variable considers the breadth of state-society synergy. It is constructed from question number 3 that required respondents to indicate the type of representations in the predominant CMs. The exact question asked was “How would you characterise the composition of the forum of dialogue and consultation?” Four alternative options were provided from which respondents were to choose one that mirrors the situation in their respective countries of expertise. Countries were rated on the basis of the inclusivity of the national predominant CMs. In other words, like all the synergy’s indicators, the rating of this indicator is on types of representations in the national CMs.

In constructing this index, we can envision four scenarios. First, the state ensures the participation of three other stakeholders, namely, peak business associations, peak trade unions federations and civil society groups, in economic policy-making. The second category includes the state, organised business and civil

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35 The countries are ranked in descending order according to the value of their types of CM score. All
society relationship. The third scenario concerns the state-business participation in economic policy. In the last category, the state single-handedly formulates policy without formal consultations with any of the aforementioned social partners. The simple proposition is that the type of coalitions that the state forges in economy-policy making is likely to shape the nature of the economic outcome. For example, if the state forges coalitions only with elite groups, the orientation of the policy and its benefits is likely to privilege the interests of elites (more than if the state-society relations consist of both elite and subordinate groups in society). It is precisely for this reason that the breadth of state-society relations is a crucial indicator of synergy. Therefore the inclusivity of CMs representation should be a good predictor of the likely economic outcome in a country.

Table 6.6: Typologies of Actors/Partners in Economic Policy-Making

<table>
<thead>
<tr>
<th>Score</th>
<th>Actors</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>State, business, trade unions and civil society</td>
</tr>
<tr>
<td>2</td>
<td>State, business and trade unions</td>
</tr>
<tr>
<td>1</td>
<td>State and business</td>
</tr>
<tr>
<td>0</td>
<td>State (No Consultative Mechanism)</td>
</tr>
</tbody>
</table>

One reason for this focus is that these institutions and processes are open and transparent, which allows for empirical testing. Countries are rated on the basis of the inclusivity in the CMs, as evidenced in Table 6.6. States with more inclusive CMs will score higher than states with less inclusive CMs. Cases where government, business, trade unions and civil society are represented have the highest score of 3; those with government, business and trade unions scores 2; countries with only government and business scores 1; and when governments do not have formal consultation with any social partner, the country receives the lowest score of 0.

However, none of the categories above preclude informal consultations with various individual actors. This is because, in the real world, informal contacts take place daily between government and the other actors, either as organised interests or as individuals. But these are not made public, which make them extremely difficult for empirical testing.

subsequent tables in this chapter follow this pattern of ranking.
Table 6.7: Representations in CMs

<table>
<thead>
<tr>
<th>Country</th>
<th>Score</th>
<th>Score Normalised to between 0 and 1</th>
<th>Representations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>2</td>
<td>0.67</td>
<td>More Inclusive</td>
</tr>
<tr>
<td>Malaysia</td>
<td>2</td>
<td>0.67</td>
<td>More Inclusive</td>
</tr>
<tr>
<td>Mexico</td>
<td>2</td>
<td>0.67</td>
<td>More Inclusive</td>
</tr>
<tr>
<td>Singapore</td>
<td>2</td>
<td>0.67</td>
<td>More Inclusive</td>
</tr>
<tr>
<td>Chile</td>
<td>1</td>
<td>0.33</td>
<td>State and business</td>
</tr>
<tr>
<td>India</td>
<td>1</td>
<td>0.33</td>
<td>State and business</td>
</tr>
<tr>
<td>Korea</td>
<td>1</td>
<td>0.33</td>
<td>State and business</td>
</tr>
<tr>
<td>Nigeria</td>
<td>1</td>
<td>0.33</td>
<td>State and business</td>
</tr>
<tr>
<td>Pakistan</td>
<td>1</td>
<td>0.33</td>
<td>State and business</td>
</tr>
<tr>
<td>Thailand</td>
<td>1</td>
<td>0.33</td>
<td>State and business</td>
</tr>
<tr>
<td>Egypt</td>
<td>0</td>
<td>0.00</td>
<td>None</td>
</tr>
<tr>
<td>Kenya</td>
<td>0</td>
<td>0.00</td>
<td>None</td>
</tr>
</tbody>
</table>

Table 6.7 shows that between 1970 and 1990, none of the twelve countries sampled in the study had CMs with representations from civic organisations and NGOs. Four countries (namely, Brazil, Malaysia and Mexico, Singapore) had more inclusive CMs comprising representatives of government, business and trade unions. Another five countries (Chile, India, Korea, Nigeria, Pakistan and Thailand) had CMs comprising only of government and business, while two countries (Egypt and Kenya) had no CMs.

6.2.3: Influence of Societal Actors’ Participation on Economic Policy

This third indicator captures the degree of influence that consultations had on the final economic policy adopted. This was constituted from question number 4. The exact question was “Which of the following best fits the outcome of such consultations?” This is the most subjective of all the questions, as it is often difficult to measure this type of influence—and how this is measured may vary from context to context. Where there are formal agreements, which are directly translated to policy and in some instances into law, the degree of influence is easily measurable. But this is not always the case. In some instances, agreements do not immediately translate into policy. Indeed in the short run, the economic bureaucracy might still follow its chosen course of policy direction but years down the line, revise itself by implementing the previous agreements. The influence of the agreements given that some time has lapsed might not be obvious to outsiders. Again, how do you measure the influence of the information social partners shared with the state? This is not easy!
Given these problems, measuring the degree of CMs influence on economic policy is somewhat difficult. The most reasonable way to address this problem may be to rely on experts’ perceptions. Again, subjective judgement in rating cases is prevalent in the social sciences.

The degree of influence on consultations is an important component of synergy because societal actors’ participation should be intended to improve economic policy. In this regard, the outcome of consultations is to enhance the economic policy with the aim of ensuring better economic performance. The outcome of consultations ultimately aimed at influencing economic policy (as against providing societal actors platforms to merely air their views). There are other reasons why the influence of CMs is important. First, if the outcomes of consultations substantively influenced the economic policy that is ultimately adopted by the state, it is an indication that the government takes consultation seriously. Secondly, it could also mean that there is a “joint project” of national transformation between the state and its socio-economic partners. As Evans (2004) describes it, joint projects imply that some group within the state (and for our purposes those in the economic bureaucracy) and some organised groups in society, jointly accomplish a mutually desirable goal. Against this background, the degree of the influence of consultations could be used as a proxy for the existence of a joint project between the state and its chosen socio-economic partners. It can therefore be conceived as an independent variable (shared project or government commitment to consultation around national economic transformation).

We can anticipate five scenarios of the degree of influence of state-society synergy on final economic policy adopted. As we see in Table 6.8, these can be ranked as follows: 0 = no influence; 1 = minimal influence; 2 = moderate influence; 3 = influential; and 4 = very influential. In short: a state that enjoys CMs with influence will score higher than a state where CMs do not influence economic policy. This is represented in column 4.
Table 6.8: Degree of Influence of CMs on Adoption of Economic Policy

<table>
<thead>
<tr>
<th>Country</th>
<th>Score</th>
<th>Score Normalised between 0 and 1</th>
<th>Influence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore</td>
<td>4</td>
<td>1.00</td>
<td>Very influential</td>
</tr>
<tr>
<td>Korea</td>
<td>3</td>
<td>0.75</td>
<td>Influential</td>
</tr>
<tr>
<td>Thailand</td>
<td>2</td>
<td>0.50</td>
<td>Moderate Influence</td>
</tr>
<tr>
<td>Brazil</td>
<td>1</td>
<td>0.25</td>
<td>Moderate Influence</td>
</tr>
<tr>
<td>Chile</td>
<td>1</td>
<td>0.25</td>
<td>Moderate Influence</td>
</tr>
<tr>
<td>India</td>
<td>1</td>
<td>0.25</td>
<td>Minimal Influence</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1</td>
<td>0.25</td>
<td>Minimal Influence</td>
</tr>
<tr>
<td>Mexico</td>
<td>1</td>
<td>0.25</td>
<td>Minimal Influence</td>
</tr>
<tr>
<td>Nigeria</td>
<td>1</td>
<td>0.25</td>
<td>Minimal Influence</td>
</tr>
<tr>
<td>Pakistan</td>
<td>1</td>
<td>0.25</td>
<td>Minimal Influence</td>
</tr>
<tr>
<td>Egypt</td>
<td>0</td>
<td>0.00</td>
<td>No Influence</td>
</tr>
<tr>
<td>Kenya</td>
<td>0</td>
<td>0.00</td>
<td>No Influence</td>
</tr>
</tbody>
</table>

Table 6.8 depicts the influence of consultations on final policy adopted by the state. It shows that Singapore’s CMs are very influential in the determination of final economic policy while in Korea it is influential. In Thailand, the predominant CMs had moderate influence in the determination of economic policy. Interestingly, for this period, 1970-1990, for most (six) of the countries (Brazil, Chile, India, Malaysia, Mexico, Nigeria and Pakistan), the outcomes of consultations had minimal influence on the economic policy adopted, while in two countries (Egypt and Kenya), there was no consultation (and therefore no influence).

6.3: Weighting of the Indicators and Constituting the Synergy Variable

Having presented the three indicators, I will proceed to demonstrate whether or not there is empirical justification for weighting the different indicators. We might recall that institutionalised CMs are likely to have greater influence in the determination of final economic policy than other types of representations. For this reason, the institutionalisation score will reflect this. At the same time, more inclusive CMs play an important role in the nature of economic outcomes. Given our theoretical expectations, we can expect that institutionalised CMs that are inclusive of both elite and subordinate classes are more likely to achieve E-Growth (than those mainly composed of elite groups (e.g., business). In constructing the synergy scale, I will utilise the figures that have been normalised from 0 – 1. In this way, the synergy score can accord to that of the autonomy score presented in chapter 5.

All columns in bold in Table 6.9 are double weighted. Columns two and three represent the types of CMs that are single and double weighted respectively. The fourth column represents the constituent groups that are represented in the CMs, while
the fifth column represents the degrees of influence of the CMs on economic policy. Column six depicts single-weighted synergy scores, while the seventh column reflects a doubled-weighted synergy score. By comparing columns six and seven we can more clearly see the effect of weighting the types of CM score. The last column represents the various categories of synergy.
Table 6.9: The Synergy Scale for 12 Developing Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Types (SW)</th>
<th>Types (DW)</th>
<th>Representation</th>
<th>Influence/Shared Projects</th>
<th>Synergy Score (SW)</th>
<th>Synergy Score (DW)</th>
<th>Synergy Score</th>
<th>Groupings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore</td>
<td>0.67</td>
<td>1.33</td>
<td>0.67</td>
<td>1.00</td>
<td>2.33</td>
<td>3.00</td>
<td>0.75</td>
<td>High Degrees</td>
</tr>
<tr>
<td>Korea</td>
<td>0.67</td>
<td>1.33</td>
<td>0.33</td>
<td>0.75</td>
<td>1.75</td>
<td>2.42</td>
<td>0.60</td>
<td>High Degrees</td>
</tr>
<tr>
<td>Thailand</td>
<td>0.67</td>
<td>1.33</td>
<td>0.33</td>
<td>0.50</td>
<td>1.50</td>
<td>2.17</td>
<td>0.54</td>
<td>High Degrees</td>
</tr>
<tr>
<td>Brazil</td>
<td>0.33</td>
<td>0.67</td>
<td>0.67</td>
<td>0.25</td>
<td>1.25</td>
<td>1.58</td>
<td>0.40</td>
<td>Low Degrees</td>
</tr>
<tr>
<td>Malaysia</td>
<td>0.33</td>
<td>0.67</td>
<td>0.67</td>
<td>0.25</td>
<td>1.25</td>
<td>1.58</td>
<td>0.40</td>
<td>Low Degrees</td>
</tr>
<tr>
<td>Pakistan</td>
<td>0.67</td>
<td>1.33</td>
<td>0.33</td>
<td>0.25</td>
<td>1.25</td>
<td>1.58</td>
<td>0.40</td>
<td>Low Degrees</td>
</tr>
<tr>
<td>Mexico</td>
<td>0.33</td>
<td>0.67</td>
<td>0.67</td>
<td>0.25</td>
<td>1.25</td>
<td>1.58</td>
<td>0.40</td>
<td>Low Degrees</td>
</tr>
<tr>
<td>Chile</td>
<td>0.33</td>
<td>0.67</td>
<td>0.33</td>
<td>0.25</td>
<td>0.92</td>
<td>1.25</td>
<td>0.31</td>
<td>Low Degrees</td>
</tr>
<tr>
<td>India</td>
<td>0.33</td>
<td>0.67</td>
<td>0.33</td>
<td>0.25</td>
<td>0.92</td>
<td>1.25</td>
<td>0.31</td>
<td>Low Degrees</td>
</tr>
<tr>
<td>Nigeria</td>
<td>0.33</td>
<td>0.67</td>
<td>0.33</td>
<td>0.25</td>
<td>0.92</td>
<td>1.25</td>
<td>0.31</td>
<td>Low Degrees</td>
</tr>
<tr>
<td>Egypt</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>Low Degrees</td>
</tr>
<tr>
<td>Kenya</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>Low Degrees</td>
</tr>
</tbody>
</table>

SW = Single Weighted and DW = Double Weighted.

These scores are based on the conversion of the scores to from 0 – 1.
I will proceed to construct the synergy variable, which is presented in the last two columns of Table 6.9. But for the purposes of this study, I will use the scale in the last column. This variable is a combination of the three indicators discussed above, with the nature of CMs given double the weight of composition and influence indicators. The synergy scores therefore range from 0 to 4. In constructing the synergy variable, the index on the typologies of representation (nature of CMs) has been given a double weight of 0 to 6 compared to both the actors (the actors that are included in the CMs) and the influence of CMs on economic policy. This weighting is based on the assumption that institutionalised structures and processes (statutory and informal CMs) are likely to have greater influence in government’s determination of economic policy. This proposition is evidenced in Appendix 4.37

The synergy scale is presented in the last column. Countries are being rated on the degree, rather than types, of synergy. In the 1970 – 1990 period, on the scale of 0 – 1, only three countries (Singapore, South Korea and Thailand) could be said to be highly synergistic, scoring 0.75, 0.60 and 0.54 respectively. The other countries in the population hover below 0.40, which is an indication of abysmal synergistic records (low degree of synergy) in developing countries. Of these, two countries (Egypt and Kenya) have the worst synergy grading. It needs to be stressed at this juncture that none of the twelve countries have CMs that include representatives of civic organisations and NGOs - an indication of their marginalization in economic policy making.

But for purposes of consistency, the median of the synergy score of the eleven countries covered in the study will be used. The median is 0.40. Scores between 0 and 0.40 are held to represent low degrees of synergy while scores between 0.41 and 1.00 represent high degrees of synergy.

37 It is evidently clear from Appendix 4 that certain combinations of the nature of CMs and representations are influential or very influential in the determination of final economic policy. It shows that when institutionalised CMs have more inclusive representations, the outcomes of consultations range from influential to very influential in government’s determination of final economic policy. This is precisely the case in both periods for Singapore and for Korea and Mexico in the 1991 – 2003 period. One exception is Brazil, where in the same period the outcomes of consultations had moderate influence. Interestingly, whenever there is disequilibrium in any of these two indicators, the outcomes of consultations are unpredictable. It could either have minimal or moderate influence. Another exception is South Korea for the 1970 – 1991 period, when the representations at the institutional CMs were made up of government and business yet the outcome of consultations ultimately played an influential role in the economic policies that were eventually adopted.
6. 4: Conclusion

In this chapter, I have constructed the second independent variable, synergy, for the study. Because of the absence of data for this variable, I conducted country experts’ survey for sixteen developing countries. This survey yielded responses for the construction of data for twelve countries. From the experts’ evaluations, the synergy data was created. Like the indicators for the autonomy variable, the synergy indicators may not be able to cover all of synergy’s characteristics, but they provide a strong basis for researchers to begin to quantify state-society synergy. Similarly, the synergy variable, like the autonomy variable, is treated in terms of differences of degree rather than type, which will form the point of departure in the subsequent chapters.

The temporal span and the population of these data were chosen to coincide with the countries and time period of the autonomy data. While recognising the problems associated with data covering a long period of time, the data do provide national averages that can still enable social scientists to establish the nature of the relationship between it and variations in national economic performance. Furthermore, the data are constructed in such a way that they can incorporate change over time. This is based on the recognition that state-society relations, economic policies and the effects of CMs on economic policies change over time, from country to country. Given this approach, the construction of the synergy variable lends itself to replication across countries for the same period, as well as for any other period(s) desirable by other scholars.

As noted previously, there are strong empirical justifications for the choice of countries. They are all developing countries confronted with the need for industrial development and becoming globally competitive while at the same time improving the standards of living for their populations. Indeed, achieving E-Growth is the most fundamental challenge faced by these countries. Although the sample is small, the synergy data covers the range of countries included in the dependent variable. This will make it possible to evaluate the link between various degrees of synergy and economic performance (that is, assess the effects of synergy on economic performance). Establishing this link, as well as assessing the relationship between our
independent variables (autonomy and synergy) and dependent variable, E-Growth, is the subject of the next chapter.

This chapter provides an important background to set out the sources of the capacity of the SAS. It is assumed that countries with scores that approximate the synergy scale are likely to have greater capacities to foster growth with equity than those that are not.

Having now constructed the independent and dependent variables for this study, the next chapter, 7, begins the empirical analysis. It aims to show the relationship between one of the independent variables, autonomy, with the dependent variables. It will be shown that autonomy accounts for much of the variations in growth and inequality. But contrary to our theoretical expectation, some countries with low degrees of autonomy achieved high growth while some others with high degree of autonomy achieved low growth. These are the subjects of the next chapter.
Chapter Seven

State Autonomy and Equitable Growth

7.0: Introduction

In chapters, four, five and six, I constructed measures for both the dependent and independent variables. Specifically, in chapter four, a measure for the dependent variable, equitable growth (E-Growth), was constructed. There you will recall that the E-Growth variable had two component parts: economic growth and equitable distribution. Chapter five covered the first indicator of the independent variable (autonomy) while chapter six focused on its second indicator (synergy). The primary objective of this chapter is to examine how variations in the degrees of synergistic autonomy (Auto-Synergy) lead to diverse national economic performances.

The findings in this chapter will cover twelve developing countries because they are those for which I have data (for both the independent and dependent variables). It needs to be stressed at this juncture that because the two independent variables are based on data for the 1970 – 1990 period, and those for the dependent variable are for a more recent period, 1991 – 2001, we can make some plausible, if tenuous, arguments about causality. This is because the development of state institutions and state-society relations – the explanatory variables – preceded the economic performance (E-Growth) temporally in the sample. Put differently, the institutional infrastructure – autonomy and synergy – are conceived as a precondition for E-Growth.

This chapter is divided into two main sections. The first section addresses the association between the two independent variables, autonomy and synergy. The second section covers state autonomy’s relationship with growth, inequality, and E-Growth. The analysis of the independent variables that follows will be based on the median values.\footnote{This is based on the advice of Peter Evans that using the median will make the interpretation clearer and less complex.} As pointed out in chapter four, I have used the mean score for both economic growth and the income Gini to aggregate the E-Growth score. In the subsequent analysis (including chapters 8 and 9), I will attempt to account for the outlier status of countries as well as discuss some of the interesting cases. This is with
a view to explore the different types of relationships we find between the independent and dependent variables.

7.1: The Two Independent Variables: Synergy and Autonomy

Table 7.1: Autonomy and Synergy Scales

<table>
<thead>
<tr>
<th>Country</th>
<th>Autonomy</th>
<th>Synergy</th>
<th>Auto-Synergy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore</td>
<td>0.76</td>
<td>0.75</td>
<td>0.76</td>
</tr>
<tr>
<td>Korea</td>
<td>0.80</td>
<td>0.60</td>
<td>0.70</td>
</tr>
<tr>
<td>Thailand</td>
<td>0.70</td>
<td>0.54</td>
<td>0.62</td>
</tr>
<tr>
<td>Pakistan</td>
<td>0.66</td>
<td>0.40</td>
<td>0.53</td>
</tr>
<tr>
<td>Mexico</td>
<td>0.58</td>
<td>0.40</td>
<td>0.49</td>
</tr>
<tr>
<td>Brazil</td>
<td>0.45</td>
<td>0.40</td>
<td>0.42</td>
</tr>
<tr>
<td>Malaysia</td>
<td>0.60</td>
<td>0.40</td>
<td>0.50</td>
</tr>
<tr>
<td>India</td>
<td>0.77</td>
<td>0.31</td>
<td>0.54</td>
</tr>
<tr>
<td>Chile</td>
<td>0.43</td>
<td>0.31</td>
<td>0.37</td>
</tr>
<tr>
<td>Nigeria</td>
<td>0.44</td>
<td>0.31</td>
<td>0.38</td>
</tr>
<tr>
<td>Egypt</td>
<td>0.54</td>
<td>0.00</td>
<td>0.27</td>
</tr>
<tr>
<td>Kenya</td>
<td>0.34</td>
<td>0.00</td>
<td>0.17</td>
</tr>
<tr>
<td><strong>Median</strong></td>
<td><strong>0.59</strong></td>
<td><strong>0.40</strong></td>
<td><strong>0.49</strong></td>
</tr>
</tbody>
</table>

Table 7.1 depicts the two independent variables in the study for the 1970 – 1990 period. Contrary to *a priori* expectations\(^{39}\), there is a strong and significant correlation between synergy and autonomy. The Pearson correlation coefficient which measures the strength of the linear relationship between the two variables is estimated at 0.69 (or 69 percent). The figure is highly significant with a P-value of 0.002. Interestingly, however, there are some important developments that need to be highlighted. While in the population, India is the second highest autonomous state, in the synergy scale it is one of the least synergistic country, placing 5\(^{th}\) along with Chile and Nigeria. In the same vein, Egypt is ranked 8\(^{th}\) in the autonomy scale but is completely unsynergistic, ranking at the bottom with Kenya. The table also reveals that the highly autonomous states (with the exception of India and Pakistan), on average, rank at the top of the synergy scale. Similarly, countries with the lowest ranking in the autonomy scale are also at the bottom of the synergy scale. The third

\(^{39}\) Scholars like Midgal (1988) suggest that a strong state, that is autonomous state, has to impose its will over society. There is therefore an assumption that such a state did not require to forge strong ties with societal actors. In this perspective, synergy may undermine state’s autonomy. In contrast, the results of this study tell us that states that have autonomous institutions tend to forge strong ties with organised interests. It thus provides empirical validity to Peter Evans (1995) contention that autonomous state agencies need strong ties with society, and not insulation or isolation.
column presents a new variable, Auto-Synergy, which combine the autonomy and synergy scores.

In most cases I will refer to the high and low degrees of these variables, descriptions which are derived from their relationship to the median of the twelve countries covered in this study. The median score for autonomy is 0.59, that of synergy is 0.40 and for their combined scores (Auto-Synergy): 0.49. Scores from the median and below, will be referred to as low degrees while high degrees are scores above the median. As a result, low degrees of autonomy range from 0 - 0.59 while high degrees of autonomy range from 0.60 – 1. In the same vein, low degrees of synergy are any score from 0 - 0.40 and high degrees of synergy are from 0.41 – 1. Similarly, scores from 0 – 0.49 and from 0.50 – 1 respectively on the Auto-synergy scale represent low and high degrees. Cognizance should be taken of these in the analysis that follows in this chapter and the subsequent two chapters, 8 and 9.

It is also important to note that the E-Growth variable is a dichotomous and categorical variable and hence a logit regression will be used in modelling the relations between the independent variables and E-Growth (I will return to this shortly).

<table>
<thead>
<tr>
<th>Country</th>
<th>Autonomy</th>
<th>Synergy</th>
<th>Auto-Synergy</th>
<th>% Change in GDP</th>
<th>Inequality</th>
<th>E-Growth Categories</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore</td>
<td>0.76</td>
<td>0.75</td>
<td>0.76</td>
<td>7.0</td>
<td>0.43</td>
<td>4</td>
</tr>
<tr>
<td>Korea</td>
<td>0.80</td>
<td>0.60</td>
<td>0.70</td>
<td>6.0</td>
<td>0.32</td>
<td>4</td>
</tr>
<tr>
<td>India</td>
<td>0.77</td>
<td>0.31</td>
<td>0.54</td>
<td>5.5</td>
<td>0.38</td>
<td>4</td>
</tr>
<tr>
<td>Egypt</td>
<td>0.54</td>
<td>0.00</td>
<td>0.27</td>
<td>4.2</td>
<td>0.34</td>
<td>4</td>
</tr>
<tr>
<td>Thailand</td>
<td>0.70</td>
<td>0.54</td>
<td>0.62</td>
<td>4.4</td>
<td>0.43</td>
<td>4</td>
</tr>
<tr>
<td>Pakistan</td>
<td>0.66</td>
<td>0.40</td>
<td>0.53</td>
<td>3.8</td>
<td>0.33</td>
<td>3</td>
</tr>
<tr>
<td>Malaysia</td>
<td>0.60</td>
<td>0.40</td>
<td>0.50</td>
<td>6.6</td>
<td>0.49</td>
<td>2</td>
</tr>
<tr>
<td>Chile</td>
<td>0.43</td>
<td>0.31</td>
<td>0.37</td>
<td>6.2</td>
<td>0.58</td>
<td>2</td>
</tr>
<tr>
<td>Mexico</td>
<td>0.58</td>
<td>0.40</td>
<td>0.49</td>
<td>3.2</td>
<td>0.52</td>
<td>1</td>
</tr>
<tr>
<td>Brazil</td>
<td>0.45</td>
<td>0.40</td>
<td>0.42</td>
<td>2.6</td>
<td>0.61</td>
<td>1</td>
</tr>
<tr>
<td>Nigeria</td>
<td>0.44</td>
<td>0.31</td>
<td>0.38</td>
<td>2.7</td>
<td>0.51</td>
<td>1</td>
</tr>
<tr>
<td>Kenya</td>
<td>0.34</td>
<td>0.00</td>
<td>0.17</td>
<td>1.6</td>
<td>0.45</td>
<td>1</td>
</tr>
</tbody>
</table>

Table 7.2 presents the independent and dependent variables. This section provides an important background to the discussion of the findings in subsequent sections in this chapter, as well as in chapters 8 and 9.
7.2: Autonomy, Growth, Equity and E-Growth

In this section, I will present the research findings on the impact of state autonomy on economic growth and equity. The analysis will focus on the bivariate relationships so that we can better examine the relationship between the independent and dependent variables. In addition, by means of linear regression, I am able to model the value of the dependent variable based on its linear relationship with the independent variable. I have also chosen to focus on the bivariate relationship in order to exploit the interpretive utility of the scatter plots and outliers in the sample. In fact, one of the benefits for including plots is that it might provide an indication of any serious departures from the assumed linearity of the relationship between the independent and the dependent variables. In short, the bivariate relationship deals specifically with the construction of a model in which the expected value of the dependent variable is related linearly to the value of the independent variable. Specifically in this chapter, I will focus on the linear relationship between autonomy and growth, autonomy and inequality and autonomy and E-Growth. This focus should be juxtaposed against the theoretical background of this study: that a high degree of state autonomy is closely associated with high economic growth rates and egalitarianism, and consequently variations in the former across countries account for varying economic performance.

Because E-Growth is a categorical variable, the logit model will be used. Logit models extend the principles of generalised linear models to better treat the cases of dichotomous and polychotomous dependent variables. They focus on the association of group data, looking at all levels of possible interaction effects. In particular, logit models extend the log-linear model to allow a mixture of categorical and continuous independent variables with respect to a categorical dependent variable (Garson, 1998; 2006). In the case of this study, using a logit model will allow us to test the linear relationship between our independent variables, namely, autonomy, synergy and auto-synergy with one of the dependent variables, E-Growth, which is a categorical variable.

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40 A multivariate analysis would have been undertaken after the bivariate analysis, save for collinearity problems.
We are, therefore, interested in seeing how a country’s E-Growth status (1-4) is related to its autonomy, synergy and auto-synergy scores, respectively. Since our response variable, E-Growth, is a polychotomous categorical variable (consisting of more than 2 distinct categories) the use of ordinary least squares regression or logistic regression is inappropriate. We therefore use multinomial logistic regression (an extension of binary logistic regression) in order to perform our analyses.

Let $\pi_i$ = probability of a random country falling into E-Growth category $i$, $i=1,...,4$. Since no other E-Growth categories exist, $\pi_1 + \pi_2 + \pi_3 + \pi_4 = 1$. The multinomial logistic regression model simultaneously compares all $4\times(3-1)$ pairs of categories although given a certain choice of 4-1=3 of these; the rest are redundant.

The logit equations that pair each response category with the reference category are set up below. Thus, since there are 4 E-Growth categories, the model will consist of 3 logit equations. In the analyses, E-Growth category 4 is chosen to be the reference category as it is the most frequently observed category in the data. This is the conventional way of choosing the reference category. Thus, the logit equations for the model are:

$$
\log \left( \frac{\pi_1}{\pi_4} \right) = \alpha_1 + \beta_1 X,
$$

$$
\log \left( \frac{\pi_2}{\pi_4} \right) = \alpha_2 + \beta_2 X,
$$

$$
\log \left( \frac{\pi_3}{\pi_4} \right) = \alpha_3 + \beta_3 X
$$

where $\alpha$'s are the intercepts, $\beta$s are coefficients to be estimated, and $X$ is an explanatory variable used in predicting the E-growth categories. From these equations, expressions could be derived for the $\pi_i$'s.

The first equation gives the log odds that a country is classified as the first E-Growth category, given that the country is known to be either of the first or fourth E-Growth categories. The second equation gives the log odds that a country is classified

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41 Logit equations are defined as taking the log of the odds of success for a certain event, i.e.

$$
\text{logit}(\pi_i) = \log \left( \frac{\pi_i}{1 - \pi_i} \right).
$$

128
as the second E-Growth category, given that the country is known to be either of the second or fourth categories and the last equation is defined similarly.\textsuperscript{42}

7. 2. 1: Autonomy and Growth

This section is divided into two parts. In the first part, the results of the model and analyses will be presented. The second part will deal with a narrative analysis of the results.

7. 2. 1. 1: Modelling Growth on Autonomy

There is a significant and strong correlation between state autonomy and economic growth as the Pearson correlation coefficient between the two indicators, autonomy and growth, is estimated at 0.641. It is significant at 0.05 level with a p-value of .025. A graphic illustration of this relationship is provided in Figure 7.1 which shows the relationship between the degrees on the autonomy scale and percentage change in GDP (i.e., economic growth).

Furthermore, the relationship is vividly captured by a simple linear regression. Based on our theoretical specifications, the following regression equation can be derived:

\[
\% \text{ change in economic growth} = \alpha + \beta \text{Autonomy} + \epsilon_t
\]

From the estimated regression, the following equation is obtained:

\[
\% \text{ change in economic growth} = -0.103 + 7.434 \text{ (Autonomy)}
\]

\[R^2 = 0.411\]

The estimated t-ratios are in parentheses. The coefficient is significant at the 0.05 level. The $R^2$ value is 0.411, which is a good fit.\textsuperscript{43} This means that our equation explains 41% of the variations in the sample data. Put differently, it means that 41% of

\textsuperscript{42} This applies to all sections of the study where the logit model has been used.

\textsuperscript{43} The $R^2$ measures the proportion of variation in the dependent variable that is explained by the regression.
of the variations in % change in economic growth is explained by variations in autonomy.

From the above equation, it would be tempting to suggest that a unit (0.1) increase in state’s autonomy ranking would lead to a 7.434 percent change (increase) in economic growth. This would, of course, be unrealistic given that there are other variables which certainly impact on economic growth that have not been included in the equation. If such variables were included, the coefficient of the autonomy variable would certainly be different. Consequently, in this and subsequent equations (including those in chapters 8 and 9), the exact impact of the independent variables on the dependent variables will not be measured or determined.

This result compares favourably with that of Evans and Rauch (1997), who show strong and positive correlation between Weberianness (which constitutes two indicators of autonomy) and economic growth. They report a Pearson correlation coefficient between Weberianness and GDP per capita of .674 and a P-value of .001, which is significant at 0.05 level. It is interesting to note that although my temporal span for the dependent variable (1991 – 2001) is different from and shorter than that of Evans and Rauch (1970 – 1990), as well as the fact that my sample is smaller than theirs, we report similar findings.

7.2.1.2: Descriptive and Narrative Analyses

At this juncture, it is pertinent to account for the placements of countries in the graph, especially the outliers. This is especially important and appropriate given the relatively small sample being used. I will subsequently proceed to discuss some of the interesting cases. This will help to confirm or disconfirm the existence of causal links that the model above posited.

The countries in Figure 7.1 are relatively representatives of countries of the following four groups, namely, those with (a) high degrees of autonomy with high economic growth – Malaysia, Singapore, Korea, India and Thailand, (b) high degree of autonomy with low economic growth – Pakistan, (c) low degrees of autonomy with high growth – Chile and Egypt, and (d) low degrees of state autonomy with low growth – Kenya, Brazil, Nigeria and Mexico.
The analysis will focus on highly autonomous countries, namely India, Korea, Malaysia, Singapore and Thailand in order to show the relationship between this institutional attribute and high economic growth. This will be contrasted with countries with low degrees of synergy with low growth rates, especially Nigeria and Kenya. The analysis will proceed to look at one interesting cases, Chile, with low degree of autonomy and yet recorded one of the highest rates of economic growth in the sample. In turn, this will be contrasted with Pakistan which despite its autonomous state institutions recorded a low economic growth rate.

Obviously, the most striking feature of the above graph (and in line with the theoretical assumption of his study) is that all the countries at the top right hand corner are highly autonomous and are marked by high economic growth rates. In contrast, all the countries at the lower left corner (Kenya, Nigeria and Brazil) have low degrees of state autonomy and experienced low economic growth rate. In short, there is an obvious trend to the data (again in accordance with the theoretical assumption of the study, with few exceptions), that high degrees of autonomy are associated with high economic growth and low degrees of autonomy are associated with low economic growth.
One general consensus in the case study materials, mostly from the institutional perspective, about the countries at the top right hand corner of Figure 7.1 (Malaysia, India, Korea, Singapore and Thailand) is that these countries have highly autonomous institutions (Haggard and Moon, 1990; Leipziger and Thomas, 1993; Evans, 1995; Hwang 1996; and Worthington, 2003). There is also a degree of agreement that these countries, especially Korea and Singapore, have witnessed a phenomenal economic growth - the result of transformation of the structural basis of their economies; shifting from primary products to high value-added products through, among others, adoption of new technology and industrial upgrading. Indeed, these were some of the mechanics for their integration as competitive economies into the global economy. All of these occurred in one generation.

Malaysia and Korea are two classical examples of countries with remarkable industrial transformations, and, consequently, high economic growth. In the 1950s and 1960s, these countries were basically primary sector-based economies, and had the status of being low-income countries like Nigeria and Kenya. But in the space of thirty years, the economies of Malaysia and Korea have been transformed into high middle-income countries, while Nigeria and Kenya continue to be primary-sector based, low-income countries, with sluggish economic growth rates of 1.6 and 2.7 percent respectively in the 1991 – 2001 period. The differing growth records of both sets of countries are clearly evidenced in Figure 7.1, with Nigeria and Kenya at the lower left corner, a sign of their poor economic growth rate. This is in contrast to Malaysia and Korea located at the top right corner, which shows their higher economic growth rate record of 6.6 and 6.0 percent respectively for the same period.

The different placements also indicate the variations in the degree of state autonomy between the two sets of countries with Nigeria and Kenya being depicted as having low degrees of state autonomy in contrast to Malaysia, India, Korea, Singapore and Thailand that more closely approximate the autonomy scale. These varying organisational structures partly explain variations in economic performance, that is, economic growth, that are observed in the graph. As noted earlier, there is considerable unanimity in the case studies literature about the institutional attributes of these countries. Take India, Korea, Singapore and Thailand as examples. These countries had some common institutional traits – although with some minor variations. These include meritocratic recruitment and predictable career paths for higher economic bureaucrats, where competence is the main criterion for promotion.
All of the foregoing values/factors have contributed to the enhancement of the capacity of the state. Writing on the Thai\textsuperscript{44} state bureaucracy, for example, Christensen (1992) notes that educational achievement was pervasive. Hence by 1987, “61 percent of rank of C9 through C11 officials had a Masters’ degree or higher. The vast majority of those degrees were earned abroad. And over one-fourth of serving permanent secretaries held PhDs in their fields of service” (p. 5). The story, in terms of meritocracy, was not much different in India, Korea (where the best graduates of Seoul National University were recruited by core economic ministries) and Singapore – all of which contributed to enhance their competence and legitimacy. The senior economic bureaucracy, in these countries, is an elite group (in Singapore at any point in time, they were roughly 300 officers and were very cohesive given their similar educational background) that worked closely with the political elite. In some cases, such as in Singapore and Korea, they were policy-makers as well as policy-implementers (Worthington, 2003).

In addition, these countries were characterised by the centralisation of economic decision-making in core economic agencies, such as the Economic Planning Board (EPB) in Korea, the Economic Development Board (EDB) in Singapore and the National Economic and Social Development Board in Thailand (NESDB), which formulated and co-ordinated economic policies. However, there were slight variations among these countries, which a narrative analysis can help us to understand. In terms of functions, the EPB provides an interesting example. It had a broad mandate over planning, budgetary and economic management. This enabled it to ensure that government’s policies, programmes and spending were synchronized, thereby avoiding an overheating of the economy. Policy co-ordination in Thailand and Malaysia was much more fragmented than, say, the most autonomous country in the sample, South Korea, where the economic teams “were co-ordinated and led by clearly identified “economic czars” – the Deputy Prime Minister and Minister of the Economic Planning Board (Leipziger and Thomas, 1993). In Malaysia, the political elite played a much greater role in economic policy-making than their counterparts in Singapore. And in Thailand, both the Ministry of Finance and the Central Bank played a more prominent role in policy formulation, especially around

\textsuperscript{44} One interesting observation is that the Thai state seems to have been remarkably transformed. Writing on the recruitment of senior servants in the 1950s, Shor (1960) noted that politicians routinely
macroeconomic management than say in Korea and Singapore. Unsurprisingly, in this sample, Korea and Singapore have higher degrees of policy co-ordination than Malaysia and Thailand. Overall, the organisational structures of the highly autonomous states were some of the important foundations for what Chang (2003) calls their entrepreneurial role. These propelled their high economic growth rates. It is therefore crucially important that we should not underestimate the importance of these agencies in anticipating industrial change and coordinating investment decisions that have made them excel in the global markets. These core ministries were also instrumental to these countries becoming predominantly high-tech, industrially based. Their high degrees of autonomy enabled them to behave as coherent collective actors to identify and implement their developmental goals without being overwhelmed by interest groups. Hence, they were able to ensure their economic competitiveness resulting in high economic growth, in stark contrast to most of the countries with low degrees of state autonomy (I will return to some of these cases shortly). In general, bureaucrats in these countries were able to stick to policy goals and by so doing give legitimacy to the state and its development objectives. In particular, there was increased investment, which contributed to high growth rate, because of policy stability and predictability that were engendered by the autonomous state institutions.

One important part of the political economy history of countries like Korea, Malaysia, Singapore and Thailand is that because of their high degrees of state autonomy, the economic bureaucratic elite shared common values and a commitment to a corporate goal. Autonomy enhanced the capacity of the states in these countries to be able to articulate national transformative agendas and to mobilize society around their transformative goal. This goal was a collective national project of industrial transformation that was a key factor to their global competitiveness and growth. Indeed, economic success was conceived as a necessary prerequisite for the legitimacy of the bureaucratic elite and the survival of the political elite. A single-minded commitment to, and pursuit of, this developmental goal enhanced the confidence of the state in the eyes of the business elite. Through the coordination of economic planning embodied in their super ministries, the Korean, Malaysian, Singapore and Thai states were able to channel resources from declining sectors to sunrise industries. Governments in these countries embarked on systemic planning (at

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violated the meritocratic requirement. But as I have noted in this study, in the 1970 – 1990 period, Thailand was the second most meritocratic country (next to Singapore) in the sample.
times by trial and error) of prodding entrepreneurs to invest in new sectors, signalling new markets and in some cases—to use Peter Evans (1995) words—midwifed new industries. As a result, the economic bureaucratic elite in these highly autonomous countries, especially the East Asian countries in the sample, encouraged both local and international capital to invest in high-value-added economic activities that propelled them to high-growth economies. With capable internal institutions and coordination of economic policy, the states in Korea, Singapore and Thailand were not only able to articulate their goals but also “fostered growth by encouraging the business community, … to make long-term investment and upgrade organisation and management” (Campos and Root, 1996: 29).

At the same time, these highly autonomous states induced the non-elites “to make short-term sacrifices in exchange for larger benefits in the long-term” (Campos and Root, 1996: 29). The support of the non-elite for the growth process was secured through implementation of “[h]ighly visible wealth-sharing mechanisms – such as land reform, free primary education and free basic health care” (Ibid, p.29). In turn, this discouraged the non-elite from embarking on disruptive actions that could have undermined investors’ confidence in the economy, unlike the situation in most transition economies in the developing world. Furthermore, wealth-sharing is a virtuous circle – it increases the income and wealth among citizens, which in turn leads to higher rates of savings and an increase in domestic capital formation. The high savings’ rates in these countries (with Korea as an example) would have been near impossible without autonomous state institutions, which enabled the government to mount “campaigns for belt-tightening and demonised…luxury consumption and conspicuous consumption” (You, 1999: 53).

Another remarkable feature of these countries, one that flows from their high degrees of autonomy, is that they had the capacity to at once adjust their policies and intervene in their economies in response to changing global and domestic circumstances. Their capacity to respond to rapidly changing economic conditions was partly due to the highly autonomous and insulated economic bureaucracies. The story is not much different in India, where most qualitative analyses, such as Evans (1995), have tended to underestimate its economic success.

Another way to explain the relationship between high degrees of autonomy with the resultant high rate of economic growth in Korea, Malaysia, Singapore and Thailand is to look at the profit-investment nexus. Although there are exceptions, it is
generally recognised that high profits (accumulation of capital) generate vigorous investment activities (You, 1999). Highly autonomous state institutions enhance the capacity of these countries to formulate and implement policies that were aimed at improving the profitability of investments. These included policies to reduce investment costs by offering lower interest rates, low import duties for investment goods, provisions for industrial infrastructures, etc. In addition, governments in highly autonomous countries successfully formulated and implemented policies to reduce the risks of investment, particularly in targeted sectors that were crucial for the states’ project of rapid economic transformation. These included greater coordination of policies and regulation of investments. You (1999: 54) eloquently captured this as follows:

East Asian governments reduced risks by coordinating private sector investment according to their carefully planned development strategy. This coordination went beyond simply indicating which areas to invest in to regulating the overall amount of investment to private excessive investment and organizing recession cartels. All these reduce risks considerably…

The analysis above points to the fact that most of the countries that score well on the autonomy scale contributed to the capacity of bureaucrats to formulate and implement policies that led to the diversification of their economies. It is therefore not surprising that they became highly competitive in the global economy and ultimately achieved the high growth rate reported in this study.

The story is much different in countries with less autonomous state institutions. For example, Kenya and Nigeria have not been able to diversify their economies; they remain mainly primary sector-based, and hence they are unable to compete in the global economy. For example, Nigeria, in particular, remained heavily reliant on natural resource production. Compared to Malaysia, where in 1980 and 1998 agriculture accounted for twenty-two percent and twelve percent of GDP respectively, Nigerian agriculture accounted for twenty-one percent and thirty-two percent of GDP in 1980 and 1998 respectively. Also, while between 1980 and 1998 industry’s contribution to GDP in Malaysia increased from thirty-eight percent to forty-eight percent, in Nigeria the share of industry’s contribution to the GDP has declined from forty-six percent in 1980 to forty-one percent in 1998. And most of the industrial sector’s contribution to GDP has been in the oil sector. The contrast between Nigeria (with its low degree of autonomy) and Malaysia (with its high degree
of autonomy) is even more apparent when we look at the share of manufacturing and service sector’s contributions to GDP. In Malaysia, by 1980, manufacturing contributed twenty percent of GDP, increasing to thirty-four percent in 1998. In both periods, the service sector contributed forty percent to GDP. In contrast, the manufacturing sector in Nigeria contributed just eight percent of GDP in 1980 and declined to five percent in 1998. Similarly, the share of the service sector’s contribution to GDP in Nigeria declined from thirty-four percent in 1980 to twenty-seven percent in 1998 (World Bank, 2000). It is clear that variations in state capacities produced variations in economic performance.

Now it might be useful to proceed with a closer examination of the Kenyan case as an example of the developmental failure that is associated with low degrees of state autonomy. Among scholars of its political economy, there seems to be no consensus about the developmental records of Kenya, or even the role of economic bureaucrats in the country. One school of thought on Kenyan political economy points to various macro- indicators, the political orientation and Kenya’s overall development strategy to suggest that Kenyan economic performance has been impressive. This success is attributed to the higher level of state capacity.45 It is in the light of this that scholars such as Oyugi (1994) may have prematurely celebrated the performance of the bureaucracy in the management of the economy. However, other scholars have questioned the glowing assessment of the Kenyan economic bureaucracy and the performance of the economy. They subsequently provided an alternative assessment of the Kenyan state. Among these scholars is David Himbara, one of the leading commentators of Kenyan political economy. In his view, any “conception of the Kenyan state as efficient is misguided” (Himbara, 1994: 69). His critical appraisal of the Kenyan economic performance has been confirmed in this study. The difference that separates these two schools underscores the importance of having open and public comparative indicators for assessing levels of state autonomy.

If economic growth performance is used as the main dependent variable to measure economic performance, Kenya has a poor record and the developmental impact of the economic bureaucracy has been abysmal. A closer examination of the state’s institutional attributes, especially its degree of state autonomy, will provide us with a better understanding of how this economic outcome came about. There is a

45 See David Himbara (1994) for a succinct summary of the views of this school.
consensus in the case studies literature that, unlike India and Malaysia, Kenya did not inherit an autonomous state from the British colonialists, yet higher-level economic bureaucrats were the main actors in economic policy-making. Furthermore, the major reforms of the state in the immediate post-colonial era were primarily aimed to achieve Africanisation of the bureaucracy.

Unfortunately for Kenya, Africanisation became synonymous with ethnic dominance.\footnote{This is unlike in Malaysians were affirmation action focused on the Malays rather than a narrow ethnic interests within the Bumis.} This was partly because recruitment and promotion were based on tribal affiliations. As a result, between 1963 and 1975, the Kikuyu ethnic group of the incumbent president, Jomo Kenyatta dominated the public service (Hyden, 1979). The same ethnic considerations dominated recruitment and promotion in the civil service under the government of President Daniel Arap Moi, that is, until the early part of the 21st century. Obviously, these created an uncertain career future for senior bureaucrats and instability in the economic policy horizon that was not conducive to long-term investment and economic growth.

As noted earlier, senior economic bureaucrats were the main actors in economic policy making, beginning with the 1965 Sessional Paper, described as “Kenya’s development bible” (Oyugi, 1994) since it framed the macro context for all subsequent Development Plans. It has also been shown that the senior economic bureaucrats acted to further narrow tribal interests rather than collective national goals. This was worsened by the implementation of the recommendations of the Ndegwa Commission’s in 1971: that civil servants be allowed to simultaneously own and run private businesses along with their public duties, provided that these interests are publicly declared. This had major adverse implications for the cohesiveness and competences of the Kenyan economic bureaucracy.

Rather than make decisions that will enhance the development of the economy, senior bureaucrats, as the major actors (along with their expatriate advisers) in economic policy-making, acted to advance their personal interests. As an illustration, according to Hyden (1979), it has not been easy to maintain a distinct line between private and public interests. Senior economic bureaucrats took advantage of their positions to grant licences and allocate other benefits to themselves. In effect, policies were not based on rational economic sense. This system compounded rent-seeking activities as well as the diversion of public resources to private ends with the
attendant negative effects on economic growth. Indeed, the state became the source of primitive accumulation. The subsequent Waruhua Commission’s report of 1980 noted that the implementation of the Ndegwa Commission report, resulted in “gross neglect of public duty and the misuse of official positions and official information in furtherance of civil servants’ interests” (Republic of Kenya, 1980: 37 – 39). Not surprisingly, corruption has become the norm rather than the exception. In consequence, Kenya has consistently been rated by Transparency International (TI) as one of the most corrupt countries in the world. High level of corruption in Kenya (like in Nigeria) subverted policy goals and eroded the legitimacy of the state. Because of the appointment of under qualified people into the Kenyan bureaucracy, it was unable to provide basic social services and physical infrastructure such as water, education, housing, electricity and transport to majority of the Kenyan population. The low investment in human capital in Kenya over time has contributed to their low economic growth rate. Furthermore, there have been incessant conflicts among its top bureaucrats, resulting in mistrust. Because of these, the Kenyan state has been unable to act as a coherent collective entity to foster economic development. Instead, both the bureaucratic and political elites promoted sectional interests at the expense of national development. In addition, public officials extracted rents (in form of charges) from business and citizens for undertaking services. These adversely impacted on Kenyan economic growth rate in two ways. First, it increased the costs of business and therefore discouraged investment. Second, it diminished the rate of savings and consequent investment, which in turn led to low growth.

Another by-product of the non-autonomous state institutional landscape in Kenya was the lack of commitment by senior economic bureaucrats to economic policies. As noted in the 1970 – 1974 Development Plan, the lack of commitment by senior economic bureaucrats to national economic policies resulted in delays, as well as poor or lacking records of implementation. The poor implementation of policy “contributed to the present (that is, 1982), financial crisis and at the same time has reduced government impact on development” (Republic of Kenya, cited in Oyugi, 1994: 94). Like most African and Latin American countries, the financial crisis forced the Kenyan government into the debt trap, a phenomenon that encouraged the World Bank and the International Monetary Fund (IMF) to intervene in, and eventually take over, the economic management of the country. With this came an assault on the state, that further eroded its autonomy.
Lastly, like most post-independent African governments, the Kenyan government established its Ministry of Planning and National Development. But for reasons beyond the scope of this study, the ministry was not adequately staffed; nor could it effectively play its role. As a result, economic policy-making was considerably compartmentalised or departmentalised, which, as Oyugi has aptly observed, bred a lack of cooperation and coordination of economic policy. This gradually led to a disintegration of the state apparatus, coupled with bureaucratic delays. As an example, by the mid 1980s, it took the Ministry of Commerce and Industry about three years to process licences to start an enterprise. Himbara (1994: 72), one of the most critical observers of Kenyan development, summed up the adverse effect thus:

The Ministry of Commerce and Industry was no longer an effective arm of the state for implementing industrial and commercial plans. It is, therefore, not surprising that Kenya ceased to be an attractive destination for foreign investments, notwithstanding the fact that it was supposed to be the basis of the country’s development strategy. On the contrary, in response to the decline of the various administrative and infrastructural facilities in Kenya, substantial divestment occurred in the 1980s, especially by large U.S manufacturing companies ….

It is therefore clear that the lack of state autonomy constrained the capacity of the Kenyan state to engineer high rates of economic growth.

In Figure 7.1, the Chilean case seems to push the outer boundaries of the posited relationship between autonomy and economic growth: it has a relatively low degree of autonomy but achieved economic growth rate of 6.6 percent during the period under consideration. In the sample, it ranked second in the economic growth variable and it has the second lowest degree of autonomy (.43 in the autonomy scale). What is, however, evident is that there was a very low degree (near absence) of career

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Both Mexico and Brazil share some state organisational similarities and dissimilarities with their Chilean counterpart. Indications of this is the fact that in both countries there was a high circulation of top civil servants, and career advancement was not based on merit but on informal networks (Schneider, 1993). These have had adverse implications for the state as well as national transformation: when career advancement is based on political patronage, loyalty is to the political patron. This destroyed the esprit de corps – the camaraderie spirit among the Brazilian and Mexican economic bureaucratic elite. It was noted in the theoretical chapter 3, that a feeling of esprit de corps is central to the cohesiveness of the state and its insulation from interest groups, and that these are crucial ingredients for a successful economic transformation. That these crucial institutional elements were missing in both countries contributed to their poor growth performance. But unlike Chile, where political appointees were confined to few senior economic technocrats, in Brazil and Mexico (and you might add Nigeria and Kenya), political appointees were in their thousands and cut across all layers of the bureaucracy.
paths for economic bureaucrats. Nevertheless, this co-existed with a moderate degree of policy co-ordination, with the Ministry of Finance and Central Bank, being the lead economic agencies. In addition, it also had a moderate degree of meritocracy. These findings are consistent with the conclusion reached by one of the leading scholars on Chilean political economy, Eduardo Silva, that top economic policy-makers were political appointees, members of the governing coalition” (Silva, 1996: 315). These appointees are those generally referred to in the literature on Chilean political economy as the Chicago boys and they dominated the bureaucracy in the early years of the Pinochet regime. Unable to take a long-term view of the economy, in part because they were beholden to special interests, their economic reforms led to the economic collapse in 1982 – 83.

However, with the fall from grace of the Chicago boys, economic bureaucrats came to be “drawn exclusively from the ranks of experienced, technocratic, flexible civil service officers” (Silva, 1997: 166). As will be shown in the next chapter, it was this group of senior economic bureaucrats that worked in concert with encompassing business organisations to develop an orthodox neo-liberal economic blueprint that led to the revival of the Chilean economy (a point that will be elaborated upon in chapter 8).

At another level, the Pakistani case may be illustrative, as it falls somewhat below the trend line and it has a low growth rate in spite of being highly autonomous. This suggests that non-institutional factors may have accounted for Pakistan’s relatively low economic growth rate. In fact, most case studies on Pakistani political economy suggest that non-institutional factors may have accounted for its low growth rate.

Since its independence, Pakistan has been burdened by socio-political crises and uncertainty with negative consequences for economic growth. In the period of the independent variables of this study, 1970 – 1990, Pakistan witnessed the secession of East Pakistan to become Bangladesh in 1971, a civil war between 1973 and 1977, it was embroiled in the Afghan crisis following the invasion of Afghanistan by the Soviet Union, incessant changes of government, and so on. In addition, the nationalisation policy pursued under Prime Minister Zulfikar Bhutto was determined more by political than economic logic. It subsequently became a means of

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48 This name is derived from the fact that these bureaucrats all attended the University of Chicago.
accumulation by Pakistan People’s Party (PPP) supporters and members. A Pakistan political analyst, Lawrence Ziring, notes of the impact of the nationalisation programme of Prime Minister Bhutto thus, “Pakistan continues to go deeper into financial debts and its economy has been severely wrenched by the nationalisation of private enterprises in the industrial, commercial, and financial sectors. Capital has fled the country, as have many important entrepreneurs, engineers, scientists, and other technically qualified people” (Ziring, 1977: 585). Subsequently, agro-industries were also nationalised. The nationalisation programme had a lasting impact on Pakistan’s economic development as it was not undone even by Bhutto’s successor, President Zia. Needless to say that during the regime of President Zia ul-Haq (1977 – 1988), Pakistan witnessed remarkable economic growth. This was, however, due more to the United States’ military and economic aid, which amounted to $7.4 billion between 1982 and 1990 (see Hilali, 2002). With the subsequent withdrawal of Soviet troops from Afghanistan, Pakistan lost its importance in the Cold War matrix of the superpowers. As a result, foreign aid from the US and other western donors to Pakistan declined significantly. This trend continued in the 1990s following the first Gulf War. Consequently, the country’s growth rate experienced a decline. What these circumstances point to is the fact that in spite of its autonomous state institutions, non-institutional factors seem to have influenced Pakistan’s growth rate. Similarly, the general political climate, especially under Prime Minister Z. Bhutto, led to “the diminution of the bureaucracy’s role as formulator of policy” (Noman, 1988: 61). Among other things, Bhutto abolished the elite Civil Service of Pakistan (CSP) that had the attributes of Weberianness, meritocratic recruitment and life tenure. In addition, though Pakistan had a Planning Commission, chaired by the Prime Minister, and responsible for long and medium-term planning, Bhutto suspended medium term-planning and centralised power around himself. As one commentator, Ziring (1977: 591 – 592) puts it,

Bhutto is intimately involved in all departments of government and at many levels of decision-making...Any decision judged to be of significance to the Prime Minister...is referred to him for final approval. So centralised is this decision-making role that government administrators are generally reluctant to take initiative on any matter where the Prime Minister might be remotely concerned.

However, this trend was substantially revised after 1977 under President Zia. In effect, bureaucrats began to reassert greater influence over policy-making and the
country reverted to planning. Consequently, the fifth five-year plan under the guidance of the planning commission was launched in 1978. One explicit objective of the plan was to restore business confidence which was at its lowest ebb during the reign of Prime Minister Bhutto. But a major factor set Pakistan aside from the highly autonomous states in our sample. Unlike countries such as Korea and Singapore, the Pakistani economic bureaucrats were “ill-equipped to define long-term economic and social objectives or to generate resources for achieving them” (Burki, 1994:325). In addition, President Zia did not completely overturn the nationalisation of his predecessor, Prime Minister Bhutto. For examples, banks were not denationalised; rather they remained under the effective control of the state. As a consequence and due to political uncertainty, the private sector’s response to President’s Zia’s economic reforms, including efforts to court them, was somewhat lukewarm.

With the exception of Pakistan, our sample of highly autonomous states stand in stark contrast to the sort of short-term individual maximization that has been the hallmark of governments in post-independent Nigeria and Kenya. With recruitment based on political patronage, coupled with uncertain career paths, senior economic bureaucrats in these countries were unable to take a long-term view of social and economic development. Consequently, they were unable to articulate a clear vision of national transformation (unlike their counterparts in the highly autonomous states). Therefore, rather than fostering a growth path driven by productive economic endeavours and radical structural transformation of their economies, bureaucrats in these countries (hand in glove with the political class), engaged in conspicuous consumption. The state’s institutional incapacity made it nearly impossible to regulate such behaviour. This is the basis for their dependence on primary sector, as well as the resultant economic involution.

It is obvious from the foregoing discussion that variations in state capacities can account for variations in national economic performance. Most countries with higher degrees of state autonomy achieved high rates of economic growth (with the exception of Pakistan). In contrast, most countries with limited state capacity — exemplified by low degrees of autonomy — have witnessed low rates of economic growth in the 1991 – 2001 period. The two exceptions here are Chile and Egypt which have low degrees of autonomy but achieved high rates of economic growth. What these findings show is that institutional variables may not be the sole factor responsible for a country’s good economic performance. What is clear, however, is
that high economic growth rates can be achieved with or without high degrees of state autonomy (contrary to our *a priori* expectation), although the former is the most likely outcome. This constitutes the first main finding of this study.

7. 2: Autonomy and Inequality

This section is divided into two parts. Like the first section of this chapter: the first part focuses on the results of the model and analyses, while the second deals with the descriptive and narrative analyses.

7. 2. 2: Modelling Inequality on Autonomy

In contrast to what we have seen in Figure 7.1, autonomy is strongly but negatively correlated with equity. The Pearson correlation coefficient between the two variables is estimated at -0.626. It is significant at the 0.05 level, with an estimated p-value of 0.029. This inverse relationship between autonomy and inequality shows that, as the degree of state autonomy increases, income inequality is likely to decrease. Implicitly, low degrees of autonomy are associated with high inequality, and vice versa. That is, an increase in the degree of autonomy leads to a decrease in inequality. Simply put, in conformity with the theoretical premise of this study, a high degree of state autonomy is strongly associated with low inequality.

A graphic illustration of this relationship is provided in Figure 7.2 which shows the relationship between the degrees of state autonomy and income inequality. Also the relationship is vividly captured by a simple linear regression. Based on our theoretical specification, the following regression equation is derived:

\[
\text{Inequality} = \alpha - \beta \text{Autonomy} + \varepsilon_t
\]

From the estimated regression, the following equation is obtained:

\[
\text{Inequality} = \text{-0.682} - 0.395 \text{ (Autonomy)}
\]

\[(7.222) \quad (2.540)\]

\[R^2 = 0.392\]
The estimated t-ratios are in parenthesis. The coefficient is significant at the 0.05 level. The $R^2$ value is 0.392, which is a good fit. This means that our equation is explaining 39% of the variations in the sample data, meaning that 39% of the variations in inequality is explained by variations in autonomy. The explanatory variable, that is autonomy, is significant in explaining inequality. The significance is indicated by the t-ratios shown beneath the coefficient estimation.

**7.2.2.2: Descriptive and Narrative Analysis**

Figure 7.2 is fairly representative of four subgroups of countries, namely, (a) those with high degrees of autonomy and low inequality (Korea, Pakistan, India, Singapore and Thailand - congregated right in the lower part of the graph), (b) those with low degrees of autonomy and low inequality (Egypt – located at the centre of the lower part), (c) those with high degree of autonomy and inequality (Malaysia – located at the centre) and (d) those with low degrees of autonomy and high inequality (Brazil, Chile, Mexico, Nigeria and Kenya – located at the middle left hand upward). These are among the issues to be addressed in this section.

**Figure 7.2: Autonomy and Inequality**

![Figure 7.2: Autonomy and Inequality](chart.png)
It can be observed from the graph that most of the countries with high degrees of autonomy (e.g., Pakistan, Singapore, Thailand and Korea) and those with low degrees of autonomy (e.g., Brazil, Nigeria and Kenya) tend to conform to our theoretical expectations. I will now proceed to examine some of these cases in details.

Without detailed elaboration, it is important to briefly explicate how, in conformity with our theoretical assumption, the highly autonomous countries were relatively equitable; while those with low degrees of autonomy were relatively inequitable. In other words, we need to examine how the various degrees of state autonomy may have contributed to variations in the inequality indexes. We might do this by looking more closely at those states where the relationship is most evident.

The lucid exposition by Campos and Root (1996) is an important starting point to understand how high degrees of state autonomy may have contributed to low inequality in Korea, Singapore and Thailand. The political elites in these countries recognised equitable distribution of income and wealth as an integral part of their economic success and hence the establishment of autonomous economic bureaucracy that efficiently utilised national resources for the collective improvement of the living conditions of all their citizenry. Central to this were highly visible wealth-sharing mechanisms – such as land reform, free primary education, and free basic health care - as major thrusts of their transformative agenda. These sorts of policies transformed the ownership patterns and enhanced the asset capabilities of the poor in these countries.

In part, high degrees of autonomy allowed these states the freedom to initiate and implement highly egalitarian policies that radically altered the relations of production and the consequent egalitarianism in these societies. Thus, the autonomy status of Korea, Singapore and Thailand enhanced the capacities of the states to promote economic empowerment through access to productive income-generating activities and other welfare measures that were at the heart of their equity objectives. Integral to this were deliberate policies to develop the productive assets of the citizens, namely intelligence, strength, skills, knowledge and creativity. It is in this context of equalisation of income and wealth that we need to understand the high savings rates in these countries (see World Bank online database, 2005). In conformity with the theoretical underpinning of this study, high rates of savings in these highly autonomous states are closely associated with high rate of investments, which in turn contributed to their rates of high growth.
But this is not the end of the story. It is generally recognised in the development literature that lower inequality allows more people to invest in human capital, and in turn produces higher output, leading to economic growth (Perotti, 1993). Our highly autonomous states were no exception to this rule. In these countries, the development of citizens’ capabilities enabled them to compete for positions in society and in the market place. In turn, a more egalitarian income distribution was one important factor for increased investment in human capital and skilled workers in the highly autonomous states in the sample. This virtuous circle continued as it positively impacted economic growth. As an illustration, the demand for labour in these countries was so high in the 1990s that some of these countries enjoyed a zero unemployment rate.

Singapore provides a good example of the causal relationship between autonomous state institutions and low income inequality. The Singaporean state was able to initiate and implement public policies that resulted in low income inequality. For example, the state provided housing subsidies to its citizens. The result is that over 90% of Singaporeans live in owner-occupied public housing that are built and maintained by a public utility, the Housing and Development Board (HDB). The housing ownership subsidy is such that those with high incomes receive less subsidies compared to those with a lower income. Those in the upper income spectrum live in private housing that are more expensive than those provided by the state. Poor people that did not qualify for the house-ownership subsidy live in generously subsidised apartments provided by the HDB. In addition, the Singaporean state has been able to implement progressive income tax. As a result, a large proportion of low income households and wage earners are exempted from paying income tax. These income equalising measures were coupled with high investment in human capital such as education and health (Yue and Yu, 2003). At the beginning of their industrialisation, the Korean and Singaporean states promoted labour intensive manufactures for export. Labour intensive industries created demands for unskilled and semi-skilled workers. As a result, by the mid-1980s, there was a shortage of these categories of workers. This in turn pushed up their wages, and thereby narrowing the income gap between skilled and unskilled labour. Due in part to the labour intensive nature of Korea and Singapore’s industrialisation as well as the increased investment in human capital, there was an increase in the female participation rate in the labour market.
These factors contributed to a decline in the fertility rate and the consequent under supply of labour, which further contributed to a decline in poverty and an increase in wages of unskilled and semi-skilled workers. And in the mid-1980s, when their economies became more capital intensive, there was re-skilling of workers. Labour, including female workers were also beneficiaries of this process, which resulted in narrowing the income gap between educational groups (Choi, 2003).

The key point to note is this: not only were the aforementioned states committed to these developmental goals, they established the requisite state institutions that could deliver them. That is precisely what set them apart from countries with low degrees of state autonomy, which were rife with corruption. State officials diverted public resources into private ends instead of investment in human capital. A case in point is Nigeria where between 1960 and 2005, twenty trillion dollars ($20 trillion) were stolen from the public purse by public officials, according to Dapo Olorunyomi, chief of staff to the chairman of the Economic and Financial Crimes Commission (EFCC) (*BusinessDAY*, September 18, 2006). Had the money been channelled into productive investment and human capital, it would have led to high economic growth rates and low inequality. These in turn, would have contributed to reducing the rate of poverty in Nigeria. In general, corruption has favoured the rich at the expense of the poor by facilitating unequal appropriation of resources. As a result, while the income and wealth of the elite has increased over time, those of the poor have declined. As a consequence, Nigeria is a highly inegalitarian society.

To illustrate the logic of the posited relationship we might look at two exemplary cases that share similar levels of autonomy: Pakistan and Malaysia. Despite this similarity, the Pakistani’s case performs below the trend (i.e., is more egalitarian) and the Malaysian case performs above the trend line (is more unequal). What factors can account for this difference in outcomes?

Contrary to the finding of this study, that suggest that egalitarianism in Pakistan is due in part to the autonomous state’s institutions, most case studies on Pakistan suggest that its high egalitarianism happened more by accident than by the deliberate design by the state. In fact, a consensus is emerging in the contemporary literature on Pakistan’s political economy that its high level of egalitarianism was not due to the government’s policies and programmes but to the impact of remittances from the Middle East (Syed, 1977; Cohen and Weinbaum, 1982; Noman, 1988; Burki, 1994; and Monshipouri and Samuel, 1995). As Burki (1994) has observed,
“Although there was an improvement in income distribution during some political periods in Pakistan’s history, this cannot be attributed to policies designed to achieve these results”. This is hardly surprising given the fact that during most of its post-independence period until the 1990s, with the exception of the Bhutto era, the state was not concerned with the question of equitable distribution of income and wealth. In fact, during Pakistan’s immediate post-independence era, “the model of economic development adopted …consciously promoted inequalities as a necessary condition for successful economic growth” (Noman, 1988: 40). This was the logic of economic policy under both Presidents Khan and Zia. And even when the state had the explicit objective to promote equitable distribution of income and wealth, such initiatives failed due to some of the factors that will be discussed below.

In spite of the Pakistan state’s ideological commitment to, and implementation of, land reforms in 1959, 1972 and 1976 the level of inequalities worsened rather than improved. The abysmal failure of Pakistan’s land reform is aptly captured by Burke (1994): “The three reforms together benefited a tiny proportion of rural households: 272,000 out of some ten millions. In all, four and half million acres of cultivated land – less than ten percent of the total – were redistributed” (Burki, 1994: 308). In particular, only about one percent of the landless tenants and small land owners benefited from the 1972 land reforms. In general, Pakistan’s land reforms were minimal compared to the land reform in Egypt that benefited millions of tenants and small landowners. A number of factors accounted for this failure, including land ownership, which was capped in terms of the individual rather than the family. According to Noman (1988), this phenomenon made it possible for large landowners to retain most of their holdings through divisions within the family. Also, land reform was used to punish recalcitrant landlords and reward members and supporters of the Pakistan People’s Party (PPP). The implication of this was that political consideration rather than economic logic informed land redistribution, and hence its failure to achieve its objective of income redistribution. In addition, because Prime Minister Bhutto was beholden to the military, landholdings by military officers were exempted from the reform process. These reforms were coupled with resistance from the property class.

It can be discerned from this analysis that the Pakistani political leadership lacked the political will to pursue the land reform efforts, which Noman (1988) argued was the most important factor for the failure of the land reform. This needs to
be viewed against the background that Sindhi landlords were prominent members of the PPP and they used their position to shape the nature and pace of economic reforms. This is how Noman explained the influence of the landlords: “Landlords comprised a substantial component of the founding members of the PPP. They tolerated and even encouraged a radical programme as a basis of mass mobilisation. In power, they were not entirely indifferent to reform, but were careful in controlling its pace and minimizing its magnitude” (Noman, 1998: 75). Thus, in contrast to Egypt, in Pakistan there was land reform in name but not in substance. All of these changes should be seen against the backdrop of a diminution in the role of economic bureaucrats following the restructuring of the state by Bhutto. The latter entailed the abolition of the bureaucratic elite - the CSP; withdrawal of life tenure, and suspension of planning. As a consequence, the main beneficiaries of the land reforms were large farmers, senior military officers and civil servants, and not the vast majority of the Pakistani people.

The mid-1970s marked an important turning point in Pakistan’s inequality status. This change seemed to have happened more by accident than by the design of the state. In the early 1980s, remittance began to stream in from the estimated three millions Pakistani migrants living in the Gulf States. This dramatically lowered the level of inequality in the country. One commentator, Shahid Javed Burki (1994) estimates that between 1974 and 1988, these migrants remitted $25 billion to Pakistan through official banking channels and another $10 billion through non-banking channels. By 1984, remittance constituted forty percent of total foreign exchange earnings, financed eighty-six percent of trade deficit, and represented eight percent of the Gross National Product (GNP) (Noman, 1988). These are indicative of the volume of remittances which the migrants sent to the families they left behind in Pakistan. Remittances had both egalitarian and poverty reduction effects. According to Burki (1994: 277):

From the mid-seventies onward…Pakistan’s poor began to benefit from flow of remittances sent by the workers who had gone to the Middle East. The impact of this flow on the incidence of poverty was dramatic. Today, some fifteen years after the migrants began to go to the Middle East in large number, Pakistan shows few signs of extensive absolute poverty that characterises other countries of South Asia. Malnutrition is less visible than in India and Bangladesh. The cities of Pakistan do not have people living on the streets in the number seen in Bombay, Calcutta, and Delhi. Both unemployment and underemployment are less evident in the urban areas. The quality of life in the countryside is better than in most other countries of South Asia.
In the same vein, Omar Noman (1988: 158 – 159) commented on the impacts of the remittance thus:

The most favourable consequences of migration have been the decisive impact on the living conditions of the poor. Approximately ten million people, 11% of the population, have benefited directly from the exodus to the Middle East. The vast majority of the beneficiaries come from low income households. On average, their salaries increased eightfold. The increased family incomes from remittances have had a pronounced egalitarian impact, in both the urban and rural areas. There is, perhaps, no historical parallel of remittances having resulted in such rapid and wide distribution of benefits among the poorer sections of society...the country has been able to achieve a better distribution of income, through manpower export, without having to undergo the politically sensitive process of asset redistribution.

The massive migration of Pakistanis to the Middle East has other egalitarian effects. In the short-run, it led to worker shortages in the home economy, including in the construction sector. Large number of migrants, both unskilled and semi-skilled, had gone to work in the construction sector in the Gulf States. Thus, at home, there was a shortage of workers of these categories. Most of the remittances went into real estate, as the poor families built houses. This in turn led to a construction boom and in the context of labour shortage, real wage increases. In fact, a general rise of real wages of workers, except in the public sector, was reported between 1971 and 1984 (Noman, 1988).

Therefore even when the level of remittances declined in the 1990s, when the economies of the Gulf countries began to experience crisis, the remittances from previous decades had laid a strong foundation for the rise of egalitarianism that we see in the period, 1991 – 2001. As noted in chapter 4, inequality does not change much in the short-run, due to its high inelasticity.

The above analysis, useful as it is, may have underestimated the impact of state autonomy on the overall level of low inequality in Pakistan.

The Malaysian experience tends to lean in the other direction: although its level of autonomy is similar to that of Pakistan, its level of inequality is much higher. As we shall see, there are historical features that can help to explain Malaysia’s differences with Egypt, since the post-independent Malaysia state was the only non-socialist state in the developing world that explicitly committed itself to promoting equitable development. In fact its development policy has been predicated on growth with equity.
The New Economic Policy (NEP) was launched in 1971 as a twenty-year plan (1971-1990) and has been described by scholars as a Malay-first policy (Horii, 1990), ethnicity-oriented policy (Torii, 1997), and an affirmative action programme (Shamsul, 1997). It has two main objectives. The first goal was the reduction and eventual eradication of poverty through increasing employment opportunities and income for all Malaysians, irrespective of race. The second objective was the restructuring of society to correct economic imbalances in a way that would eliminate the identification of race with economic function (Malaysia, 1971). The basic idea behind these objectives was to uplift the social and economic position of the Bumis and especially the Malays whose economic positions were historically inferior to the Chinese. Put differently, the NEP aimed to create a Malay entrepreneurial class and to reduce poverty for all Malaysians.

To realise the NEP’s objectives, the state set clear targets. With respect to the first objective, poverty alleviation, it was envisaged that poverty would be reduced from 50 percent in 1970 to 20 percent in the 1990. In respect of the second objective, a restructuring of the society, it was stated that “employment in the various sectors of the economy and employment by occupational levels will reflect the racial composition of the country” (Malaysia, 1971: 9). This was to be accompanied by an aggressive training and education strategy intended to create the much-needed Malay professional class. The most salient aspect of the restructuring of society was the restructuring of wealth ownership. It was envisaged that by 1990, Malays and their interests (that is government trust agencies and state enterprises) equity ownership would increase from 2.4 percent in 1970 to 30 percent in 1990 (Malaysia, 1971). The attainment of these objectives was predicated on direct government intervention in the economy to give preferential treatments to Bumis as a way of levelling the socio-economic playing field.

49 The Bumiputera or Bumis refers to all indigenous people including the Malays who constituted the majority race group.

50 Malay individuals or trust funds equity ownership amounted to 1.6 percent while government agencies had another 0.8 percent in 1970.

51 Most of the existing studies on the Malaysian political economy agree that state intervention was the most crucial feature of the NEP (see Jesudason, 1989 and Crouch, 1996).
There is a general consensus in the literature on the Malaysian political economy that the implementation of the NEP led to sustained economic growth, a reduction of poverty and a relatively egalitarian distribution of income (Jomo, 2003; Krongkaew, 2003; Roslan, 2001; World Bank, 1993). According to Krongkaew, “The Gini ratios rose from 0.513 in 1970 to a peak level of 0.529 in 1976, then began to fall reaching the lowest level of 0.446 at the end of 1990. But from, 1990, it started to rise again” (Krongkaew, 2003: 9). There is no doubt that the NEP period also witnessed increasing incomes; this helped to reduce poverty and raise the quality of life of Malaysian (Roslan, 2001). Though with some exaggeration, Zin (n.d) concludes that “This U-turn in income inequality, as a result of economic liberalisation, almost wiped out all the gains that were made under the NEP, that is from 1970 – 1990” (Zin, n.d: 5, emphasis mine). Comparatively, however, even during the NEP period, Malaysia’s income inequality declined by eight percent between 1970 and 1990 (Henderson, 2003). This was a much smaller decline than in a country such as Korea, where the decline in inequality was in double digits.

Malaysia is singled out by the World Bank in its East Asian Miracle volume as the country with relatively higher income inequality among the eight high-performing Asian economies (HPAEs) by noting that:

> [t]he positive association between growth and low inequality in the HPAEs, and the contrast with other economies, is illustrated….Forty economies are ranked by the ratio of income share of the richest fifth of the population to the income share of the poorest fifth and per capita real GDP growth during 1965 -89….There are seven high growth, low inequality economies. All of them are in East Asia, only Malaysia, which has an index of inequality above 15, is excluded (World Bank, 1993: 29 – 30).

Several scholars have offered different explanations for Malaysia’s high level of inequality. Some scholars suggest that Malaysian state institutions were relatively inferior to those of Korea and Singapore; hence its redistribution policies and interventions were tamer compared to a country like South Korea. According to Henderson (2003: 10):

> [t]he Malaysian experience of economic governance over the past thirty years underlines the fact that while, in principle, there seems to be a correspondence between economically pro-active states and growth with relative equity, there are significant differences between such states in terms of the coherence, authoritativeness and competence of their planning agencies…which have implications for inequality and poverty. Thus in Malaysia it seems clear that the well-documented corruption within the political elite coupled with the gradual decline in
the equality of the civil society has resulted in a less impressive record of reducing inequality than would otherwise have the case. For instance, while the state holding companies...could have been significant tools for redistribution of wealth, in practice the bulk of their material benefits have flowed to particular individuals and groups close to the Prime Minister, Mahathir Mohamad, and the leadership of the ruling party, UMNO.

Closely related to the inferior capacity of the Malaysian state, compared to Korea and Singapore, was the inability of the state to spend its development budget, including those earmarked for poverty reduction. Henderson (2003) estimates that each year, from the 1970s and the 1990s, between 19 and 32 percent of development budget went unspent, with adverse implications for the state goal of promoting egalitarianism.

Roslan (2001) offers an alternative interpretation for the high level of Malaysia’s inequality, suggesting that the NEP focused on reducing inter-ethnic inequalities and not individual or household inequality. Hence, while inter-ethnic inequality was reduced in general, intra-ethnic inequality, especially among the Bumis, was increasing, hence the high inequality status of Malaysia. Unfortunately, the NEP and subsequent development plans have not been able to respond to intra-Malay inequality. Therefore, it can be argued that the Malaysian state was unable to address inequality in the society as a whole. As Jomo (2003: 19) argues, “Ethnic criteria in redistribution efforts in Malaysia...have probably also limited the potentially broader progressive impact of redistribution efforts”. Therefore, a lesson for other emerging economies is that affirmative action policies and programmes may mitigate their equity potentials.

Jomo (2003) and Zin (n.d) further suggest that Malaysia’s relatively high level of inequality might be explained by the liberalisation of the economy at the end of the NEP period, that is after 1990. One of the impacts of liberalisation on income inequality is a fall in labour’s share of income and a rise in the capital share (Cornia et al., 2003). Jomo also suggest that economic liberalisation has engendered a more regressive tax regime and that the conservative fiscal regimes have generally exacerbated income inequalities. But why these problems are more acute in Malaysia than in say Thailand or Korea remains unexplained.

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52 Choi (2003 cited in Krongkaew 2003) reports that in Korea, “income inequality did not change substantially during the mid-1980s. From the late 1980s to the early 1990s, however, Korean income inequality had reduced and stayed at the low during the mid-1990s. After the crisis in the late 1997, income inequality suddenly increased and stayed at this level until recently. Although the Gini
In contrast to most of the highly autonomous states in our sample, countries like Kenya and Nigeria that suffer from low degrees of state autonomy (or an autonomy deficit), have been characterised by political patronage. Recruitments into the higher echelons of the economic bureaucracy were based on this consideration. This was coupled with uncertain career futures. Together, they engendered corrupt practices in the management of their economies. In fact, corruption has become the norm rather than the exception in both countries. In addition, the bureaucratic inefficiency that has been the hallmark of these countries contributed to the absence of basic services for the populace. Even the Kenyan government acknowledged that corrupt and illegal activities of senior state officials such as “unauthorized expenditures” in effect meant that government paid duty and sales tax on behalf of individuals (Republic of Kenya 1991, cited in Himbara, 1994: 73).

The inefficiency associated with low degrees of autonomy in countries like Nigeria imposed a greater tax burden on the poor, particularly workers, who have to pay more taxes. This is because income taxes are more transparent, unlike the illegally acquired wealth by the rich – which are more difficult to assess and collect. Also, state inefficiency and corruption imposed an additional tax burden on the average citizen in these countries while at the same time enriching senior government officials and their cronies in the private sector. This invariably widened the wealth and income gap between the corrupt rich and the poor as the state acted as a canteen, distributing favours to its clients while neglecting the majority of the population.

Consider the example of education. It is generally recognised that equal access to education is one means towards the actualization of social and economic equality. While the Nigerian education system has been working in fits and starts since the 1980s, senior government officials (both military and civilian) and their cronies in the private sector have resorted to sending their children and wards overseas to receive the best education offered in the US and Europe. At the same time, the average Nigerian student attends poorly-funded national universities. Access to differing qualities of education have enhanced the chances of the children of the rich to better

coefficients of Korea had increased as a result of the crisis, the overall level was only slightly worse than the situation in the early 1980s, which was still lower than the situation in the early 1960s when Korean economy started to develop” (Krongkaew 2003: 8). This supports the argument that intensified liberalisation in the 1990s contributed to worsening inequality in most countries including Korea. However, as shown by this study, Korea still remained a relatively egalitarian society, the adverse effects of liberalisation on income distribution notwithstanding.
employment opportunities and other positions in society, compared to their home-based colleagues. This has invariably widened the income and wealth gap in Nigeria. As Dreze and Sen (2001) have correctly argued, large disparities in access to education and educational achievements, as well as the distribution of formal employment, tend to perpetuate income and wealth inequalities – and the Nigerian case is no exception to this rule.

Similarly, while corruption and inefficiency have virtually destroyed the Nigerian medical system (compared to the ‘golden’ decades of the 1960s through mid-1980s). The system today is characterised by high cost of drugs, inadequate medical facilities and the persistent brain drain of qualified medical personnel. As a result, senior government officials routinely travel overseas for sundry medical treatments. In highlighting the wealth-gap implications, Rose Umorden (2001) observed that “more of the poor turned to traditional medicare while the rich utilise expensive but well equipped private hospitals at home and abroad” (Umorden, 2001:116).

The low degree of state autonomy and the consequent gross mismanagement of the Nigerian economy and increased inequality were precisely the reasons used by the military to take over power in 1983. As the coup spokesperson, then Brigadier Sani Abacha, who later became the most brutal military dictator in the history of Nigeria, announced:

Our economy has been hopelessly mismanaged. We have become a debtor and beggarly nation. There is inadequacy of food at reasonable prices for our people. .. Health services are in shambles as our hospitals are reduced to mere consulting clinics, without drugs, water and equipment. Our educational system is deteriorating at an alarming rate. Unemployment figures...have reached embarrassing and unacceptable proportions. In some states, workers are being owed salary arrears of eight to twelve months and, in others, there are threats of salary cuts. Yet our leaders revel in squandermania, corruption…continue to proliferate public appointments in complete disregard of our economic realities (Excepts from radio broadcast announcing the coup by Brigadier Sani Abacha, 31 December 1983).

The intertwined relationship between low degrees of autonomy and inequality is encapsulated in the quote above. A low degree of autonomy leads to inefficiency, mismanagement and wastage of public resources, a decline in productive economic activities, unemployment, and a lack of access to basic services - as generally reported in the literature on the Nigerian political economy. All of these generated an increase in relative poverty in Nigeria. Therefore, rather than economically empowering the
people, low degrees of state autonomy in countries such as Nigeria provide institutional foundations for the state to subsidized bureaucratic, political and economic elites at the expense of the poor and thereby increased relative poverty. It is important to note that these institutional configurations in Nigeria and their socio-economic outcomes are in contrast to the highly autonomous countries in the sample of this study.

Compared to most of the countries with low degrees of autonomy, Egypt leans in the other direction, that is, though it has low degree of autonomy it is one of the most egalitarian countries in the sample. A brief narrative of Egyptian political economy will suffice to shed light on the institutional factors. Following the 1952 revolution, decision-making was centralised, with the president and his cabinet being the main players. Writing on decision-making structure relating to industry, Harik (1997: 27) notes, “The general development policy has always been made at the highest level of government in a highly centralised fashion. Reform efforts made in the seventies and later in the eighties…were more formal than real and decision-making power remained authoritarian and centralised”. Centralisation of decision-making at the political level, especially in the president and, to a lesser degree, the cabinet, was so strong that the bureaucracy was considerably marginalised in economic policy-making. In this regard, the Higher Policy Committee (HPC), made of key ministers, played a pivotal role in the determination of economic policy. To draw on Harik (1997: 29), once again,

"[t]he Higher Policy Committee sits as a commissar of last resort over most operations of the public sector, dictating what to charge for products and services, what to produce, how, and by what means. Expansion, imports, and loans all have to be approved by the HPC. Usually, it reserves for itself the critical issues, leaving ordinary matters to line ministries. Also, when there is a difference between ministers, the HPC acts as arbiter.

We need to understand the institutional context of Egypt. The Egyptian case differs from the highly autonomous state of Korea and Singapore where the core economic bureaucracy played a much more prominent role in policy formulation. But Egyptian equity may be explained by something other than its institutional configurations. In particular, Egypt experienced a radical redistribution of wealth, mostly through land reform, in the wake of the 1952 revolution. This initial redistribution accounts for Egypt’s subsequent low inequality."
Following the 1952 socialist revolution, the Egyptian state embarked on income and wealth-sharing mechanisms that included land reforms, which benefited primarily the rural peasants and thereby transformed the peasantry from tenant farmers to small property owners. Land reforms were accompanied by other wealth-sharing policies such as universal and free education and health services, as well as food subsidies. These reforms constituted the foundation for Egyptian egalitarianism in spite of its low degree of autonomy. The Egyptian case conforms to the well known fact in political economy that “Agrarian reforms worthy of the name transform rural society through alterations in property structure and production relations, redistributing power and privilege in favour of the poor” (Little, 2003: 81). According to the World Bank “Theory and empirical evidence suggest that widespread ownership of land …improves equity…” (World Bank, 1993b: 160).

To conclude, this section has demonstrated how variations in states’ capacities expressed in the variations in state autonomy accounted for differing economic performances: in general, those states with low degrees of autonomy suffer from high levels of inequality. While this pattern is consistent with our expectations, it is important to exercise some caution in generalising from these findings, since some of the highly autonomous states share in common an important characteristic - initial land reform (witness Egypt). This may have contributed to their high levels of equality.

7.2.3: Autonomy and E-Growth

Like the previous sections, this section is divided into two parts. Part 1 focuses on the results of the model and bivariate analysis, while Part 2 deals with the descriptive and narrative analyses.

7.2.3.1: Modelling E-Growth on Autonomy

As expected, there is strong and significant correlation between autonomy and E-Growth. The Pearson correlation coefficient for the relationship between autonomy and E-Growth is 0.81, and it is highly significant at the 0.01 level with a P-value of 0.03.
The variable autonomy is used as a continuous explanatory variable in modelling the probability of a country’s E-Growth category (a non-continuous variable). Thus, the logit equations for the model are:

\[
\log_e \left( \frac{\pi_1}{\pi_4} \right) = \alpha + \beta_1 \text{Autonomy},
\]

\[
\log_e \left( \frac{\pi_2}{\pi_4} \right) = \alpha + \beta_2 \text{Autonomy},
\]

\[
\log_e \left( \frac{\pi_3}{\pi_4} \right) = \alpha + \beta_3 \text{Autonomy}.
\]

The results of the analyses presented in Tables 7.3 – 7.6.

**Table 7.3: E-Growth Distribution of Countries Considered (Autonomy)**

<table>
<thead>
<tr>
<th>E-Growth Status</th>
<th>Number</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.25</td>
<td>4</td>
<td>33.3%</td>
</tr>
<tr>
<td>0.50</td>
<td>2</td>
<td>16.7%</td>
</tr>
<tr>
<td>0.75</td>
<td>1</td>
<td>8.3%</td>
</tr>
<tr>
<td>1.00</td>
<td>5</td>
<td>41.7%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>12</td>
<td>100%</td>
</tr>
</tbody>
</table>

A total of twelve countries were considered. Table 7.3 shows the number of countries considered in each E-Growth category.

**Table 7.4: Parameter Estimates (Autonomy)**

<table>
<thead>
<tr>
<th>E-Growth</th>
<th>B</th>
<th>Standard Error</th>
<th>P-Value</th>
<th>Lower 95% Confidence Bound</th>
<th>Upper 95% Confidence Bound</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.25</td>
<td>Interception</td>
<td>17.186</td>
<td>9.835</td>
<td>0.081</td>
<td>7.108E-28</td>
</tr>
<tr>
<td></td>
<td>Autonomy</td>
<td>-29.765</td>
<td>16.708</td>
<td>0.075</td>
<td>2.624E-23</td>
</tr>
<tr>
<td>0.50</td>
<td>Interception</td>
<td>12.832</td>
<td>9.259</td>
<td>0.166</td>
<td>2.192E-14</td>
</tr>
<tr>
<td></td>
<td>Autonomy</td>
<td>-22.173</td>
<td>15.215</td>
<td>0.145</td>
<td>2.192E-14</td>
</tr>
</tbody>
</table>

Table 7.4 gives the results of the fitted logistic regression model. The table shows the fitted parameter estimates for each E-Growth category. E-Growth category 4 is the reference category and therefore is not shown explicitly above. The p-values for E-Growth categories 0.5 and 0.75 are high (greater than 0.1) indicating that they are not well predicted by autonomy. This result is seen clearly in the classification table below – Table 7.5; the model correctly predicts 75% and 80% of E-Growth categories 0.25 and 1 respectively, and fails to make a single correct prediction in the
other categories. The parameter estimates had relatively high standard errors, possibly as a result of the small sample size. Caution should therefore be taken in attempting to generalize based on these results.

Table 7.5: Classification, Model vs. Observed (Autonomy)

<table>
<thead>
<tr>
<th></th>
<th>Predicted</th>
<th>Predicted</th>
<th>Predicted</th>
<th>Predicted</th>
<th>Percentage Correct</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.25</td>
<td>Observed</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>0.50</td>
<td>Observed</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>0.75</td>
<td>Observed</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>1.00</td>
<td>Observed</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>4</td>
</tr>
</tbody>
</table>

Overall Percentage 41.7% 0% 0% 58.3%

Table 7.6: Pseudo $R^2$ (Autonomy)

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cox and Snell</td>
<td>0.604</td>
</tr>
<tr>
<td>Nagelkerke</td>
<td>0.660</td>
</tr>
<tr>
<td>McFadden</td>
<td>0.375</td>
</tr>
</tbody>
</table>

Table 7.6 shows the estimated $R^2$. The pseudo $R^2$ values give an idea of how much variation of our response variable is explained by the model being fitted – they are usually low for this type of regression but values ranging from 0.2 to 0.4 for McFadden’s $R^2$ are usually acceptable. Thus, an acceptable amount of the response variable’s variation, 0.375, is explained by autonomy.

In general, the significance of the autonomy variable as a predictor for the E-Growth category is tested. The drop in $-2\times\log$-likelihood function when moving from a model with only an intercept to a model that includes an intercept and the autonomy variable is compared against a $\chi^2$ distribution. The p-value for this comparison is 0.011 which is significant at the 5% level. We can conclude therefore that autonomy is a significant explanatory variable.

Our estimated logit equations for the fitted model are:

\[
\log_\pi \left( \frac{\pi_1}{\pi_3} \right) = 17.186 - 29.765 \times \text{Autonomy},
\]

\[
\log_\pi \left( \frac{\pi_2}{\pi_3} \right) = 12.832 - 22.173 \times \text{Autonomy},
\]

\[
\log_\pi \left( \frac{\pi_4}{\pi_3} \right) = 3.255 - 7.065 \times \text{Autonomy}.
\]
It should be noted that the coefficient values and their corresponding standard errors are extremely large, which is probably the result of our very small sample size. Thus, we need to be wary of our interpretation of this model. As earlier, we will limit our interpretation to drawing out relationships in this model which can then be substantiated with case study evidence.

Given that a country has an E-Growth category of 1 or 4, the odds of the country being of category 1 (that is low growth and high inequality) rather than category 4 (that is E-Growth) with value of autonomy \((r+0.1)\) is \(e^{29.765\times(0.1)} = 0.05\) times the odds for countries with autonomy \(r\). In other words, when we increase a country’s autonomy by 0.1, it becomes more likely (on the odds scale) that the country will be classified into E-Growth category 4 rather than category 1.

However, perhaps we want to compare categories 1 and 2, 2 and 3, and 3 and 4 with each other, respectively. The estimated logit equation for comparison of categories 1 and 2 is

\[
\log \left( \frac{\pi_2}{\pi_1} \right) = (12.832 - 17.186) + (-22.173 - (-29.765)) \times \text{Autonomy} \\
= -4.354 + 7.592 \times \text{Autonomy}.
\]

Thus, assuming that a country has an E-Growth category of 1 or 2, the odds of the country being of category 2 rather than category 1 with value of Autonomy \((r+0.1)\) is \(e^{7.592\times(0.1)} = 2.14\) times the odds for a country with Autonomy \(r\). This means that when a country’s autonomy is increased by 0.1, it becomes approximately twice as likely (on the odds scale) that the country will be classified into E-Growth category 2 (that is high growth and high inequality) rather than category 1 (that is, low growth and high inequality).

Now, let’s compare categories 2 and 3. The estimated logit equation for this comparison is

\[
\log \left( \frac{\pi_3}{\pi_2} \right) = (3.255 - 12.832) + (-7.065 - (-22.173)) \times \text{Autonomy} \\
= -9.577 + 15.108 \times \text{Autonomy}.
\]

Now given that a country has an E-Growth category of 2 or 3, the odds of the country being of category 3 rather than category 2 with value of Autonomy \((r+0.1)\) is \(e^{15.108\times(0.1)} = 4.53\) times the odds for countries with Autonomy \(r\). This means that when a country’s autonomy is increased by 0.1, it becomes approximately 4.5 times more
likely (on the odds scale) that the country will be classified into E-Growth category 3 (equity with low growth) rather than category 2 (Inequitable growth).

Given that a country has E-Growth categories 3 (low inequality and low growth) or 4 (low inequality and high growth), the odds of the country being of category 4 (equitable growth) rather than category 3 (equity in the context of low growth) with value of Autonomy \((r+0.1)\) is \(e^{(0.1922.173)}\times0.1 = 9.18\) times the odds for countries with Autonomy \(r\) using the same method as was used above.

All the interpretations above indicate the strong influence that a country’s autonomy score can make on its E-Growth categorisation. The larger the autonomy value of a country, the more likely it is that they will achieve E-Growth category 4 (where there is low inequality and high growth). This relationship can be clearly seen in the scatter plot of the estimated probabilities \(\hat{\pi}_1, \hat{\pi}_2, \hat{\pi}_3, \hat{\pi}_4\) against autonomy below.

**Figure 7.3: Scatter Plot of Fitted Probabilities of E-Growth on Autonomy**

The scatter plot above shows clearly that at low levels of autonomy, the respondent is least likely to fall into category 4, and most likely to fall into category 1. The converse is true at high levels of autonomy. A country is least likely to fall into category 1 and most likely to fall into category 4. Figure 7.3 shows a clear negative relationship between autonomy and the likelihood of being in category 1. Likewise there is a clear positive relationship between the probability of falling into category 4 and autonomy.
For categories 2 and 3, the relationship between autonomy and the likelihood is not a direct linear relationship as it is for categories 1 and 4. Between 0.30 and 0.60 degrees of autonomy, the likelihood of being a category 2 country increases as the likelihood of being a category 1 country decreases, possibly showing that the transition from category 1 to 2 as autonomy increases in these low ranges is the dominant driving factor. After 0.60 degrees of autonomy, the probability of being in category 2 starts to decrease with autonomy, possibly reflecting the influence of the transition from category 2 to categories 3 and 4 as the dominant driving factor at these higher degrees of autonomy. However, we should be cautious of this interpretation given that the model does not do so well in predicting categories 2 and 3. It is also clear from the above scatter plot that when a country’s autonomy is in the approximate range of \([0.5; 0.6]\) the fitted probabilities of all E-Growth categories are very similar. However, extreme values of the variable autonomy clearly separate the E-Growth categories.

Finally, the classification table in the output above indicates how well our model would predict the data we have already used in the analyses. It is preferable to use data that were not used in fitting the model. We, however, do not have this luxury with the current sample. The model accurately predicts 58.3\% of our data, which is not too bad. It should be noted that the model is better at predicting for countries with E-Growth categories 1 and 4 than for categories 2 and 3 since there are proportionally many more observations in our data for categories 1 and 4 than for categories 2 and 3.

It should also be mentioned that no goodness of fit testing has been performed for this model as the current sample size is too small for such tests.

7.2.3.2: Descriptive and Narrative Analysis

It should be remembered at this point that the E-Growth scale is composed from countries growth rates and the Gini index for the 1991 – 2001 period. Countries with E-Growth are those with an aggregate economic growth rate of more than 4.2 percent, and a Gini index of lower than 0.44.

It will be noticed from Table 7.7 below that the sample is representative of six sets of countries, namely, those with (a) high degrees of autonomy and E-Growth - Singapore, Korea, Thailand and India; (b) high degrees of autonomy with equity and low growth - Pakistan; (c) high degree of autonomy with Inequitable growth –
Malaysia; (d) low degrees of autonomy and E-Growth - Egypt; (e) low degrees of autonomy with inequitable growth - Chile; and (f) low degrees of autonomy with low economic growth and high inequality (Mexico, Nigeria, Brazil and Kenya – located at the bottom part of the Table 7.7).

**Table 7.7: Autonomy and E-Growth**

<table>
<thead>
<tr>
<th>Country</th>
<th>Autonomy</th>
<th>E-Growth Categories</th>
<th>E-Growth Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore</td>
<td>0.76</td>
<td>4</td>
<td>Growth with equity</td>
</tr>
<tr>
<td>Korea</td>
<td>0.80</td>
<td>4</td>
<td>Growth with equity</td>
</tr>
<tr>
<td>India</td>
<td>0.77</td>
<td>4</td>
<td>Growth with equity</td>
</tr>
<tr>
<td>Egypt</td>
<td>0.54</td>
<td>4</td>
<td>Growth with equity</td>
</tr>
<tr>
<td>Pakistan</td>
<td>0.66</td>
<td>3</td>
<td>Equity with low growth</td>
</tr>
<tr>
<td>Malaysia</td>
<td>0.60</td>
<td>2</td>
<td>Inequitable growth</td>
</tr>
<tr>
<td>Egypt</td>
<td>0.54</td>
<td>4</td>
<td>Growth with equity</td>
</tr>
<tr>
<td>Chile</td>
<td>0.43</td>
<td>2</td>
<td>Inequitable growth</td>
</tr>
<tr>
<td>Mexico</td>
<td>0.58</td>
<td>1</td>
<td>High inequality and low growth</td>
</tr>
<tr>
<td>Brazil</td>
<td>0.45</td>
<td>1</td>
<td>High inequality and low growth</td>
</tr>
<tr>
<td>Nigeria</td>
<td>0.44</td>
<td>1</td>
<td>High inequality and low growth</td>
</tr>
<tr>
<td>Kenya</td>
<td>0.34</td>
<td>1</td>
<td>High inequality and low growth</td>
</tr>
</tbody>
</table>

The organisational characteristics of those states with high growth rates have been discussed. As such they require no further elaboration here. Suffice it to say, however, that Singapore, Korea, India, Malaysia and Thailand all have state institutions marked by meritocracy, career pathing and strong co-ordination of economic management.

Furthermore, it is evidenced from Table 7.7 that the highly autonomous states in the sample, namely Korea, India, Singapore and Thailand, enjoyed very high levels of economic performance – they all achieved both economic growth and equity (with Korea being the most egalitarian country with a Gini index of 0.32).

In the previous sections, I have discussed the relationship between autonomy and economic growth and autonomy and inequality. Suffice it to point out here that the high degrees of autonomy in these countries gave states the freedom to pursue their developmental objectives of growth with equity. Not only did states facilitate an alliance between domestic and foreign firms, they were also instrumental to the penetration of new markets, adoption of new technologies, reduction of risks and cost of investments, and so on.

Consider the Korean case as an example. The Korean state prodded domestic industry towards greater efficiency and productivity, and induced industries to move
into higher value-added production. These choices can be explained in terms of the highly autonomous institutions of state that enabled it to formulate cohesive industrial policies, set unambiguous targets and extract performance targets from capital. These were instrumental to the country’s high growth rate. Henderson (2003) aptly captured the impact of state autonomy on equitable growth in countries such as Korea. He observed that the Korean state established institutions/structures that supported “industries capable, over time, of delivering higher value-added activities that underpin high wages (and that these can be sustained through subsequent movements into innovation-led growth and development)” (Henderson, 2003: 11).

The high degrees of autonomy also allowed states like Korea to promote high egalitarian wealth sharing mechanisms such as investment in human capital as a basis for E-Growth. The *equity-saving-investment-growth nexus* in India, Korea, Singapore, and Thailand would have been near impossible without autonomous institutions of state. Therefore a remarkable feature of these highly autonomous countries is the transformation towards relatively high-paid employment. With better paying jobs came qualitative improvement of the material conditions of people in these countries. This resulted in poverty reduction in these societies.

Unlike the countries discussed above, Brazil, Kenya and Nigeria all have low degrees of state autonomy. Consequently, their economic performance as shown in chapter four is poor – they all have low economic growth rates as well as the highest income inequalities in the sampled countries, with Brazil retaining its status as the most unequal country (in the world), with a Gini index of 0.61.

Although our model is not very good at predicting for E-Growth category 1 countries such as Brazil, our observation about Brazil is consistent with most of the case studies literature on its political economy. In summing up some of the most pertinent case study works, Evans (1995) describes the difficulties of the Brazilian state in trying to institute a meritocratic recruitment. Compared to some of the developmental states, like Korea and Singapore, political appointees by the president, in their thousands, populated the bureaucracy in Brazil. In such an institutional context, to a greater degree, there was an absence of career paths for civil servants. Evans poignantly captured this point as follows: “Instead of being tuned to long-term gains via promotions based on organisationally relevant performance, Brazilian bureaucrats face staccato careers, punctuated by the rhythms of changing political leadership and periodic spawning of new organisations” (1992: 167). Unable to
establish bureaucratic-wide meritocratic recruitment, the state created “pockets of efficiency” or what Cheng et al. (1999: 100) would call “developmental enclaves”, where meritocratic recruitment and predictable career paths prevailed, ensuring a degree of corporate coherency. These latter factors were supposed to have made the Brazilian state more autonomous and efficient than states like Nigeria, according to the case study literature. In this respect, my finding is at variance with Evans’ and similar narratives of the Brazilian state’s institutional structures and its economic performance. Just like Nigeria, the Brazilian state has a low degree of autonomy with a pathetic economic growth record, which is graphically captured in Figure 7.1.

What is remarkable in the Brazilian case is that the autonomy deficit accounts for its inability to forge a cohesive developmental agenda and be able to discipline capital and labour to meet its set objectives. In fact, an incoherent economic bureaucracy incapacitated the Brazilian state’s ability to set clear standards and extract performance from the private sector. Its low economic growth rate was partly a result of its lack of cohesiveness, which, among other things, militated against coordinating industrial development as a central pillar for economic growth.

Unlike Brazil, India and Malaysia, Nigeria inherited from British colonialism a poor quality bureaucracy that was anything but that which approximates the Weberian ideal type (Kohli, 2004). But like Brazil, Nigeria, appointments to the civil service in the 1970 - 1990 period were purely on the basis of “godfatherism”, that is political patronage. Getting a job in the Nigerian civil service depended on whom you know in the higher echelon of the bureaucracy, the political class or senior military ranks. As in Brazil, there has been a high turnover of senior Nigerian civil servants, almost every four or five years. An illustration of this relates to permanent secretaries – the highest rank in the Nigerian civil service. Inherited from the British colonialist, and as the name implies, permanent secretaries were supposed to be permanent appointments with security of tenure. But with successive military regimes, beginning with the General Murtala Mohammed/Olusegun Obasanjo’s regime in the mid 1970s, the position of permanent secretary become politicized – a political appointment – where the secretary’s tenure was tied to the military regimes that appointed them (with this came the change of designation from permanent secretary to director-general). In fact, the reform of the civil service that was introduced in the 1970s led to the destruction of the civil service tradition of security of tenure. This was achieved by the retirement or dismissal of many whom had not attained retirement age. When
you consider that between 1970 and 1990, there were about three successful military
coups, it tells us that the rapid turnover rate of senior bureaucrats in Nigeria
approximate that of Brazil.

This situation is compounded by the corruption of the quota system – the so-
called federal character - which implies that appointments to the civil service should
be based on quotas in order to ensure fair representation of all states at the national
level. The result is that qualified and skilled people are bypassed in appointments in
the name of “federal character”. This was one of the main grievances of Major Gideon
Orkar’s led military coup in the 1980s, which felt that qualified citizens from the
South were being bypassed in favour of less qualified citizens from the North.
Whatever the merits or demerits of the coup, the corruption of the federal character
principle, which was supposed to ensure balanced representation among the
constituent parts of Nigeria, is a significant problem in the Nigerian political economy
in the period under consideration. There was also a high degree of political
interference in the work of civil servants. Thus, unlike Korea and Singapore, for
example, where the economic bureaucracy played a central role in social and
economic policies, in Nigeria major social and economic policies were “actually
determined by politicians and under military regimes by military leaders, and they
ensured that civil servants implemented such policies. Even at the implementation
stage, there were still interference from politicians and military rulers” (Adamolekun,
1988: 85, emphasis mine). Among other things, these institutional factors accounted
for the low degree of state autonomy in Nigeria, as well as its sub-optimal economic
growth performance. In fact, because economic bureaucrats in Nigeria are well aware
that their knowledge and talent are discounted, at least from the 1980s, in the
determination of economic policy; they in turn did not generate the requisite
information that could have put the country on a high growth path. In addition, senior
economic bureaucrats in Nigeria have also been more prone to particularistic interests.
They were conscious of the fact that their positions were not secure and that they
could be fired if they took decisions which did not favour some politically connected
individuals. Consequently they were hamstrung from making policy decisions that
could lead to national economic development but which were not favourable to the
short-run benefit of individuals in both the private and public sectors.

53 Successive constitutions in Nigeria have made provisions for the Federal Character.
Egypt is the only country with low degree of autonomy that did not meet our theoretical expectations. It is can be observed from Table 7.7 that Egypt has a low degree of autonomy, yet it nevertheless scored well on the E-Growth variable. As described in chapter four, the economic growth rate of Egypt for the period 1991 - 2001 was 4.2 percent, and it had a Gini index of 0.34. Indeed, Egypt is the only country in the sample with a low degree of state autonomy that achieved E-Growth. As I have noted above, its growth rate status can be explained by factors other than institutional configurations. These included remittance of its workers from overseas (mostly oil rich Arab countries) and revenues from the Suez Canal. As described above, Egypt’s low level of inequality is a product of initial egalitarian wealth distribution, including agrarian reforms that fundamentally altered the property relations in favour of the poor.

7. 3: Conclusion

The analysis above lends itself to a number of conclusions. Autonomy is statistically significant in explaining economic growth, equity and equitable growth. In line with the theoretical premise of this study, a majority of countries in the sample with high degrees of autonomy experienced high economic growth rates in the period covered in this study. Similarly, most of the highly autonomous countries are highly equitable societies (although, as suggested above, Pakistan’s equity status may be due to non-institutional factors).

By the same token, this chapter constitutes an important link to the next - chapter 8 - which will focus on the relationship between our second independent variable, synergy and the same dependent variables (economic growth, inequality and E-Growth). The statistical analysis will be complemented by comparative narrative analysis to throw some light on the cases in the sample.
Chapter Eight

State-Society Synergy and Equitable Growth

8.0: Introduction

This chapter focuses on the relationship between synergy and economic growth, synergy and equity, and synergy and E-Growth. The aim is to discover the effects of synergy on these dependent variables.

This focus is important because of the central proposition of this study that synergy is one of the major sources of the Synergistic Autonomous State’s (SAS) capacity and that variations in state capacity account for differences in economic performance. Closely related to this is the proposition that the participation of organised interests in economic policy-making, through institutionalised Consultative Mechanisms (CMs) would enable a country to achieve optimal economic performance, namely equity and high economic growth. This argument is premised on the realisation that CMs serve as structures for information sharing, feedback and joint planning among national stakeholders on macroeconomic, industrial, sectoral, trade policies, development, and even Research and Development (R&D). These structures would help to generate trust among participating partners and are likely to provide credibility to policies and their outcomes. These types of interactions tend to enable a SAS to successfully transform its economy and adapt to rapidly changing global environment. CMs are likely to provide citizens’ organisations with real choices over policy, and make their views carry weight in determining the eventual policy outcome. This might remove uncertainty about government policy direction and, by so doing, increase the confidence of the investment community and other social actors. Also, CMs are more likely than not to enable domestic economic actors, especially government, business and organised labour, to share information that will enhance the capacity of the national economy to adapt to the rapid changes engendered by globalisation. In particular, through such a consensus-building approach to economic adjustment, national actors are likely to balance the need to be globally competitive with the need to ensure equitable development, which, among other things, entails the improvement of the living standards of citizens.
This chapter is divided into three sections. The first section covers the relationship between synergy and economic growth, while the second section deals with the relationship between synergy and inequality. The third section focuses on the relationship between synergy and shared growth.

8.1: Synergy and Economic Growth

This section is divided into two parts. Part one presents the results of the model and analyses, while the second deals with the descriptive and narrative analyses.

8.1.1: Modelling Growth on Synergy

In conformity with the literature on participatory democracy and the likely positive impact of organised interests’ participation in economic policy-making, there is a strong and positive correlation between synergy and economic growth. The Pearson correlation coefficient between the variables is 0.562, and it is significant at the 10 percent level, with a p-value of 0.057. The relationship between synergy and economic growth is graphically depicted in Figure 8.1.

The relationship is vividly captured by a simple linear regression. Based on our theoretical specification, the following regression equation is derived:

\[
\text{% change in economic growth} = \alpha + \beta \text{Synergy} + \epsilon_t
\]

From the estimated regression, the following equation is obtained:

\[
\text{% change on economic growth} = 2.292 + 4.590 (\text{Synergy})
\]

\[
(3.095) \quad (2.151)
\]

\[R^2 = 0.32\]

The estimated t-ratios are in parentheses. The coefficient is significant at the 10% level. The $R^2$ value is 0.316, which is a good fit. This means that our equation explains almost 32% of the variation in the sample data.
8.1.2: Descriptive and Narrative Analyses

The countries in Figure 8.1 can be aggregated into three subgroups, namely those with (a) high degrees of synergy with high economic growth – Singapore, Korea and Thailand, (b) low degrees of synergy with high growth rate record – Malaysia, Chile, Egypt and India, and (c) low degrees of synergy and low economic growth – Mexico, Nigeria, Brazil, Pakistan and Kenya. Again, there is no country that is highly synergistic with low economic growth. These findings confirm once again that countries with strong synergistic state-society are able to foster high economic growth rates.

Figure 8.1: Synergy and Growth

It is useful to discuss the close association between the synergy and growth in the most synergistic countries. To do this, the analysis in this section will focus on three highly synergistic countries, namely; Korea, Singapore and Thailand to show how high degrees of synergy contributed to high economic growth rates. These will be compared to three countries, namely, Kenya, Nigeria and Brazil, with low degrees of synergy and low economic growth rates. Lastly, the analysis will also focused on Chile because though it shared similar institutional characteristics with Nigeria and Brazil, it still recorded a high economic growth rate.
Much has been written in the case studies’ literature about the high degrees, in varying proportions, of the connectedness between the state and encompassing societal interests in Korea, Singapore and Thailand. These countries had a reputation for the institutionalisation of dialogue between the state and societal actors with likely positive spin-offs on economic growth. This reputation has been more rooted in Korea and Singapore than in Thailand, where institutionalised state-society relations began in 1981 with the establishment of the Joint Public-Private Consultative Committee (JPPCC). The fundamental question, therefore, is how did the high degrees of synergy in these countries contribute to high economic growth? I will show in the analysis that follows that high degrees of state-society synergies were instrumental to the high growth rate of countries such as Korea, Singapore and Thailand in a variety of ways.

To begin with, because of these countries’ institutionalised relationships between the state and its socio-economic partners, especially with organised business, policies were made purely on economic grounds. High degrees of synergy contributed to transparency in economic policy-making in these countries. As a result, economic policies and their outcomes were more often than not subjected to greater public scrutiny and also resulted in greater accountability of the bureaucratic elite to both the political elite and the public. As Weiss rightly pointed out, this reduces “the risks of corruption or political favouritism” (Weiss, 1998: 59). They were also avenues for rent-sharing between competing interests in the private sector or between the private sector and trade unions. With respect to the former, the Korean Export Promotion Council is illustrative. Through monthly meetings, which were presided over by the president, export targets were set for various sectors. When problems that could militate against meeting those targets were identified, recommendations were made at the meetings and subsequently implemented. In addition, criteria for access to export subsidies and production licences were transparently defined, and in a coordinated manner. This minimised the risks of favouritism in a way that would have undermined the Korean objective of transforming the structural bases of its industries as the foundation for its high economic growth rate. With respect to the rents’ distribution between business and trade unions, Singapore’s National Wage Commission (NWC) is a prime example. It facilitated joint decision-making on economic policies and contributed to a situation where rents were allocated transparently and objectively between business (profits) and labour (wages). In short, wage increases were tied to
productivity. One of the effects of this was policy stability. In addition, the state-society relations provided legitimacy to public policy. Both of these were necessary conditions for investment.

It is clear from these examples that the state in Korea, Singapore and Thailand has managed to minimize what the public choice theorists have always feared: that state-society relations would result in elite capture. As we have seen in the case of our most synergistic countries, they were able to overcome this threat, precisely because the institutionalisation of state-society relations ensured that the states in these countries vigorously pursued their developmental agenda without being derailed by particularistic interests. In fact, the establishment of the JPPCC in Thailand may have minimised the military-bureaucrats clientelism that has characterised its political economic history from the 1930s to the early 1980s. Unlike countries with lower degrees of synergy, bureaucracy capture was not an endemic problem in Thailand (MacIntyre, 1994).

To the extent that state-business relations in these countries were with national, economy-wide relations, organised business was able to mobilize support for the state-defined developmental objectives of industrial transformation, growth and equity. This has generally been acknowledged in numerous case studies. For example, Campos and Root (1996) have observed that “(t)he East Asian leaders and those of Thailand secured the support of economic elites without compromising sound economic policy through mechanisms designed to facilitate consultation, cooperation, and coordination” (Campos and Root, 1996: 77, emphasis mine).

These countries minimised the risks of economic policies being changed arbitrarily and erratically to meet the whims and caprices of both the political and economic bureaucratic elites – it partly led to predictability of economic policies in the highly synergistic countries in this study. These tended to enhance the credibility of the governments and economic policies, which in turn encouraged both local and foreign investors to make long-term fixed investment in these countries and were instrumental in bringing about their high economic growth rates. Furthermore, both the political and bureaucratic elites were cognizant of the fact that the rules of the game arrived at in the various CMs could not be arbitrarily changed without adverse economic consequences that would have in turn undermined their own legitimacy – this is more so as their legitimacy was predicated on E-Growth. From this analysis, it can be concluded that the economic success stories of Korea, Singapore and Thailand
cannot be written without giving the high degrees of synergy a prime place. Cognizant of this, two astute observers of Asian political economy, Campos and Root (1996: 78), note “In these countries,… deliberation councils, have been active and often critical in the formulation of policies, rules, and regulations that eventually govern a sector, industry, or in some cases the macroeconomy.”

Another point worthy of note is that the regular consultations and joint decision-making in Korea, Singapore and Thailand resulted in joint investments by the state and the private sector on R&D; this was one of the contributory factors for low investment costs for the latter. In addition, information exchanges relating to market opportunities also reduced the cost and risks for exporters. Not surprising, as previously noted, these countries have become powerful players and competitors in the global markets.

Significantly, high degrees of synergy in Korea, Singapore and Thailand, also ensured the joint planning and coordination of investment decisions between the state and the private sector. Among other things, through extensive exchanges of information, the governments in these countries were able to adapt policies to meet rapidly changes circumstances in the global economy, as well as to selectively intervene to promote new sectors. Central to this was a changing production method due to the emergence and dominance of information technology. The high degree of interconnectedness between the state and organised business provided the economic bureaucracies in countries such as Korea “with a vital mechanism for acquiring adequate information and for coordination of agreement with the private sector over the content and implementation of policy” (Weiss, 1998: 55). The point made by Okimoto with respect to state-society synergy in Japan can be extended to the highly synergistic countries in this study: high degrees of state-society synergy characterised by regular interactions and exchanges of information between the state and organised business were instrumental to their successful adoption of new technologies and movement from sunset to sunrise industries as key drivers of their spectacular economic achievements. One of the consequences of their high degrees of synergy is that both the state and the private sector were able to determine where technology is headed and where the most promising commercial opportunities lie (Okimoto, cited by Weiss, 1998). In particular, the intensive and extensive interactions between the state and business in Korea, Singapore and Thailand facilitated joint investment in Research and Development (R&D), including the setting of state-linked Research
Institutes. By so doing, governments in these countries reduced the risks and costs of investments. Consequently, within two decades, these countries transformed their economies from producing the labour-intensive and lowest stream products of the new technology to capital intensive and medium to high stream products.

The Thai case is illustrative of the phenomenal structural shifts in the economies of the most synergistic countries. As reported by Chalongphob (1997, cited Doner and Ramsay, 2003: 127), between 1985 and 1993, labour-intensive goods (e.g., garments, gems and shoes) dominated manufacturing exports. However, by 1995, medium-high technology products (computer parts, electronics and electrical appliances) grew rapidly, so that the export value of these products was 40 percent higher than the labour intensive products. In addition, high degrees of synergy in Korea, Singapore and Thailand were pivotal to their ability to capture new markets. The Korean Export Promotion Council, made up of representatives of government and business, is a prime example of how high degrees of synergy contributed to the capacity of the highly synergistic states to capture new markets in the global economy and share risks and costs among firms, and between the public and private sectors. Consequently, they have become competitive in the new economy dominated by the new information technology.

This analysis of the highly synergistic countries has shown that state-society synergy, rather than coercion or repression, is one important explanation for their remarkable economic growth rates. Through cooperation, openness and consensus-based economic policy-making, Korea, Singapore and Thailand have transformed the structural bases of their economies, upgraded their production techniques, adopted new technologies, created a climate conducive for investment, captured new markets, became globally competitive and consequently generated rapid and high growth rates.

Furthermore, high degrees of synergy were also a mechanism for ensuring accountability of the bureaucratic elites to the political elite and the social partners in the consultative process, as well as accountability of the social partners to the state. In sum, while high degrees of synergy constrained the powers of the state from acting arbitrarily, it also enhanced state capacity through the pooling of all national resources to achieve its set goal. This, in turn, helped to secure the regime’s survival as well as the career advancement of the economic bureaucrats. Other scholars have reached a similar conclusion. As Campos and Root (1996: 175 – 176) surmised:
Regimes in East Asia’s high performers recognised the importance of courting the business community. By giving bargaining power to constituent groups in exchange for information needed to formulate and implement rational economic policies, East Asian rulers overcome private sector reservations about their intentions. Communication mechanisms such as deliberation councils help nurture investor confidence in the ability of the government to restrain itself from highly discretionary and arbitrary policy making… Firms became more willing to invest in productive activities. Growth ensued.

The developmental experiences of countries, such as Kenya, with low degrees or even the absence of synergy, stand in sharp contrast to the highly synergistic countries. As I have noted in chapter seven, the main policy actors in Kenya were the ethnically-driven bureaucratic elites who used the state for personal aggrandizements. Socio-economic stakeholders, including the Kenyan Chamber of Commerce, were frozen out of the economic policy process. Trade unions, for their part, were repressed by the Arap Moi regime. To illustrate the marginalization of economic actors from the policy process and its negative effects on economic growth, the following example will suffice.

Kenya was the most developed among the countries that made up the East Africa common market. The latter (whose other members were Tanzania and Uganda) not only created a larger market for Kenyan goods and services but also provided institutional and infrastructural bases that facilitated greater trade and investment in Kenya and among the member states. In fact, the potential benefits that could be derived from Kenya’s membership in the common market were the main factors that attracted some investors to the country. It is in light of this that both domestic and foreign capitals encouraged the Kenyan government to strengthen the common market. But to the chagrin of the business community, including the Kenyan Chamber of Commerce, the state ignored this advice. Instead, through a number of actions, including the breaking up of East African Airways, Nairobi was instrumental to the collapse of the East African Common Market in 1977. This had negative consequences for the Kenyan economy. At one level, the markets for Kenyan goods and services shrank. Kenyan industries were denied access to services and infrastructural facilities that membership of the common market engendered. The consequence was that “most Kenyan manufacturing firms began to operate at half or less capacity… Kenya was rendered unattractive to large-scale foreign investments whose interest in the area was the larger and unrestricted East common market” (Himbara, 1994: 74). At another level, with “the demise of the East Africa-wide
supranational organisations, particularly those responsible for duty and tax collections, such as the East African Customs and Exercise and the East African Income Tax Collection” (Himbara, 1994:75), the capacity of the Kenyan state to collect taxes was diminished. In the context of already deteriorating state institutions that could hardly provide basic economic infrastructures by the 1980s, companies began to provide these services to ensure their continued operation. By implication, the diminished capacity of the Kenyan state imposed additional cost on firms. All of these issues, which emanated from the demise of the East African common market, forced some companies to disinvest from the Kenyan economy. It goes without saying that reduced industrial production and low investment ultimately lead to low growth, and the Kenyan case was no exception.

Another point worth emphasizing with respect to the negative effects of lack of interconnectedness between the state and capital in Kenya was that both the state and the entrepreneurial class worked at cross-purposes. Unlike highly synergistic states such as Korea, that have successfully nurtured a domestic entrepreneurial class, the Kenyan state was unable to create and nurture an indigenous or national bourgeoisie in spite of apparent efforts in this direction. In fact, not only did its Africanisation of the private sector fail, the success of the Kenyan Indian business class owes much to their own business acumen rather than to state actions to promote and nurture them. The state’s actions towards Kenyan Indian businesses in particular and businesses in general have been described by Himbara (1994) as “counterproductive, hindering the deepening of their operations through unconducive policies, markets and national infrastructure” (p. 88). This was partly because of the failure of the state’s Africanisation project, which reserved certain economic activities for black Africans. Kenyan Indians and foreign investors, including those who had already invested in such businesses, were forced to leave the country or move to other sectors. Consequently, some non-African black investors closed their operations and migrated from Kenya. Such disinvestment further contributed to Kenya’s low growth rate, as reported in this study.

54 The Africanisation project was unlike the affirmative action policy in Malaysia, because unlike the latter the Kenyan state reserved certain sectors for Africans. In the case of Malaysia, the state did not preclude the Chinese from any economic sector. Rather, it reserved set quotas for the ethnic Malays in all economic sectors and activities.
It is clear from this analysis that the absence of synergy in Kenya was one of the reasons why the government was not responsive to the needs of the private sector, as well as being able to take actions that subsequently undermined the growth of the economy.

At this juncture it is important to undertake a narrative analysis of the institutional dynamics to highlight the Brazilian status observed in the graph. Like most of its Latin American neighbours, Brazil has a long history of state corporatism – regulation, compulsory membership and financing trade unions and business associations that were granted representational monopolies and institutionalised access to policy-making. These are important features for understanding the background to state-society synergy in the 1970 – 1990 period. In other words, state-sponsored business associations and trade unions have characterised Brazil for most of the period prior to the 1970s, resulting in the emergence of powerful trade unions and business associations at an early stage. But in subsequent years and decades, especially after the 1970s, Brazil has had the misfortune of not having strong encompassing business associations. This was coupled with the repression of trade unions.

In one of the most eloquent testimonies on state-business relations in Latin America, Schneider (2004) elaborates on the factors that accounted for this weakness and the consequent low degree of state-society synergy in Brazil. Government attitudes towards business associations included at one point, favouring sectoral business associations as partners in policy-making. These and other factors acted as disincentives for capital to form national economy-wide, encompassing associations. As an illustration, “even when business formed … economy-wide co-ordinating bodies, state actors never granted them privilege access or other benefits” (Schneider, 2004: 96). The result was a lack of interest for captains of industry to invest time and resources in building economy-wide encompassing associations.

Another point to untangle in this puzzle is that business associations were relatively fragmented and also tended to be unrepresentative, a view shared by government, business and other non-state actors. This created further excuses for the state to exclude organised business from consultative mechanisms. Added to this, Schneider quoted former President Fernando Cardoso, as describing the predominance of “bureaucratic rings”, that is, the personalization of policy networks in subsequent years – all of which contributed to the low degree of state-society
synergy in Brazil. As illustrations, two important examples will suffice for now. In the Conselho Monetario Nacional (CMN), the central forum for economic planning under the Delfim Netto’s government, organised business was not represented. In the same vein, during the reign of President Ernesto Geisel, the Conselho de Desenvolvimento Economico (CDE), the main economic coordinating agency - did not have representatives of organised business among its members. In both councils, businesspeople that participated were appointed in their personal capacities rather than representatives of organised interests by the respective presidents. This marginalisation of organised business and the predominance of ‘ad-hocism’ and personalisation of relations spread to other areas of the economic policy-making domain. By implication, the institutionalisation of state-society synergy of earlier periods came to be replaced by ad-hoc and personalised relations in the period covered by this study, which, as Schneider (1983) points out, “makes them undependable from the point of view of industrialists and arbitrary in terms of their outcomes” (cited in Evans, 1995: 63). Weyland (1998: 85) succinctly summed up the situation thus:

The organisational fragmentation of Brazilian business has dispersed the political access and limited influence on public policymaking of the private sector. Through narrow links to state agencies and officials, entrepreneurs have continued to obtain special favors, but they have failed to push for overarching goals. Unable to design a comprehensive project with broad appeal or make demands in a unified fashion, business associations have often acted at cross-purposes from each other. Rivalries among them and the absence of an encompassing peak organisation have dispersed business power. Certainly, basic capitalist interests have not been endangered, and important firms have succeeded in obtaining many particularistic favors. But the private sector has had limited influence on broad policy decisions, especially the reorientation of Brazil’s development...The main beneficiaries of the private sector’s limited clout have not been labor and other lower classes, which have suffered from similar organisational fragmentation, but state agencies and Brazil’s irresponsible “political class”, who have enjoyed great latitude in decision making and have frequently been able to use their unaccountable power for personal enrichment.

The internal weaknesses of organised interests in Brazil, as well as the absence of a joint project of national transformation, made it difficult for the state to forge synergistic relations with other social actors. Such a policy climate and institutional configuration are generally known to be unconducive to long-term investment and

55 The CMN and CDE had two and three non-government members respectively.

56 The denial of formal access to policy making to organised business, however, had one unintended consequence: it helped to swell the ranks of opposition to military rule.
global competitiveness, which is manifested in the country’s low rate of economic growth. It is therefore not by accident that Brazil had a poor economic growth rate of 2.6 percent in the 1991 – 2001 period - the second lowest growth rate in the sample of this study.

It is important at this juncture to throw some light on state-society synergy in Nigeria. Much of the existing literature on the Nigerian political economy points to the fact that state-society relations for the period under review were predominantly between the state and business associations, as trade unions and broader civil society were frozen out of the economic policy-making domain. As Kraus (2002: 412) points out, since the 1970s, Nigeria has a history of regular consultations between government and business, especially the Nigerian Association of Chambers of Commerce, Industry, Manufacturing and Agriculture (NACCIMA) and the Manufacturing Association of Nigeria (MAN). There was also a shared ideology (a joint project) of indigenisation of the Nigerian economy to ensure greater participation of Nigerians in an economy that was dominated by foreign interests. But this should not be misconstrued to mean the institutionalisation of business associations’ participation in economic policy. Kraus attests to this phenomenon when he noted that following successive military coups in 1983 and 1985, “there were major disruptions in the continuity of meetings” (p. 416). In addition, to this, to quote Kraus once again, “the Nigerian state…often ignores business associations’ proposals” (p. 412).

This attitude was coupled with the disdain that bureaucratic elites had for the country’s incipient businesspeople. When you compare the regularity of which organised business and government held meetings in Nigeria to countries like Korea and Thailand, one sees the degree to which state-society synergy was not institutionalised in Nigeria. In the latter, meetings with key ministers, both under civilian and military regimes, were quarterly (Kraus, 2002). This hardly compares favourably with the monthly meetings of the Joint Public-Private Consultative Committee (JPPCC) in Thailand (Laothamatas, 1988).

57 In the 1950s and early 1960s (immediately after political independence from the British colonialists) “businessmen were widely regarded as corrupt and highly dependent upon state favours, which they continue to do even until today. They were not taken into confidence over policy issues” (Kraus, 2002: 400, emphasis mine).
Erratic state-business relations and the minimal impact of business associations on public policy seems to be more evident in the manner in which the General Ibrahim Babangida regime adopted a structural adjustment programme (SAP). The regime undertook a national consultation of all stakeholders, business, trade unions, etc on whether or not Nigeria should adopt a SAP. The overwhelming response of all Nigerians, as contained in the final report of the consultation, was a total rejection of SAP. But to the chagrin of Nigerians, the regime went ahead to adopt a SAP in the mid-1980s, which it termed ‘home-grown’. Thus, as far as the military government was concerned, Nigerians could have their say but the regime would have its way. The imposition of SAP (which subsequently framed the context for micro and sectoral economic policies) is a vivid illustration of the low degree of influence of societal actors, including business associations, on Nigerian economic policy. In consequence, even when business had, on occasion, won some concessions around policy issues, by and large, their influence remained minimal, to the extent of being constrained to operate within the confines of the government’s macroeconomic framework. The significance of the foregoing is that by the 1980s, there was hardly any shared project between the Nigerian state and business, as evident in the conflicting positions by organised business around the value of the Nigerian currency, the naira, as well as foreign exchange control. Lacking synergistic state-society relations, the Nigerian state has been unable to foster and build consensus around a long-term accumulation model. The result is that between 1991 and 2001, its fledging industrial sector suffered virtual paralysis, and its agricultural sector remained untransformed, given the continued dominance of subsistence farming. The low degree of synergy is one of the contributing factors to the poor growth performance of the Nigerian economy. In fact the state has not only been unable to forge an institutionalised relationship with business, but it has also displayed a corresponding inability to transform the Nigerian economy. Unable to forge and build consensus around a developmental agenda, individuals in the private sector penetrated the state to extract rents (which were either stored in European banks or channelled into wasteful consumption), a development which, in the long run, has not been conducive to sustained economic growth.

58 While MAN was opposed to the devaluation of the naira, a section of business favoured it. Government policy on this and other issues was erratic and led to changes of policy from one day to the other.
The development experiences of these counties, Brazil, Kenya and Nigeria, can be contrasted against that of Chile, which shared similar institutional traits (i.e., a low degree of synergy). Despite this, Chile recorded one of the highest rates of economic growth in the period under consideration in this study. In Chile, organised business was excluded from the policy loop, thereby creating uncertainty in their minds. Consequently, Chile experienced low levels of investment and subsequently the collapse of the economy in 1982, a year in which the economy declined by ten percent. This, however, forced the state to adopt a neo-liberal economic policy in the same year, which began to bear positive fruits as from 1984 when the economy grew on average at about seven percent between 1984 and 2001 (World Bank, WDI Online, 2005). Therefore as noted in chapter 7, Chile’s economic growth rate is mostly due to non-institutional factors.

It can be concluded from the above analysis that synergy has a positive and significant effect on economic growth. In line with the theoretical assumption of this study, the highly synergistic countries achieved high rates of economic growth, while most countries with low degrees synergy are marked by low growth rates.

8. 2: Synergy and Inequality

This section presents the results of the model and analyses.

8. 2. 1: Modelling Inequality on Synergy

There is a negative but weak correlation between the degree of synergy and equity, the relationship has an estimated Pearson correlation coefficient of –0.019 and it is insignificant with a p-value 0.953.
This negative but insignificant relationship between synergy and inequality is discernible in the trend line and dispersion of cases as shown in Figure 8.2.

**Figure 8.2: Synergy and Inequality**

The negative relationship is vividly captured by a simple linear regression. Based on our theoretical specification, the following regression equation is derived:

$$\text{Inequality} = a - \beta \text{Synergy} + \epsilon_t$$

From the estimated regression, the following equation is obtained:

$$\text{Inequality} = 0.452 - 0.008 \text{ (Synergy)}$$

(7.618) \hspace{1cm} (.060)

R=.000

The estimated t-statistics are in parenthesis. The coefficient is insignificant. The R$^2$ is .000, which is a very poor fit indeed. This means that none of the variations in inequality is explained by the model (regression). This poor finding may, however, be associated with the paucity of data or data errors. Besides, the main explanatory variable, synergy is insignificant as exhibited by a t-ratio of –0.060. I will therefore not proceed with further analysis.
It is, however, important to note that this finding may surprise activists and policy-makers who expect to find a strong and negative correlation between synergy and inequality. Contrary to much of the case study literature and the received wisdom in policy and civil society activists’ circles (especially since the 1980s) about the perceived strong and positive social and economic benefits of interest groups participation in economic policy-making (and public policy in general), this study suggests that the positive effects of high degrees of synergy on equity are quite weak – indeed insignificant. Recall that the main justification for participation has been based on equity grounds. One plausible reason for the contradictory results is that most of the existing studies have used inappropriate indicators, such as “voice, openness and transparency” (Stiglitz, 2002: 164) to measure participation. These indicators are premised on the liberal conception of democracy. On account of their narrow analytical boundaries, these analyses failed to focus on the organisational dimension of participation that is so crucial for consensus building about rational economic policies. In this study, we can tentatively conclude that organised interests’ participation in economic policy-making is not necessarily development-enhancing: it does not necessarily lead to egalitarianism nor does it appear to have co-existed with egalitarianism in the past. The results also seem to contradict much of what is known from the corporatism literature, even if they use various indirect indicators and have mainly been applied to developed countries (which are outside the frame of this study).

However, it needs to be noted that one possible reason for the lack of association between synergy and equity is that CSOs, except labour, are excluded from economic policy-making in the countries sampled. Had they been included, perhaps the results may have been different.

With the above qualifications in mind, the graph shows the following groups of countries, namely: those that are (a) highly synergistic with egalitarianism – Korea, Singapore and Thailand, (b) lowly synergistic with equity – India and Pakistan, (c) completely without synergy with low inequality – Egypt, (d) lowly synergistic with high inequality – Brazil, Chile, Nigeria, Mexico and Malaysia (they are all congregated above the trend line), and (e) completely without synergy with high inequality – Kenya. However, little meaning should be read into the placement of countries, given the weak correlation between synergy and inequality.
8.3: Synergy and E-Growth

This section is divided into two parts. Part one presents the results of the model and analyses. However, unlike in the two preceding sections based on simple regression, the modelling in this part will be based on a logit model. The second part deals with the descriptive and narrative analyses.

8.3.1 Modelling E-Growth on Synergy

Although not significant, there is a weak correlation between synergy and E-Growth. The Pearson correlation coefficient between these variables is 0.346, with a p-value of 0.271. This weak correlation between these variables is primarily because of the weak association between synergy and inequality (as described in the preceding section).

The synergy variable is now used as a continuous explanatory variable in modelling the probability of a country’s E-Growth category. The logit equations for the model are:

\[
\log \left( \frac{\pi_1}{\pi_4} \right) = \alpha_1 + \beta_1 \times \text{Synergy},
\]

\[
\log \left( \frac{\pi_2}{\pi_4} \right) = \alpha_2 + \beta_2 \times \text{Synergy},
\]

\[
\log \left( \frac{\pi_3}{\pi_4} \right) = \alpha_3 + \beta_3 \times \text{Synergy}.
\]

The results of the analyses indicate clearly that synergy is not a significant predictor of E-Growth – the p-value to test significance is 0.674, which is very large.
As shown in Table 8.1, the p-values for E-Growth categories 0.25 and 0.50 are high (greater than 0.1) indicating that they are not well predicted by synergy. This result is also seen clearly in the classification table below – Table 8.2; the model correctly predicts 80% of E-Growth category 1.00 but does very poorly with all the others. The parameter estimates had relatively high standard errors, possibly as a result of the small sample size. Caution should therefore be taken in attempting to generalize from these results.

<table>
<thead>
<tr>
<th>E-Growth</th>
<th>B</th>
<th>Standard Error</th>
<th>P-Value</th>
<th>Lower 95% Confidence Bound</th>
<th>Upper 95% Confidence Bound</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.25</td>
<td>Intercept 1.347</td>
<td>1.573</td>
<td>0.392</td>
<td>6.626E-06</td>
<td>25.728</td>
</tr>
<tr>
<td></td>
<td>Synergy    -4.338</td>
<td>3.871</td>
<td>1.256</td>
<td></td>
<td></td>
</tr>
<tr>
<td>0.50</td>
<td>Intercept 0.047</td>
<td>1.911</td>
<td>0.981</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Synergy    -2.414</td>
<td>4.447</td>
<td>0.589</td>
<td>1.410E-05</td>
<td>567.798</td>
</tr>
<tr>
<td>0.75</td>
<td>Intercept -1.109</td>
<td>2.610</td>
<td>0.180</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Synergy    -1.189</td>
<td>5.811</td>
<td>0.042</td>
<td>3.443E-06</td>
<td>26914.075</td>
</tr>
</tbody>
</table>

It is also evident from the pseudo R\(^2\) values in Table 8.3 that very little of the variation in E-Growth is explained by the inclusion of synergy as a predictor variable. As a result, I do not see any utility in proceeding further with interpretations of the model. Still, some utility may be gained by looking at the particular nature of the relation in a handful of cases.

<table>
<thead>
<tr>
<th>0.25 Predicted</th>
<th>0.50 Predicted</th>
<th>0.75 Predicted</th>
<th>1.00 Predicted</th>
<th>Percentage Correct</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.25 Observed</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>0.50 Observed</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>0.75 Observed</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>1.00 Observed</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>Overall Percentage</td>
<td>16.7%</td>
<td>0%</td>
<td>0%</td>
<td>83.3%</td>
</tr>
</tbody>
</table>

Table 8.2: Classification, Model vs. Observed (Synergy)

Table 8.3: Pseudo R\(^2\) (Synergy)

<table>
<thead>
<tr>
<th></th>
<th>Cox and Snell</th>
<th>Nagelkerke</th>
<th>McFadden</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.120</td>
<td>0.131</td>
<td>0.052</td>
</tr>
</tbody>
</table>
8.3.2: Descriptive and Narrative Analysis

The sample countries shown in Table 8.4 can be divided into four groups, namely those with (a) high degree of synergy with E-Growth, (b) low degree of synergy with equity with low growth, (c) low degree of synergy with inequitable growth, and (d) absence and low degree of synergy with no E-Growth. Flowing from these, a number of observations can be made. First, all of the highly synergistic countries have E-Growth. Second, two countries with low degrees of synergy (Chile and Malaysia) have inequitable growth. Third, countries with low degrees of synergistic state-society relations have mixed outcomes. A majority of those countries have low economic growth rates and are highly inequitable, that is, there is an absence of E-Growth. The exceptions are Egypt and India: both have low degrees of synergistic state-society relations, yet managed to become highly egalitarian societies. Fourth, one country (Pakistan) with a low degree of synergy is equitable but with low growth.

Table 8.4: Synergy and E-Growth

<table>
<thead>
<tr>
<th>Country</th>
<th>Synergy</th>
<th>Degrees of Synergy</th>
<th>E-Growth</th>
<th>E-Growth Categories</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore</td>
<td>0.75</td>
<td>High Degrees</td>
<td>1.00</td>
<td>Equitable growth</td>
</tr>
<tr>
<td>Korea</td>
<td>0.60</td>
<td>High Degrees</td>
<td>1.00</td>
<td>Equitable growth</td>
</tr>
<tr>
<td>Thailand</td>
<td>0.54</td>
<td>High Degrees</td>
<td>1.00</td>
<td>Equitable growth</td>
</tr>
<tr>
<td>India</td>
<td>0.31</td>
<td>Low Degrees</td>
<td>1.00</td>
<td>Equitable growth</td>
</tr>
<tr>
<td>Egypt</td>
<td>0.00</td>
<td>Low Degrees</td>
<td>1.00</td>
<td>Equitable growth</td>
</tr>
<tr>
<td>Pakistan</td>
<td>0.40</td>
<td>Low Degrees</td>
<td>0.75</td>
<td>Equity with low growth</td>
</tr>
<tr>
<td>Malaysia</td>
<td>0.40</td>
<td>Low Degrees</td>
<td>0.50</td>
<td>Inequitable Growth</td>
</tr>
<tr>
<td>Chile</td>
<td>0.31</td>
<td>Low Degrees</td>
<td>0.50</td>
<td>Inequitable Growth</td>
</tr>
<tr>
<td>Mexico</td>
<td>0.40</td>
<td>Low Degrees</td>
<td>0.25</td>
<td>High inequality with low growth</td>
</tr>
<tr>
<td>Brazil</td>
<td>0.40</td>
<td>Low Degrees</td>
<td>0.25</td>
<td>High inequality with low growth</td>
</tr>
<tr>
<td>Nigeria</td>
<td>0.31</td>
<td>Low Degrees</td>
<td>0.25</td>
<td>High inequality with low growth</td>
</tr>
<tr>
<td>Kenya</td>
<td>0.00</td>
<td>Low Degrees</td>
<td>0.25</td>
<td>High inequality with low growth</td>
</tr>
</tbody>
</table>

At this stage a narrative analysis is in order to understand the cases in the sample, with a focus on some of the interesting cases. But because synergy is a poor predictor of E-Growth, the analysis will focus only on countries that are marked by equitable growth, namely: Singapore, Korea and Thailand - all countries that are highly synergistic - India and Egypt – both countries that have low degrees of
synergy. That these countries have similar developmental outcome, E-Growth, points to the fact that synergy is not a significant predictor of this dependent variable.

The intensive interconnectedness between the state and business in Korea and Thailand, and state-business-trade unions in Singapore contributed to the capacity of these states to distribute rents between competing interest groups. As I have noted in chapter 7, the state was able to balance the need for industrial upgrading and growth with the need to keep people in jobs and to undertake other highly-visible wealth-sharing mechanisms that contributed to achieving the equity goals of the state, as an integrated developmental agenda. This included providing equal access to a range of programmes, including education, medicare, employment, and so on to enhance the human capabilities of their citizens. Visible wealth-sharing mechanisms elicited the support of the poor for the reforms agenda of the politico-bureaucratic elites in the highly synergistic states. In addition, wealth-sharing is a virtuous circle – it increases the income and wealth of citizens, which in turn leads to higher savings and an increase in domestic capital formation.

The Egyptian case stands in stark contrast, as it does to the theoretical premise of this study. An understanding of this puzzle is provided by the literature of its political economy. From the 1952 socialist revolution until the late 1980s - because of the state’s socialist orientation - Egypt underwent state-led development. With this approach came distrust of the business sector, resulting not only in nationalisation of the main sectors of the economy but also the state’s disdain for entrepreneurs (and vice versa), and the consequent absence of synergistic state-society relations for the country’s few entrepreneurs. The Arab socialism revolution virtually destroyed wealthy businesspeople, to the benefit of peasants and industrial workers (Harik, 1997: 14). In addition, the Egyptian state virtually wiped out the traditional agrarian elites and undertook radical egalitarian reforms in the form of land redistribution. This reform was combined with other income-equalizing reforms (including subsidies on basic social services and foodstuffs) as the foundation for egalitarianism in Egypt. Thus, a crucial explanatory variable of the low inequality in Egypt is the strong redistributive thrust of social and economic policy. This redistributive policy placed strong emphasis on fundamentally transforming the ownership patterns in society. In this respect, Egypt shares some commonalities with India, Malaysia and Korea.

Having accounted for Egypt’s and India’s low inequality status, it is pertinent to examine the factors that have been responsible for Egypt’s impressive growth rate,
as observed in this study. Any inquiry has to account for the sources of Egypt’s economic growth. With the introduction of the *Infitah* policy (the open door policy) in the mid-1970s, the government began to gradually liberalise the economy in order to integrate it into the global one. This signalled the end of import-substitution industrialisation that had been the hallmark of earlier Egyptian economic policy; and the beginning of a new phase of export-led growth, in which the state acted, according to Waterbury (1983: 8 cited in Abdelazim, 2002), “as catalyst to and partner in alliance with foreign private capital and technology, and on occasion, with the Egyptian private sector”.

As part of the economic reforms, the government offered a range of incentives to foreign investors including tax holidays, export processing zones, lower tariffs on imported goods, etc. Contemporaneously, obstacles to the growth of domestic capital were removed. They were subsequently offered incentives that encouraged their expansion. All in all, the real source of Egypt’s economic growth “was related to the external sector, which included oil revenue, Suez Canal, duties, tourism, and remittance of Egyptian workers abroad” (Mohieldin and Nasir 1996: 34 – 36 cited in Abdelazim, 2002: 38).

One basic conclusion from the analysis of the Egyptian case study is that E-Growth can be achieved in the absence of synergy through the destruction of traditional elite power, the massive redistribution of land, as well as welfare provisions to the lower classes. Growth can also be achieved in the context of natural resources such as oil, even in the absence of synergy.\(^59\) Thus contrary to the theoretical premise of this study, E-Growth can be achieved under conditions of low degrees of synergistic state-society relations. This is what is evidenced in the Egyptian and Indian cases. Campos and Root (1996) and You (1999) have emphasized the centrality of the social structural context in accounting for the egalitarian nature of the East Asian NICs. In this regard, the initial agricultural landholdings were regarded as an obvious candidate. For our purposes, the radical land reforms in the 1950s explain Egypt’s current egalitarian status in the early twenty-first century.

\(^{59}\) We cannot generalise too much on this point because oil-rich countries like Nigeria continue to be marked by low rates of economic growth.
Like Egypt, Indian public policy since independence was geared to promoting equity. This policy thrust owes, in part, to the commitment of the Congress Party (CP) to socialism as espoused by the two immediate post-independent leaders, Gandhi and Nehru. Central to this ideology was a commitment to the poor.\footnote{Scholars such as Atul Kohli (2004) have argued that this commitment to socialism and the poor was more rhetorical than real. As a consequence, they have tended to underestimate India’s economic performance.} According to one of the leading experts of Indian political economy and the winner of Nobel Prize for Economic in 1998, Amartya Sen, and his co-author, Jean Dreze:

In so far as anything has been done to reduce economic inequalities in India, the chosen measures have often consisted of interfering with market transactions that are perceived to generate these inequalities. Examples of such measures include legal controls on sharecropping and moneylending, minimum-wage provisions, restrictions on the scale of private enterprise, rent-control laws, and prohibitions on land sales by tribal people (Dreze and Sen, 2001: 93).

But the measure that had the most profound effect on income distribution was land reforms, which granted millions of people access to productive economic activities and sources of improved livelihood. For example, in two of its states, West Bengal and Kerala, land reforms “succeeded in guaranteeing minimum land entitlements to millions of people, and their benefits in terms of increased economic security, greater self-empowerment, and improved bargaining power are far from negligible” (Dreze and Sen, 2001: 95).

The success of the land reforms programme in India has been underestimated by the dominant literature on its political economy. As shown in this study, India enjoys an impressive equitable status, precisely because the agrarian reforms have fundamentally transformed the ownership patterns in Indian society. By so doing, India has placed more wealth in the hands of the peasantry and thereby narrowed the income gap between the rich and the poor. In addition, the successful implementation of programmes to prevent famine “which has also involved a well-devised system of public intervention to protect the entitlements of the vulnerable groups, chiefly based on large-scale employment” (Dreze and Sen, 2001: 100), has contributed to the greater equity reported in this study.

In summary, the low levels of inequality that we find in both Egypt and India can be explained by factors other than high degrees of state-society synergy. These countries have achieved high equity because of a political leadership that was
committed to transforming ownership patterns. In both countries land reforms and programmes to enhance human capabilities have been central elements in achieving egalitarianism. As I pointed out in chapter 7, non-institutional factors, remittances of migrants to the Gulf countries, amongst others, have also been contributory factors to Pakistan’s high egalitarianism.

With respect to state-society synergy in India, the findings in this study are supported by several case studies (Evans, 1995; Herring, 1999; and Kohli, 2004). Most of these work point to the fragmented nature of societal actors; the hostility of the state towards capital and vice versa; particularistic relations between individuals in the non-state sectors and the bureaucratic elites; and the absence of shared projects between the state and interest groups. The hostile relationship between the Indian state elite and capital preceded the 1970s. As Vivek Chibber (2003) has argued, “Indian capitalists in the years immediately after independence refused to countenance a state with wide–ranging regulatory and interventionist powers, and organised effectively against it” (p. 5). In the context of a state that wanted to play a more prominent role in the economy and a business sector that believed in a minimalist role for the state, together, these factors made it difficult for the Indian state to establish a high degree of synergistic relations with societal actors. Therefore, in the absence of shared projects, the type of relationship “that might have allowed state managers to provide information dissemination, consensus building, tutelage, and cajoling to potential entrepreneurs seems almost entirely absent from the Indian scene” (Evans, 1995: 69).

As a consequence, according to Evans, “[u]nlike in the developmental states, the Indian state cannot count on the private sector either as a source of information about what kind of industrial policy will “fly” or as an effective instrument for the implementation of industrial policy” (p.69). Without a cohesive “policy network”, the Indian state was deprived of vital mechanisms for societal actors to provide meaningful inputs and share information that could enhance economic policy. The argument goes further that in the absence of a shared project, it was difficult for state officials to provide signals that business persons have to respond to, on whether or not they have to invest. Consequently, the state could not achieve optimal results in its developmental efforts.

The above analysis, like much of the case study literature, tends to place India in a different development column, that is, that is has poor economic records. Therefore, this study offers a revisionist interpretation of India’s economic
performance. On our combined E-Growth variable, India’s performance is impressive. What is remarkably from the perspective of this dissertation is that the Indian state was able to achieve its E-Growth goals because of its highly autonomous nature, in spite of its low degree of synergy (pointing to the fact that synergy is not a significant predictor of E-Growth). As I have pointed out above, the state was committed to changing the ownership patterns. It consequently intervened in the economy to achieve its goals.

8.4: Conclusion

In concluding this chapter, a number of observations are in order. First, state-society synergy has a greater impact on economic growth than it does on inequality. In fact, synergy is a poor predictor of E-Growth, compared to the strong influence of autonomy on E-Growth.

Second, and as evidenced from the narrative analysis, initial income redistributions, especially those that aim to fundamentally transform the ownership structures and patterns in a society (such as land reforms) play an important role in explaining a country’s equity status. This is precisely the case in Egypt and India. Therefore, contrary to a priori expectations, some sample countries with low degrees of synergy still managed to achieve E-Growth. Non-institutional factors have accounted for the egalitarianism in countries like Egypt, India and Pakistan.
Chapter Nine

Synergistic Autonomy and Equitable Growth

9.0: Introduction

The preceding two chapters, 7 and 8, provide important background to this chapter. This chapter is the last empirical chapter and it focuses on the relationship between the combined independent variable, synergistic autonomy (Auto-Synergy), and the dependent variables. It relies primarily on bivariate analysis to identify outliers as well as establish the relationship between the independent and dependent variables. Indeed, this chapter should have ended with multivariate regressions, but we could not employ a multivariate analysis because of the small number of cases and because of a collinearity problem between the autonomy and synergy variables.

As in the previous two chapters, the median will be used to demarcate between low and high degrees of Auto-Synergy. The median for the twelve developing countries is 0.49. Consequently, scores from 0 - 0.49 represent low degrees of Auto-Synergy and scores from 0.50 – 1 represent high degrees of Auto-Synergy.

9.1: Synergistic Autonomy and Growth

This section is divided into two parts. In the first part, the results of the model and analyses are presented. The second part deals with a narrative analysis of the results.

9.1.1: Modelling Growth on Synergistic Autonomy

To begin with, there is a strong and significant correlation between synergistic autonomy (Auto-Synergy) and economic growth with a Pearson correlation coefficient of 0.646. This is significant at the 0.05 level with a p-value of 0.023. A graphic illustration of this relationship is provided in Figure 9.1 which shows the relationship between the scores on the autonomy scale and economic growth.
Also, the relationship is vividly captured by a simple linear regression. Based on our theoretical specification, the following regression equation is derived:

\[
\% \text{ change in economic growth} = \alpha + \beta \text{Auto-Synergy} + \epsilon_t
\]

From the estimated regression, the following equation is obtained:

\[
\% \text{ change in economic growth} = 1.268 + 6.714 \text{ (Auto-Synergy)}
\]

\[
(0.999) \quad (2.674)
\]

\[
R^2 = 0.417
\]

The estimated t-ratios are in parentheses. The results show that Auto-Synergy is significant in explaining change in economic growth, with a t-ratio of 2.674 and the coefficient is significant at the 0.05 level. The $R^2$ value is 0.417, which is a good fit. This means that the model explains almost 42% of the variations in the sample data. Put differently, it means that almost 42% of the variations in economic growth is explained by variations in Auto-Synergy.

9.1.2: Descriptive and Narrative Analysis

It is important to aggregate the countries in Figure 9.1 into subgroups. Basically, the following four subgroups of countries emerged, namely those with (a) high degrees of Auto-Synergy with high economic growth – Korea, Thailand, Malaysia, India and Singapore, (b) high degree of Auto-Synergy with low growth – Pakistan, (c) low degrees of Auto-Synergy with high economic growth – Chile and Egypt, and (d) low degrees of Auto-Synergy with low economic growth – Mexico, Nigeria, Brazil and Kenya.
The analysis in this section will focus on highly synergistic autonomous countries, namely India, Korea, Malaysia, Singapore and Thailand in order to show the relationship between this institutional attribute and high economic growth. These will be contrasted with countries with low degrees of synergy with low growth rates, especially Nigeria and Kenya. The analysis will proceed to look at one interesting cases, Chile, with low degree of Auto-Synergy and yet recorded one of the highest rates of economic growth in the sample. In turn, this will be contrasted with Pakistan which though has autonomous state institutions recorded low economic growth rate.

A striking feature of countries like South Korea and Singapore, and to a certain degree, Thailand, is their high degree of bureaucratic coherence and policy co-ordination. The economic success of these countries is due, in part, to a number of institutional factors that have been alluded to in the case study literature. These include meritocratic recruitment and performance-based promotion and technocratic excellence in pilot agencies, namely the EPB in Korea and the EDB in Singapore. These institutions were central to the developmental success of these countries. Indeed, they provided the focal point – an overall vision of development – in these countries, co-ordinated investment decisions, technological adaptation, entrance into new markets, tax relief for investors, and so on (Evans, 1999). A central factor here was the aggregation of highly competent and insulated economic bureaucrats in these
lead agencies that enhanced the transformative capacities of these states. As a result, they were able to socialize risks and costs of investments. By so doing, they created a conducive climate for both domestic and foreign investors.

The relationship between the Singapore EDB and government offer a useful example of the importance and role of the super ministries in achieving economic success. In 1988, the EDB established an “International Direct Investments (IDI) programme to help local firms expand overseas and eventually become multinationals themselves” (Lim and Fong, 1991: 54). The Singaporean government did not stop there. It provided free consultancy services on overseas investments to local companies if there were positive spin-offs for the economy as a whole. Among these were “feasibility grants for the hiring of consultants needed to evaluate overseas investment opportunities” (p. 54).

As a sign of the importance attached to the super ministries, the EPB in Korea was headed by the deputy Prime Minister and it vetted policies from line ministries. As a classical commentary on the Korean experience, notes:

After taking power in a military coup in 1961, President Park Chung-Hee established the Economic Planning Board, headed by the deputy Prime Minister to co-ordinate the policies of the different economic ministries. From the early 1960s to the late 1980s, the government designed and implemented five year development plans to maximise growth...Economic management was largely the responsibility of elite bureaucrats and technocratic ministers...Korean bureaucrats were generally capable, well educated and selected on merits... (Australian Government, Department of Foreign Affairs and Trade, 1999: 20).

This suggests that the economic bureaucracy had considerable leeway in economic management. In both Malaysia and Thailand, we find similarly high degrees of Weberianess, although their pilot agencies (the EPU and NESDEB in Malaysia and Thailand, respectively) played a lesser role compared to similar institutions in Korea and Singapore. One plausible explanation for this (as noted in chapter 7) was that in the former set of countries the political elite were very much active in the policy domain. This does not mean that the role of the EPU and NESDEB should be underestimated. Indeed, the latter was very powerful in the 1980 – 1988 period to the extent that it vetted investment and policy decisions of line ministries (Christensen, 1992). During this period, it was an important agency in developing the policy agenda and monitoring the implementation of economic policies. An added strength of these lead economic ministries was an array of research
institutions that was intimately linked to them as part of the policy-making process. These research institutions, such as the Korean Institute for Trade and Energy (KIST), enabled the state to gain up-to-date knowledge of “products demand, quality standards and foreign markets trends” (Weiss, 1998: 51). Generally, what is clear is that the Research Institutions attached/affiliated to the lead economic ministries enhanced the capacity of the state “to monitor the new technologies, products and production processes of international competitors, organises technology transfers, and coordinate new projects in alliance with local firms as well as foreign firms (Weiss, 1998:52, emphasis mine). This case study narrative is reflected in the empirical findings of this study, with South Korea being the most autonomous state, followed by India, Singapore, Thailand and Malaysia/Pakistan. As noted in chapter 7, autonomous state institutions in these countries minimises corruption, which would have been a drag on growth. The minimal level of corruption provided a conducive climate for investment and growth. Furthermore, the provisions of basic services such as education, healthcare and housing – all of which enhanced human capabilities in these countries - had growth imperatives. They were indirect subsidies for industries. In Singapore for example, the redistribution of resources through housing, education and health subsidies (forming a social security net) were forms of subsidies for industrial wages. In fact, these subsidies represented a considerable amount of working-class household costs. In general, these contributed to a reduction of investment costs that consequently resulted in high investment and economic growth.

In Korea, Singapore and Thailand, these internal state organisational attributes were complemented by institutionalised deliberative councils or CMs, made up especially of representatives of government and organised business (although in Singapore and Malaysia it also included trade unions – as a junior partner). These became the basis of intense linkages between the state and societal actors. This much is supported by the case studies’ literature. The Joint Public Private Consultative Committee (JPCC) in Thailand is an example of the predominant form of consultative mechanisms in these countries. The JPCC was established in 1981 as an attempt to institutionalize dialogue between the top leadership of government and organised business (Laothamatas, 1988, 1992). As a sign of the importance that the

61 In chapter 7, I alluded to some of the factors that accounted for Pakistan’s low economic growth rate, especially political instability and uncertainty.
government attached to institutionalisation of organised interests’ participation in economic policy-making, its representation at the JPPCC comprised of the Prime Minister and all ministers in charge of economic affairs. The same is true of the other highly synergistic countries in the sample, Korea and Singapore.

These types of CMs, highly synergistic state-society relations, were influential in the determination of policy to transform the economy and integrate them into the global markets. For example, in a survey of 50 trade associations in Bangkok, Laothamatas reports that "over 90% of them rate government responsiveness to their problems either moderate or high, but most of these are in the moderate column" (Laothamatas, 1988: 461). He even attributed Thailand’s successful shift to export-oriented industrialisation (EOI) in the 1980s to the participation of business associations in the national JPPCC. Also in Korea, there was similar pattern of intense connection between the state and organised business. As an example, all exporters were required to be members of the Korean Traders’ Association, which assisted the government to set goals and targets for various items and to promote the marketing of Korean products abroad. In the same vein, organised business in Singapore was represented in the Trade Development Board, which was responsible for the formation and implementation of export policies. This was an essential element in Singapore’s ability to penetrate new markets, a crucial factor for Singapore’s economic competitiveness. These examples are illustrations of the intensity of state-business relations in our highly synergistic countries and their positive effects on economic growth. The institutional interconnectedness of governments and businesses also had another major advantage: it helped to reduce rent-seeking behaviour by the private sector and enhanced the accountability of the economic bureaucrats to citizens in the highly autonomous countries. Furthermore, they contributed to ensuring that public resources were geared and utilised towards ensuring optimal and productive economic outcomes. It can therefore be argued that the economic success stories of these countries can hardly be told without these institutional characteristics occupying a prime place in such narrative.

A salient point that also has to be noted is that, in most of the countries with high degrees of synergistic state-society relations, government played a crucial role in strengthening business associations, where they already existed and were weak. Where such institutions did not exist, government helped to organised business. This is a pattern observed in Korea, Singapore and Thailand. This contrasted sharply with
the Brazilian example (discussed in chapter 8) where the state did not provide incentives for the emergence of economy-wide encompassing business associations.

Another interesting case is Malaysia, which can be understood by taking a closer look at its organisational structures, both the institutions of the state and state-society relations. It has a high degree of Auto-Synergy and phenomenal economic growth. A closer look at the two independent variables that constitute the Auto-Synergy scale reveals why this is so: it combined high degree of autonomy (0.60) with a relatively low degree of synergy (0.40), making it to be classified as high synergistic autonomous country (0.50 score). This can explain why it does not score as high on the Auto-Synergy score as we might expect. Still, as graphically captured in Figure 9.1, Malaysia was still able to achieve one of the highest rates of economic growth in the sample.

The Malaysian level of state autonomy and degree of synergy is best understood by taking a look at its political economic history. Like India and to a certain degree Pakistan, Malaysia inherited a high quality bureaucratic apparatus from the British that enabled the state to intervene in the economy. Recruitment and promotion in the bureaucracy were examination-based (although within the confines of the New Economic Policy’s objectives of giving preferential treatment to the Bumis) and hence met the Weberian model of bureaucracy. In other words, attributes of Weberian bureaucracy were refined to suit the Malaysian situation. However, this preferencing of a specific ethnic class appears to challenge our conception of Weberianess, and requires further elaboration.

Compared to its neighbours, Korea and Singapore, the Malaysian state was much more fragmented with multiple planning agencies. The most important of these agencies was the Economic Planning Unit (EPU), an arm of the Prime Minister’s office. As Jesudason (1989) observed, the EPU acted as the custodian of NEP goals and played a leading role in the selection of projects. At the initial stages of the NEP, the early 1970s, the political elite set the broad policy direction and left the technocrats to deal with detailed planning and implementation. But with the increased concentration of power in the hands of top political executives, coupled with the emergence of powerful political leaders like Mahathir Mohamad as Prime Minister in

\[62\] It is interesting to note that most of the literature on the Malaysian political economy is silent on the role of the EPU. Even Jesudason did not discuss its role in detail. This is an area that is worthy of further research.
1981 (like Pakistan under Prime Minister Z. A Bhutto), agencies like the EPU lost some of their authority (Gomez and Jomo, 1999). In spite of this, the political and bureaucratic elites were able to achieve a workable degree of technocratic expertise that enhanced state capacity.

Malaysia’s relatively high score on the Auto-Synergy scale comes as somewhat of a surprise, as the case study literature tends to suggest that there was lack of synergistic state-society relations in Malaysia. They draw attention to the exclusion of the Chinese business community, the dominant part of the domestic bourgeoisie, from the policy process as evidence of a lack of state-society synergy. In addition, according to Crouch (1996), the Chinese entrepreneurs were disqualified from playing a dominant role in politics because of their ethnic background. The increased role of the state also put them at the mercy of the Malay-dominated government that was committed to the expansion of Malay participation in business. The state-Chinese business relationship was anything but cordial. This and similar other criticisms might have missed the point. A major plank of the NEP was the creation of a Bumi business class. To achieve this goal, the state entered into alliances with foreign capital rather than the local Chinese business class, as well as facilitated Bumi-foreign capital alliances.

Because the state did not see the Chinese business community as a crucial partner in the realisation of its objective, Chinese business associations were excluded from the economic policy-making process. In other words, the absence of a joint project with the Chinese business elite forced the Malaysian state, like its East Asian neighbors, to create and nurture a social group, a Bumi business class, with which it shared a joint project of transformation. Still, subject to various interpretations, the state achieved its goal. The state and the Bumi business class had institutionalised relationships based on a common agenda – joint project – of restructuring state and society in favour of the Bumi community and eradicating poverty, the two central

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63 See Jesudason (1989) and Pek Koon (1997) for detailed analysis of the acrimonious relationship that existed between the Bumi-dominated state and the Chinese business class.

64 Most of the existing literature including Jesudason (1989) and Crouch (1996) questioned whether the Bumi business class could be seen as a class onto itself. The thrust of their argument is that because of the Bumi business dependence on the state, they lacked the power to constrain the state and stressed that the latter dominated the former.
objectives of NEP. Emerging Bumi entrepreneurs exercised considerable leverage with government as far as the promotion of the NEP goals was concerned. Not surprisingly, they were avid supporters of the UMNO. In the words of Jesudason (1989: 65):

[...] the Malay business leaders had much leverage with government officials because many were either at present members or in the past high UMNO officials and top civil servants… These business leaders enjoyed close ties with the government and as potentially important opinion makers, found a receptive ear among politicians and bureaucrats.

The link between the UMNO and the Bumi business class became a foundation for state-informed public-private cooperation. Furthermore, through various measures, the state strengthened the Bumi business class and organised them into business associations, which they used as a platform to contribute to the policy process.

This suggests that due to the ethnic heterogeneity of the Malaysian society, the state became selectively synergistic with the Bumi business class which it regarded as its partner in the tasks of restructuring the state and society. The fragmented nature of business association along ethnic lines, the absence of a shared transformative project between the state and the dominant Chinese business elite, all contributed to the relatively low degree of synergy that we find in this study. But as highlighted previously, when both independent variables are combined, Malaysia has a high degree of Auto-Synergy. This institutional factor in no small way enhanced the capacity of the state to pursue its goal of economy transformation as encapsulated in the NEP earlier discussed.

But Pakistan, though sharing similar institutional attributes like Malaysia, with a score of 0.53 on the Auto-Synergy scale, took a different turn by recording a low economic growth rate. It has been shown in chapter 7 that non-institutional factors accounted for its low growth rate. As such, it is not worth repeating here.

As have been shown in chapters 7 and 8, most of the countries with low degrees of Auto-Synergy such as Nigeria and Kenya lacked the capacity to formulate and implement a cohesive developmental agenda and to mobilise interest groups around such an agenda. It is therefore not surprising that, unlike the highly synergistic autonomous countries, they achieved low economic growth rates.
In Figure 9.1, Chile approaches outlier status and its deviance from the trend line can attract our attention. Chile has a low degree (0.37) of Auto-Synergy, yet was able to achieve a high economic growth (6.2 percent) during the 1991 – 2001 period. As I have noted in chapter 7, its economic growth rate might be attributed to the neo-liberal economic reforms promoted through the alliance between the state and organised business in the early 1980s (John, 2005). This propelled Chile’s economic recovery in the same period and hence its impressive economic growth rate. In other words, non-institutional factors might account for Chile’s high economic growth rate.

This discussion points to a simple conclusion. As a general rule, countries with high degrees of organisational form that closely approximate the Auto-Synergy scale enjoy higher rates of economic growth during the period under consideration. The converse is the case for countries with a low degree of synergistic state autonomy.

9.2: Synergy Autonomy and Inequality

Like section 9.1, this section is divided into two parts. In the first part, the results of the model and analyses are presented. The second part deals with narrative analysis of the results.

9.2.1: Modelling Inequality on Synergistic Autonomy

Though not significant, there is a weak but negative correlation between Auto-Synergy and inequality, which implies that a high value of Auto-Synergy is accompanied by low inequality. The Pearson correlation coefficient is −0.293, with a p-value of 0.406.

The relationship is vividly captured by a simple linear regression. Based on our theoretical specification, the following regression equation is derived:

\[
\text{Inequality} = a - \beta \text{Auto-Synergy} + \epsilon_t
\]

From the estimated regression, the following equation is obtained:
Inequality = 0.529 - 0.166 (Auto-Synergy)  
(6.108) (.968)  

\[ R^2 = 0.086 \]

The estimated t-ratios are in parenthesis. The equation shows poor goodness of fit. This is revealed by the estimated \( R^2 \) of 0.086. This means that the model explains less than nine percent of the total variations in inequality. Besides, the main explanatory variable, Auto-Synergy is insignificant in explaining inequality as exhibited by a t-ratio of -0.968.

9. 2. 2: Descriptive and Narrative Analysis

Figure 9.2: Auto-Synergy and Inequality

The countries in Figure 9.2 can be categorized into five groups, namely those that are (a) highly synergistic autonomous with egalitarianism – Singapore, Korea, India, Pakistan and Thailand, (b) highly Auto-Synergy with inequality – Malaysia, (c) lowly Auto-Synergy but egalitarian – Egypt, (d) lowly Auto-Synergy with high inequality – Chile and Mexico, and (e) lowly Auto-Synergy with inequality – Brazil, Nigeria and Kenya. With the exception of Malaysia and Pakistan, there is no country in the sample that is highly synergistic autonomous without E-Growth.

Given that Auto-Synergy is insignificant in explaining E-Growth, there is no need to proceed with further interpretation.
9. 3: Synergistic Autonomy and E-Growth

This section will be divided into two parts. In the first part, the results of the model and analyses will be presented. The second part will deal with narrative analysis of the results.

9. 3.1: Modelling E-Growth on Synergistic Autonomy

I will now proceed with the analysis of the associations between Auto-Synergy and E-Growth. There is a positive but modest correlation between Auto-Synergy with E-Growth. The Pearson correlation is 0.582, and it is significant at the 0.05 level, with a p-value of 0.47.

The combination variable, Auto-Synergy, which combines autonomy and synergy, is now used as a predictor variable of E-Growth. We expect this model to fit better than the model using Synergy as a predictor variable, but it is likely that the fit of this model will not be as good as the model using Autonomy as a predictor based on the way the variable Auto-Synergy was constructed. Recall that synergy is a poor predictor of E-Growth.

The logit equations for the model are:

\[
\log\left(\frac{\pi}{\pi_j}\right) = \alpha + \beta \times \text{Auto-Synergy},
\]

\[
\log\left(\frac{\pi}{\pi_j}\right) = \alpha_2 + \beta_2 \times \text{Auto-Synergy},
\]

\[
\log\left(\frac{\pi}{\pi_j}\right) = \alpha_3 + \beta_3 \times \text{Auto-Synergy}.
\]

Table 9.1: Parameter Estimates (Auto-Synergy)

<table>
<thead>
<tr>
<th>E-Growth</th>
<th>B</th>
<th>Standard Error</th>
<th>P-Value</th>
<th>Lower 95% Confidence Bound</th>
<th>Upper 95% Confidence Bound</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.25</td>
<td>Intercept</td>
<td>5.409</td>
<td>3.476</td>
<td>0.120</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Auto-Synergy</td>
<td>-11.914</td>
<td>7.193</td>
<td>0.98</td>
<td>5.048E-12</td>
</tr>
<tr>
<td>0.50</td>
<td>Intercept</td>
<td>3.189</td>
<td>3.634</td>
<td>0.380</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Auto-Synergy</td>
<td>-8.092</td>
<td>7.238</td>
<td>0.264</td>
<td>2.113E-10</td>
</tr>
<tr>
<td>0.75</td>
<td>Intercept</td>
<td>-0.060</td>
<td>4.650</td>
<td>0.000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Auto-Synergy</td>
<td>-2.796</td>
<td>8.385</td>
<td>0.111</td>
<td>4.454E-09</td>
</tr>
</tbody>
</table>
The parameter estimates for Auto-Synergy are given above. From the classification table below (Table 9.2), we see that this model did well in predicting E-Growth categories 0.25 and 1.00; but failed to predict E-Growth categories 0.50 and 0.75 correctly.

<table>
<thead>
<tr>
<th></th>
<th>0.25 Predicted</th>
<th>0.50 Predicted</th>
<th>0.75 Predicted</th>
<th>1.00 Predicted</th>
<th>Percentage Correct</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.25</td>
<td>Observed</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>0.50</td>
<td>Observed</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>0.75</td>
<td>Observed</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>1.00</td>
<td>Observed</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td><strong>Overall Percentage</strong></td>
<td><strong>41.7%</strong></td>
<td><strong>0%</strong></td>
<td><strong>0%</strong></td>
<td><strong>58.3%</strong></td>
<td></td>
</tr>
</tbody>
</table>

The model fitting table indicates the weak significance of Auto-Synergy as a predictor variable, but since this p-value, 0.181, is still fairly low, the model is examined further. All the pseudo $R^2$ values are low as seen in Table 9.3, indicating that around 16 - 37% of the variation of E-Growth is explained by the predictor Auto-Synergy.

<table>
<thead>
<tr>
<th>Table 9.3: Pseudo $R^2$ (Auto-Synergy)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cox and Snell</td>
</tr>
<tr>
<td>Nagelkerke</td>
</tr>
<tr>
<td>McFadden</td>
</tr>
</tbody>
</table>

The estimated fitted model may thus be written as

$$\log\left(\frac{\pi_1}{\pi_4}\right) = 5.409 - 11.914 \times \text{Auto-Synergy},$$

$$\log\left(\frac{\pi_2}{\pi_4}\right) = 3.189 - 8.092 \times \text{Auto-Synergy},$$

$$\log\left(\frac{\pi_3}{\pi_4}\right) = -0.060 - 2.796 \times \text{Auto-Synergy}.$$
Assuming that a country has an E-Growth category of 1 or 2, the odds of the country being of category 2 rather than category 1 with value of Auto-Synergy \((r+0.1)\) is \(e^{2.220(0.1)} = 0.80\) times the odds for countries with Auto-Synergy \(r\). This means that when a country’s Auto-Synergy is increased by 0.1, it becomes approximately 20% less likely (on the odds scale) that the country will be classified into E-Growth category 2 rather than category 1.

Comparing categories 2 and 3, we use the estimated logit equation

\[
\log\left(\frac{\pi_2}{\pi_1}\right) = (-0.060 - 3.189) + (-2.796 - (-8.092)) \times \text{Auto-Synergy}
\]

\[
= -3.129 + 5.296 \times \text{Auto-Synergy}.
\]

Given that a country has an E-Growth category of 2 or 3, the odds of the country being of category 3 rather than category 2 with value of Auto-Synergy \((r+0.1)\) is \(e^{5.296(0.1)} = 1.70\) times the odds for countries with Auto-Synergy \(r\). Thus, when a country’s Auto-Synergy is increased by 0.1, it becomes approximately 1.7 times more likely (on the odds scale) that the country will be classified into E-Growth category 3 rather than category 2.

Given that a country has an E-Growth category of 3 or 4, the odds of the country being of category 4 rather than category 3 with value of Auto-Synergy \((r+0.1)\) is \(e^{(0 - (-2.796))(0.1)} = 3.75\) times the odds for countries with Auto-Synergy \(r\) using the same method as was used above.

These relationships may be seen from the scatter plot of estimated probabilities for each E-Growth category.
The scatter plot of fitted probabilities versus Auto-Synergy is noticeably quite similar to the scatter plot of fitted probabilities versus autonomy. This is most likely the influence of autonomy in the variable Auto-Synergy. It is once again clear that E-Growth categories 1 and 4 are the most likely categories for a country with low and high Auto-Synergy respectively. Also, for values of Auto-Synergy around 0.4 - 0.5, the distinction between the E-Growth categories is not so marked. Thus, as with autonomy, it seems that extreme values of Auto-Synergy separate the E-Growth categories. This is consistent with *a priori* expectations. The model does poorly at predicting likelihood of being in E-Growth categories 2 and 3, as evidenced by the failure to observe a likelihood of being in either of these categories greater than 0.30.

Looking at the classification table for this model, there exists an overall 58.3% successful prediction rate – the same as the model with autonomy as a predictor. However, it is clear that this model does not explain nearly as much variation as the model using autonomy as a predictor, and so the latter model would be preferable. This is to be expected, as the model using autonomy as a predictor was significant, but the model using synergy as a predictor was not significant; and so a variable combining autonomy and synergy in the variable Auto-Synergy would most likely not be as good a predictor of E-Growth as the variable autonomy.

We infer from the above that the combination of autonomous state institutions and synergistic state-society relations has a lower impact on E-Growth than autonomy.
alone on E-Growth. Put differently, autonomy on its own has a more powerful and significant impact on E-Growth than when it is combined with synergistic relations. This observation is due to the fact that synergy is not a good predictor of E-Growth. Taken to its logical conclusion, countries might as well try to increase their degree of autonomy to achieve almost the same rate of E-Growth than to expand the degrees of both autonomous state institutions and synergistic state-society relations, at least at the same time.

9.3.2: Descriptive and Narrative Analyses

At this juncture, it is pertinent to proceed with a narrative analysis to shed light on the cases.

It is important to note that countries in Table 9.4 can be classified into the following six categories, namely those with (a) highly synergistic autonomous and equitable growth (E-Growth) - Singapore, Korea, India, and Thailand; (b) high degree of Auto-Synergy with equity but low growth – Pakistan; (c) high degree of Auto-Synergy with inequitable growth - Malaysia; (d) low degrees of Auto-Synergy with equitable growth – Egypt; (e) low degrees of Auto-Synergy with inequitable growth – Chile and Mexico; and (f) low degrees of Auto-Synergy with low growth and high inequality – Brazil, Nigeria and Kenya.

Table 9.4: Auto-Synergy and E-Growth Scale

<table>
<thead>
<tr>
<th>Country</th>
<th>Auto-Synergy</th>
<th>Degrees</th>
<th>E-Growth Category</th>
<th>E-Growth status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore</td>
<td>.76</td>
<td>High Degree</td>
<td>4</td>
<td>E-Growth</td>
</tr>
<tr>
<td>Korea</td>
<td>.70</td>
<td>High Degree</td>
<td>4</td>
<td>E-Growth</td>
</tr>
<tr>
<td>Thailand</td>
<td>.62</td>
<td>High Degree</td>
<td>4</td>
<td>E-Growth</td>
</tr>
<tr>
<td>India</td>
<td>.54</td>
<td>High Degree</td>
<td>4</td>
<td>E-Growth</td>
</tr>
<tr>
<td>Pakistan</td>
<td>.53</td>
<td>High Degree</td>
<td>3</td>
<td>Equity with low growth</td>
</tr>
<tr>
<td>Malaysia</td>
<td>.50</td>
<td>High Degree</td>
<td>2</td>
<td>Inequitable growth</td>
</tr>
<tr>
<td>Egypt</td>
<td>.27</td>
<td>Low Degrees</td>
<td>4</td>
<td>E-Growth</td>
</tr>
<tr>
<td>Mexico</td>
<td>.49</td>
<td>Low Degrees</td>
<td>2</td>
<td>Inequitable growth</td>
</tr>
<tr>
<td>Chile</td>
<td>.37</td>
<td>Low Degrees</td>
<td>2</td>
<td>Inequitable growth</td>
</tr>
<tr>
<td>Brazil</td>
<td>.42</td>
<td>Low Degrees</td>
<td>1</td>
<td>Low growth and high inequalities</td>
</tr>
<tr>
<td>Nigeria</td>
<td>.38</td>
<td>Low Degrees</td>
<td>1</td>
<td>Low growth and high inequalities</td>
</tr>
<tr>
<td>Kenya</td>
<td>.17</td>
<td>Low Degrees</td>
<td>1</td>
<td>Low growth and High Inequality</td>
</tr>
</tbody>
</table>
It can be observed in Table 9.4 that a majority of countries in our sample with institutional infrastructure that most closely approximates Auto-Synergy have achieved E-Growth. This holds true for the population in the study. Singapore is exemplary in this regard. Similarly, in conformity with a priori expectations, South Korea’s combination of a very high degree of autonomy (score of 0.80) and a high level of synergy (with 0.60 score in synergy scale respective) also achieved E-Growth. Overall, in the Auto-Synergy scale, it ranked second (with 0.70 score). Thailand also combines a high degree of state autonomy (scoring 0.70 in the autonomy scale) with high degree of synergy (with 0.54 score in the synergy scale) and achieved E-Growth. It has a very high degree of meritocracy (with 0.83 score – second most meritocratic country in the sample) and high degree of career pathing (score of 0.78 – the highest in the sample). Thailand combined these features with moderate degree of policy coordination (with a score of 0.50 in the super ministry scale) and it achieved equitable economic growth. Its growth rate was 4.4 percent and a Gini index of 0.43. Overall, it has an Auto-Synergy score of 0.62.

In light of the above, we can conclude that a majority of countries in the sample with high degrees of Auto-Synergy achieved E-Growth during the 1991 – 2001 period. The exceptions are Malaysia and Pakistan (with inequitable growth and equity with low growth, respectively). In chapter 7, we alluded to some of the factors (institutional and non-institutional) that account for Malaysia’s inequitable growth status and Pakistan’s low growth with equitable status. The experiences of both Malaysia, India and Pakistan point to the fact that when high degree of autonomy is combined with low degree of synergy, the development outcome is unpredictable – the outcome can be inequitable growth (Malaysia), equity with low growth (Pakistan) or equitable growth (India). The following analysis will suggest that when high degree of autonomy is combined with high degree of synergy, equitable growth is the most likely outcome.

After years of denial and maligning of the role of the state in development, even the World Bank (1997) has come to accept the conclusion that state autonomy and state-society synergy are crucial explanatory variables for the economic success story of the Asian NICs. In its U-turn, the Bank commented on state-society relations and economic performance as follows:
In successful countries, policymaking has been embedded in consultative processes, which provide civil society, labour unions, and private firms opportunities for input and oversight. In East Asia public-private deliberation councils – such as Korea’s monthly export promotion meetings, Thailand’s National Joint Public Private Consultative Committee, and Malaysian Business Council – have provided mechanisms for feedback, information sharing, and co-ordination (World Bank, 1997: 11).

In its awakening, however, the Bank failed to dissect and disaggregate the degrees of state-society synergy in the respective countries, partly because of the lack of comparable data. This said, the rebirth of institutional analysis was, in part, due to the spectacular economic performances of countries such as Korea and Singapore. Institutional factors were also said to have accounted for the economic performance of Malaysia, Thailand and India. In other words, the phenomenal economic performances of these countries have been attributed to the organisational autonomy of the states. As I have pointed out in chapter 7, there is a general consensus in the case studies’ narratives that these countries had meritocratic recruitment and competence-driven promotions for the bureaucratic elites. Although there are some minor variations, they also enjoyed greater policy co-ordination, the result of a concentration of economic policy management in key lead agencies – super ministries (e.g. the EPB in Korea, the EDB in Singapore, the EPU in Malaysia and the NESDEB in Thailand). It should be observed that the EPU and NESDEB were not as dominant as the EPB in Korea and the EDB in Singapore. This was because the political elite in Malaysia, Pakistan and Thailand played a more active role in policy-making than their counterparts in Korea and Singapore. In addition, compared to Korea and Singapore, policy co-ordination was also much more fragmented in Malaysia and Thailand because a number of agencies coordinated economic policies. In spite of this, there was greater policy coordination in all the four countries. This coordination enhanced the bureaucratic competence of the economic bureaucracy and insulated it from particularistic interests.

At the same time, their degrees of autonomy enabled the Korean, Singaporean and the Thai states to penetrate society in a cohesive fashion and regulate the parameters governing relations with organised interests. As remarked earlier, the relationship of the economic bureaucracy with societal actors was at an interpersonal level and was driven in a programmatic fashion, by organisational goals. The result is that it enhanced the capacity of the state in Korea, Singapore and Thailand to
selectively intervene in the economy in a way that contributed to optimal economic outcomes, which for the purpose of this study is E-Growth.

In addition, as discussed in chapter 8, these countries established intensive and extensive connections with societal groups (predominantly organised business), although this alliance included trade unions in Singapore. Synergistic ties in Korea, Singapore and Thailand were rooted in a joint project of enhancing national security and more importantly of catching up with the industrialised countries – these became the national ethos and society as a whole was mobilised towards the realisation of these objectives. In Korea where the state also had personal contacts with the chaebols, such relationships complemented the dominant institutionalised state-society relationship with economy-wide, encompassing business associations.

Auto-Synergy afforded the Korean state the capacity to channel national resources into activities where the state had comparative advantage, and in generating cooperation (rather than conflict) that complemented capital in their industrial expansion endeavors. Also autonomy made it possible for the Korean state to provide the economic infrastructure necessary to push the economy into high-technology industries.

High degrees of Auto-Synergy made it possible for the states in Korea, Singapore and Thailand to recognise that high investment in technical education was instrumental to their economic success. As Evans (1995) has observed, “Technical education is the most basic infrastructure for informatics development, and Korea excelled in its expansion. In the late 1980s, Korea, with less than one-third of Brazil’s population, had one and a half times the number of postsecondary students studying mathematics, computer sciences and engineering” (Evans, 1995: 147). One of the likely consequences of this was that the state provided the requisite economic infrastructure required by the high technology sector. This would have been almost impossible without its Auto-Synergy status.

The empirical results also support the hypothesis that countries with a low degree of autonomy and a low degree of synergy will achieve low growth and high inequality. In this study there are three countries, namely Brazil, Nigeria (which I have discussed in details in chapters 7 and 8) and Kenya that exhibit these institutional characteristics and economic outcomes. This finding is at variance with some of the prominent case study literature on Nigeria and Brazil. Take for example the most recent work by Atul Kohli (2004) which places Nigeria and Brazil in two
different institutional and developmental landscapes. While Kohli’s evaluation of the Nigerian state and economic records are confirmed in this study, it departs from his in terms of the different classifications assigned to Nigeria and Brazil. The former was classified as a developmental failure with poor institutional attributes. In contrast, the latter was seen to have a better developmental outcome. It is also said to have combined institutional attributes of both successful and failed states. The results of this study put Brazil and Nigeria in the same institutional and developmental columns as both exhibit low degree of Auto-Synergy of 0.42 and 0.38, respectively, in the scale. On the dependent variable side, Brazil has a growth rate of 2.6 percent and has the notorious distinction of being the most unequal country in the sample with a Gini index of 0.61. This is somewhat similar to Nigeria’s economic growth rate of 2.7 percent and a Gini index of 0.51. Not surprisingly, both countries ended up in the column of countries with low growth and high inequality. Given this comparisons, it may be somewhat misleading to classify Brazil as an intermediate state (e.g. Evans, 1995).

One of the likely consequences of the low degree of Auto-Synergy in Brazil, Nigeria and Kenya was that the state was unable to adopt high wealth-sharing mechanisms with a view to addressing the gross imbalances in income and wealth. On the contrary, government policies—or their absence—reinforced existing ownership patterns and by so doing entrenched high inequalities in these countries.

Another country that requires a close examination is Mexico. Mexico has a low degree of autonomy (scoring 0.58 in the autonomy scale) combined with a low degree of synergy (scoring 0.40 in the synergy scale) and it is highly inequitable and recorded low economic growth. Evans (1995), like many others, has alluded to the absence of meritocracy in Mexico. Kleinberg (1999) and Schneider (2004) point out that Mexico is legendary in what Schneider calls state corporatism, with trade unions and business being the junior partners, and were controlled by the state. But that is not all. Until recently, the Mexican state had ad-hoc engagements with the private sector, mostly based on personal contacts between state officials and non-state actors. Kleinberg’s (1999) work illuminates this point: “Personal ties and informal contacts between the state and individual entrepreneurs helped to bring private sector goals to the decision making table” (p. 73). To shed more light on the weak role of business in influencing economic policy, she further observed that “Often, business was neither
consulted nor given prior notice of government decisions on issues of import policies, quantitative controls and other economic policy” (p. 73).

The trade unions had even less contacts with the state, and minimal influence on economic policy. In their work for the World Bank, Biddle et al. (2000) point out that “prior to 1987, party-unions link had been the key access trade unions had to the negotiating table” (p. 12).

By 1982, the fraught relationship between the state, business and trade unions had come to a head following the nationalisation of banks. But in the context of economic crisis, with inflation skyrocketing, demand grew for the institutionalisation of state-business-trade unions’ relations, with all the social partners willing to cooperate. Thus, like in Chile, economic crisis gave birth to a joint project between the state and business. Institutionalisation of state-society relations only happened in December 1987, following the signing of the Pact for Economic Solidarity (PES), which was followed a year later by the Pact for Stability and Economic Growth (PACE) between the government, (autonomous) business and trade unions. In the new relationship, which matured in the 1990s, trade unions were the junior partner and loser. Describing the role of unions in the pacts, De la Garza Toledo (1994) observed that they merely ratified agreements already reached between business and the state. This is consistent with the comment of another observer, Cook, (1995: 80) that “unions played little role in shaping the content of such agreements”.

But why did India and Malaysia that have almost the same level of institutional characteristics (Auto-Synergy) achieve different development outcomes? It is to this question that I now turn to.

India is an interesting case that requires closer examination. This will be done through unpacking its institutional attributes. We will complement that with a comparative analysis of the Indian state’s institutions and state-society relations. The Indian state displays a high degree of autonomy (with 0.77 score in the autonomy scale – the second most autonomous state in the sample). But it has one of the lowest levels of synergistic state-society relations (with a score of 0.31, in the synergy scale). This is because, as earlier discussed, there was no joint project in India, the crucial determinant in establishing synergistic state-society relations. To reiterate, the business elite, for example, did not share the state project of being a major player in the economy. As a result, India has a low degree of synergy. Taking the two variables
together, India scored 0.54 on the Auto-Synergy scale, and achieved E-Growth – 5.5 percent economic growth rate and a Gini index of 0.38.

These findings, in terms of the individual independent variables, are consistent with some of the existing literature. Indeed, most of the illuminating scholarship on Indian institutional dynamics (coming from the institutional perspective) reached similar conclusions as the findings of this study. In his comprehensive seminal work, *Embedded Autonomy*, Evans (1995: 67) concludes that, “India’s bureaucratic apparatus still seems a … rough approximation of the Weberian ideal type…, and not qualitatively worse one than the bureaucracies in the developmental states”. Evans (1995), Herring (1999), and Schnieder (1993) point to the meritocratic recruitment of civil servants in India (a tradition inherited from the British colonialists). In the words of Herring, civil servants “recruited on the basis of highly competitive and meritocratic…exams…they circulated widely across agencies and could expect superior performance at each level to result in promotions until retirement from the civil services, at least to a degree” (Herring, 1999: 322, emphasis mine). These were reinforced by the establishment of a planning commission chaired by the Prime Minister, which ensured co-ordination of economic policies but whose efficacy was undermined by the federal structure of governance. Federalism limited the reach of the national government’s economic policies and programmes. This was particularly so as some economic policies were shared by the national and state governments. However, Schneider (1993) concluded that the Indian state could be characterised as corporate and autonomous.

Overall, as shown above, India has a high degree of Auto-Synergy with a 0.54 score on this scale. In accordance with *a priori* expectations, these provided the institutional foundations for its economic performance of equitable growth - the second most egalitarian country in the sample for the 1991 – 2001 period. Taking this as a point of departure, the classification of India as an intermediate state (Evans, 1995) or fragmented state (Kohli, 2004) may be somewhat misleading. The findings, however, reinforce the central hypothesis of this project that highly synergistic autonomous states’ institutions are associated with E-Growth. Its autonomy allowed the state to forge and implement a developmental project of E-Growth. It prevented it

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65 This qualification is necessary because of what Evans refers to as the rapid rotation of staff that characterised the Indian bureaucracy.
from being captured by particularistic interests and, to that extent, allowed it to undertake agrarian reforms that changed the production relations in society by providing access to land to millionaires of the peasantry.

Although Malaysia has almost the same degree of Auto-Synergy with India, its development outcome was inequitable growth. I have noted earlier how the Malaysian state promoted economic growth but that is it a highly unequal society. This is despite the fact that Malaysia is a classic case of a state that undertook policies to redress the gross imbalances in income distribution in an attempt to end the identification of race with economic status. Consequently, the state invested enormous resources in Bumi education (initially, general education but shifted as from the mid-1980s to technical education/vocational training, which consequently increased the number of Malays in education). Although, the children of the Bumi elite benefited most from the scholarship schemes, Jesudason (1989) notes that about 5 percent of families with income less than $300 had children in universities. The state did not stop with the provision of educational opportunities for Malays. It went further to ensure that they were gainfully employed, in both the public and private sectors, on completion of their studies. Furthermore, the state invested massively in housing and health (including setting up rural clinics and providing safe drinking water for rural dwellers). All of these contributed to narrowing the income gap at the initial stages, but as noted in chapter 7, began to change from the mid-1980s, following economic liberalisation. This suggests that non-institutional factors contributed to its inequitable status.

But the explanation for Malaysian inequitable status may also be due to institutional factors. Although Malaysia has almost the same degree of Auto-Synergy as does India, the Indian degree of autonomy (0.77 score) closely approximates the autonomy scale while the Malaysian score of 0.66 is much closer to our median. What these two cases tend to suggest is that even where a country’s degree of Auto-Synergy is high but closer to the median, if such a country’s score on the autonomy variable approximates the autonomy scale, as we have seen in the case of India, it is likely to achieve E-Growth. The Indian case therefore illustrates the fact that countries that approximate the autonomy scale even with low degrees of synergy are likely to achieve E-Growth. In contrast, where a country has a high degree of Auto-Synergy,

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66 See Chapter 7 for some of the factors that contributed to Malaysian high levels of inequality.
but which is closer to the median combined with a high degree of autonomy closer to the median, such a country, as we have seen in the case of Malaysia, is likely to achieve inequitable development. We should not be surprise by this conclusion given that autonomy is a powerful predictor of E-Growth while synergy is not.

But contrary to *a priori* expectations, the results show that countries that are not synergistically autonomous can achieve E-Growth. In the sample, Egypt belongs to this group. How do we account for this surprising development? As I have noted above, Egypt has the second lowest degree of Auto-Synergy in the sample (with a 0.27 score on the Auto-Synergy scale). Though Egypt had a low degree of autonomy, there was a complete absence of synergy. The latter was primarily because of the socialist ideology of the state and its consequent unwillingness to forge alliances with private capital. At the same time, the state—through deliberate social engineering—incorporated the lower classes into its developmental agenda. The elements of the latter included land redistribution, massive welfare programmes – subsidized food, health care, housing, free education and guaranteed employment in the vast public sector – resulting in an overstaffed bureaucracy (Harik, 1997; Abdelazim 2002; and Al-Sayyid, 2003).

In addition, the state initially repressed organised labour, but later co-opted it and small private manufacturers as favourite social groups that it patronized. But this had negative effects on state-society synergy. First, organised business was virtually repressed and marginalised. Second, trade unions ceded their autonomy and decision-making ability in return for favours that labour received from the Egyptian government. It is therefore significant to note that, in the period under consideration, the state’s deliberate policies and programmes to accommodate the poor compensated for the access to economic policy-making that was closed to non-state actors. These policies, together, accounted for the equity status of Egypt (the second most egalitarian country in the sample with a Gini index of 0.34, next to Korea), even in the absence of synergy. In this respect, Egypt used the same mechanisms as the Asian NICs to incorporate the lower class into its developmental agenda. These were the conjunctural and historical factors that explained Egypt’s record as a country with E-Growth status. In conclusion therefore, Egypt attained egalitarianism and achieved a high rate of economic growth due to historical conjunctural factors rather than its institutional characteristics as explained in chapters 7 and 8.
Chile has the same institutional attributes as Egypt and recorded inequitable growth. The analysis that follows will show that like Egypt, its inequitable growth status is both a product of institutional and non-institutional factors. Again, I resort to comparative analysis. We can understand this at various levels. Chile has a history of voluntary autonomous societal interests, due to a number of factors that are beyond the scope of this study (See Schneider, 2004 for an exhaustive analysis of this development). Dating back to the 1940s, organised societal actors, especially business associations, participated in economic policy-making. In some instances by the 1960s, they had actually drafted legislation on policy matters pertaining to specific sectors (Menges, 1966). Such was the degree of influence of business associations on national economic policy. But its drawback was that participation tended to favour and encourage sector-wide business associations, rather than economy-wide peak national business associations. This factor, according to Schneider, explains the weaknesses of the economy-wide encompassing peak national association, the Confederation for Production and Commerce (CPC).

State-business relations dramatically changed in the early 1970s following Pinochet’s military coup, which led to the personalisation of power around him and the appointment of market fundamentalists - the Chicago boys, the latter who immediately seized control over economic policy-making. As a consequence, the door to the policy-making table was closed to business associations. From that period to the early 1980s, the only access business had were essentially informal (ad-hoc) ties between big conglomerates and the Chicago boys. Why was this the case? According to Silva (1998: 227, cited in Schneider, 2004: 164), this is because “Top economic policy makers were generally wary of contact with organised interest groups and worried that consultation would contaminate their reforms”. Thus, like in Nigeria, the economic bureaucrats were sceptical about the impact of organised business on economic policy. In consequence, they forged a narrow, personalised and clientelistic alliance with few individual businesspersons, which in turn tended to undermine the collective well-being of the economy. Silva (1997: 165) summed up the nature of the Chilean state-society relations and its consequences for economic development thus:

…inflexible outside ideologues with a small circle of capitalists contributed to policy rigidity in Chile between 1975 and 1982. The emphasis was on quick stabilization and recovery based on investment in highly volatile short-term financial investments. By the same token, investment stayed low until 1979 in part because capitalists excluded from the policy loop were uncertain. The incomplete feedback loop – the fact that
officials only talked to a narrow businessmen—contributed to policy rigidity and financial collapse in 1982–83.

Following the economic crisis that swept through Latin America in the early 1980s, coupled with labour and leftist mobilisation against the military regime, organised business and the Pinochet dictatorship recognised the need for a joint project. Organised business recognised that it had to work with the regime to overcome the economic crisis. The dictatorship realised that the economic and political crisis was eroding its legitimacy and hence constituted a threat to its political survival. This confluence of interests forced both parties to change their disposition towards each other. To be effective, the regime recognised the need to work with the CPC (an economy-wide encompassing business association). On the other hand, business leaders also recognised that their effective participation in economic policy depended on their capacity to forge consensus proposals, which they would table before the government. This led to a revival of the CPC, as the main interlocutor between organised business and the government. Henceforth, organised business was brought to the economic policy-making table. In addition, CPC leaders had regular access to senior economic bureaucrats on a range of economic policies, including interest and exchange rates. Like in Korea and Singapore, access was not limited to senior leaders—middle level business people also had regular engagements with their counterparts in government. As a sign of their influence at the time, most of the economic reform proposals by the CPC—including a high real foreign exchange rate policy, a reduction of personal income taxes, a reduction of corporate taxes, tax credits on retained profits, internal debt rescheduling—all in an attempt to stimulate investment—were adopted by the state (Silva, 1998). This was designed as an alternative economic stimulation to the radical neo-liberal policy previously pursued by the Chicago boys, which, as noted above, resulted in the 1982–83 economic crisis. Compared to Mexico therefore, institutionalisation of state-society relations took place much earlier—in the early 1980s—and this may have provided the basis for a shared project. Its pursuit led to the revival of the Chilean economy in the early 1980s.

The military regime took the institutionalisation of the participation of societal actors so seriously that General Pinochet himself presided over meetings between the regime and organised business. Remarkably, in the context where governments in developing countries ruled out macroeconomic policies outside the purview of
participatory and consensus-seeking structures and processes, the agreements reached between the Pinochet regime and organised business covered a broad range of macroeconomic policy issues, including the size of the fiscal deficit, devaluation and interest rates, and so on. It also covered specific measures for the protection of industry and agriculture. Thus, Chile's economic recovery was based on some form of state intervention and not on unbridled market fundamentalism as is the predominant logic of the current form of globalisation.

Throughout the period, however, trade unions and civil society organisations were repressed and therefore excluded from participating in economic policy-making. Against this background, one might refer to the alliance between the Pinochet regime, the Chicago Boys and business as the pro-growth (without equity) coalition. As noted above, this was driven by the need to overcome the economic crisis as well as for the survival of the military regime. That Chile has a low degree of synergy is precisely because for almost ten years, 1975 – 1983, business was frozen out from the economic policy-making process. But for the years it participated, especially as from the last quarter of 1983 onward, it had a significant impact on economic policy as state-society relations gradually became more programmatic than personalistic, clientelistic or coercive. In the words of Silva (1997), economic policy henceforth came to be based on strict technical and economic criteria. It is from this period that the Chilean economy started a remarkable turn around, from low growth to high growth. The pro-growth coalition between the state and business pushed through neoliberal economic reforms, including liberalisation. These reforms partly explain Chile's remarkable growth in the period covered by this study. Therefore, the Chilean case suggests that non-institutional factors may have contributed to explain some of its high economic growth rate.

In conclusion, the results of the bivariate regressions discussed so far suggest that the economic dynamism – E-Growth – of Korea, Thailand, Singapore and India are derived from the robustness of the organisational characteristics of the state, as well as the intense connections between the state and society. This means that state institutions and state-society relations are important predictors of a country’s E-Growth status. It needs to be pointed out at this stage that civil society organisations, that is NGOs and CBOs, have been excluded from economic policy-making in all the twelve countries covered in this chapter. I have also noted that in two countries, Malaysia and Pakistan, highly synergistic autonomous institutions were unable to
achieve equitable growth. The former was marked by inequitable growth while the latter was equitable but with low growth. I have suggested some non-institutional factors for the status of the two countries. The analysis also suggest that when a country has a high degree of Auto-Synergy but its score on the autonomy variable approximates the autonomy scale, it is likely to achieve E-Growth. In contrast, when a country’s Auto-Synergy score is high but its score on the autonomy variable is closer to our median combined with a low degree of synergy, such a country is likely to achieve either inequitable growth (as Malaysia) or equity with low growth (as Pakistan).

9. 4: Multivariate Analysis

I attempted to run a multivariate analysis to compare these arguments with the results of the bivariate regressions, but none of the variables proved to be significant in the multivariate analysis. This is probably due to colinearity problems between the two independent variables (autonomy and synergy). The same problem may have also accounted for the fact that unlike in the bivariate analysis, the synergy coefficient becomes significant when we tried to explain inequality as a function of autonomy and synergy. As noted in chapter 7, the Pearson correlation between the two variables is significantly high at 0.69. The various attempts, including transforming the synergy variable, failed to remove this colinearity problem. Consequently, I did not proceed with multivariate analysis.

9. 5: Conclusion

It is clear from the results that high degrees of autonomy, combined with high degrees of synergy, leads to E-Growth. The results also show that both low degrees of autonomy and low degrees of synergy lead to low growth and high income inequality. In the highly synergistic autonomous countries (Singapore, Korea, Thailand, India and Malaysia), internal organisational features, meritocracy, performance-based promotion and well co-ordinated economic management enabled them to selectively intervene in the economy. Autonomy in these states was characterised by professionalisation of economic policy-making. It was also central to the state’s
capacity to forge synergistic ties with societal actors that were programmatic or based on joint projects of economic development, and thus removed from political capture by interest groups that could have had the negative effects of undermining the state’s transformation objectives. High degrees of Auto-Synergy were at the heart of the state’s capacity to guide, steer and at times control the activities of the private sector to meet (set) national goals, and in the process to raise the international competitiveness of domestic industries. In promoting domestic entrepreneurs, the states in Singapore, Korea, Thailand, India and Malaysia sometimes promoted competition—and sometimes cooperation—among private enterprises, under the supervision of the state. This would have been near impossible without high degrees of Auto-Synergy. In contrast, an uncertain and unstable political climate mediated the effects of synergistic autonomous institutions in Pakistan.

Synergistic relations were instrumental to the state’s capacity in Korea, Singapore and Thailand to negotiate and re-negotiate goals and policies associated with their industrialisation project (transforming their economies from primary-sector based to secondary and tertiary sectors), penetrating new markets, adapting to fast-changing global economic circumstances, as well as creating the incentive structures for capital to expand. In addition, high degrees of Auto-Synergy were the institutional architectures for the state to single-mindedly pursue egalitarian goals in these countries. Also, Auto-Synergy enhanced the capacities of the Korean, Malaysian, Singaporean and Thai states to push and entice capital to investment in R&D, and in sectors they considered critical to the state’s industrial transformation strategy. These contributed to their spectacular economic growth rates, the fruits of which were shared equally by all segments of their societies (except in Malaysia). The E-Growth status was therefore not an accident, but a product of domestic institutional configurations.

Four contrasting cases encourage us to be cautious. Egypt achieved E-Growth in spite of its low degree of Auto-Synergy, suggesting that non-institutional factors can also result in E-Growth. While these exceptions are rare, we need to understand why this is the case. We can do so by taking a closer look at the correlation between state autonomy and E-Growth (on the one hand) and state-society synergy and E-Growth (on the other). As pointed out in chapter 7, the resulting Pearson correlation coefficient between autonomy and E-Growth is strong and significant, with a Pearson correlation coefficient of 0.82. In contrast, the Pearson correlation coefficient between
synergy and E-Growth, as noted previously, is moderate but not significant, as it is estimated at 0.343. In fact autonomy on its own has a much greater impact on E-Growth than when it is combined with synergy. This is because there is little association between synergy and inequality. This indicates that autonomy is a better predictor of E-Growth than synergy (as indicated in chapter 8). By implication, countries might as well enhance their degree of state autonomy than try to increase their degree of autonomy and synergy at the same time to have more E-Growth status.

The findings and analysis in chapters 7 and 8 lead us to conclude that the institutional structures of the state and state-society relations, in the period and sample under consideration, do contribute to their economic outcomes. Most of the countries in the sample that approximate the Auto-Synergy index achieved E-Growth. In contrast, a majority of those that lacked such institutional attributes had poor economic records of low economic growth and high income inequality.
Chapter Ten

Conclusion

In this concluding chapter I intend to highlight the major findings of this study. On the basis of this, I will draw some of the main conclusions that emanated from the study.

In the last three decades, developing countries have gone through different developmental trajectories. While most have been characterised by underdevelopment evidenced by low economic growth, poverty, high unemployment, diseases and inequalities, few others have witnessed high rates of industrialisation resulting in near unprecedented economic growth coupled with a qualitative improvement in the population’s living standards. Remarkably, the latter set of countries has been characterised by high economic growth and egalitarianism (E-Growth). These divergent development outcomes continued into the 1991 – 2001 period covered by this study. From an institutional perspective, this study has primarily sought to explain the differing developmental contours or variations in national economic performance among developing countries in this era of extensive and intensive globalisation.

In undertaking this study, I have relied on quantitative data, drawn from different sources. For the dependent variables, I have relied on accessible public data. With respect of the independent variable, I relied on existing data to construct the autonomy indicator while I used my own survey to collect data on the synergy indicator. The analyses that followed were aimed at showing the relationships between state autonomy and economic growth, autonomy and inequality, and autonomy and E-Growth; state-society synergy and economic growth, state-society synergy and inequality, and state-society synergy and E-Growth; as well as the relationship between the combined independent variables and the three dependent variables. All of these analyses were bivariate. The bivariate analyses were complemented by comparative historical analyses. In this way I was able to demonstrate the relationships between the independent and dependent variables.

This study has attempted to develop a comprehensive state capacity theory to fill the gap in the existing literature. It has done so by focussing on the transformative capacity of the state, that is, the capacity of the state to contemporaneously foster
growth and equity. To do this, I adopted the concept of the Synergistic Autonomous State (SAS), and suggested that an explanation for the state’s transformative capacity lies in the internal capacity of the state’s institutions and in its synergistic relations with societal actors. Put differently, the institutional characteristics of the SAS are its high degrees of (synergistic autonomy) Auto-Synergy. One of the first findings of this research is that (with the exception of India and Pakistan), the most highly autonomous countries (namely Singapore, Korea and Thailand) are the most highly synergistic countries. The converse is the case for those with low degrees of synergy (such as Brazil, Chile, Mexico and Nigeria).

The highly synergistic countries established cooperative relations between the state and its social partners. This, in turn, ensured accountability and consensus that made governments responsive to the needs of their people. At the same time, this created a climate for economic growth. The states in these countries premised their legitimacy on successful economic performance. The study has therefore sought to incorporate the notion of state-society synergy into a theory of state capacity. Like Campos and Root (1996), we find that the experiences of these countries offer a new perspective on the kind of political institutions and their association with economic development.

One of the findings of this study is that consultative mechanisms (CMs) have greater influence on the determination of economic policy where there is an institutionalisation of societal participation in economic policy-making. This is a reflection of the fact that one finds a shared project of national transformation between the state and its social partners. It is also a reflection of the government’s commitment to inclusive economic policy-making as part of the economic reform process in order to make it globally competitive. As shown in chapter 6, this was the case in Korea, Singapore and Thailand. The converse is the case in countries such as Brazil, Chile, Nigeria, etc., where governments were unwilling to institutionalise social partners’ participation in economic policy-making. In this latter set of countries, the participation of interest groups had minimal influence on economic policy. As we have seen in chapter 8, this result reflects both a lack of government commitment to participatory democracy and the absence of a shared project. From these findings, it can also be concluded that the institutionalisation of societal participation is more important than the range of interest groups represented in the economic policy-making
process. In other words, the nature of the consultative structure is more important than the number of interest groups represented.

On a related note, I was rather surprised to find that none of the twelve developing countries covered in this study included Non-Governmental Organisations (NGOs) and Community Based Organisations (CBOs) in their processes of economic policy-making (in the period covered in the study). The only civil society groups represented in participatory and consultative structures and processes are the trade unions. Despite the fact that an increase in size and scope of NGOs and CBOs is often seen as a major feature of globalisation, these sorts of institutions have proven to be insignificant in shaping or influencing the economic policies of these states. This has mostly been confined to government and business. This finding appears to support the thesis that globalisation is driven by capital. At the same time it questions the position of extreme globalists, with respect to their opinion about the diminution of the state. Indeed, this dissertation has demonstrated the central role of the state in shaping the economic direction of the countries under study. As Evans (1997b) emphasized: more stateness is needed in the context of globalisation. This is because even global capital requires a state that can provide infrastructure and predictable sets of rules to promote investment, and competent policy-makers with whom to dialogue. Most of the sample that experienced remarkable economic performance were those with strong states and consequently effective capacities to intervene in the economy. Conversely, countries with less autonomous state institutions were mostly unable to shape their economy in order to take advantage of the opportunities offered by the integration of the global economy.

The main hypothesis of this study is that countries with better economic performances (measured by high economic growth rates and low inequality, or E-Growth) are those with high degrees of autonomous state institutions and those that have established intensive connections (synergistic relations) with societal actors. The hypothesis is supported empirically in this study. In an era of globalisation, the strength, dynamism and wondrous economic performances of India, Korea, Singapore and Thailand can be seen as the result of their cohesive state apparatuses and state-society relations – Auto-Synergy. They succeeded on the basis of a coordinated and cooperative approach to national economic management and adjustment. In fact, the association between state autonomy and economic growth is clearly evidenced in this study. It shows that autonomy is a significant determinant of growth, inequality and
E-Growth. With some exceptions, the converse is the case for countries suffering from an autonomy deficit. However, unlike the direct relationship between autonomy and growth, there is an inverse relationship between autonomy and inequality, meaning that as autonomy increases, inequality decreases. Similarly, we saw clear evidence of the relationships between state-society synergy and growth, and that between synergy and inequality. While there is a strong and powerful relationship between synergy and growth, there is weak but negative relationship between synergy and inequality. Importantly, synergy is statistically insignificant in explaining equity. Also, we saw that synergy is a poor predictor of E-Growth.

The above findings might come as a surprise to most observers (including development agencies such as the United Nations Development Programme (UNDP) and the World Bank) who have advocated societal participation in economic policy-making on the grounds that it should produce equity effects. But as we have seen in this study, the empirical claim for this connection is weak. Consequently, autonomy becomes a better predictor of E-Growth than synergy. It is however unclear whether the weak association between synergy and inequality is because of the predominance of the state and business in consultative and consensus seeking structures and the exclusion of NGOs and CBOs.

This study has shown that variations in national economic outcomes (growth with equity) are to a degree dependent on domestic institutions. In particular, institutional autonomy is shown to be a better predictor on economic growth than synergy. In the highly autonomous countries, state institutions were characterised by meritocratic recruitment of senior economic bureaucrats with clear and predictable career paths. Also, these states enjoy centralised yet flexible coordination, core economic ministries that are responsible for planning, gathering and analyzing information in-house, the capacity to target of industries which the state deemed as necessary for the long-term welfare of the economy, and so on. It is because of their institutional autonomy that states in India, Korea, Singapore and Thailand were able to develop in-house capacities and to generate information to formulate and implement policies consistent with their transformative projects of E-Growth. In fact, these countries were able to coordinate change in their economic structures, forge and adapt policies to meet changing global circumstances primarily because of their strong in-house capacity. In addition, there were strong ties and interconnections between the state and interest groups, which enabled them to regularly exchange information,
build consensus around the transformative project of equity with growth. In sum: autonomy and synergy, as the sources of state capacity, contributed to the E-Growth status of these states.

But as we noted in chapter 9, Auto-Synergy has a lower impact on E-Growth than autonomy alone. In other words, autonomy on its own is a more powerful and significant predictor of E-Growth than when it is combined with synergistic relations.

It is hoped that this work can contribute to enrich the debate on state transformative capacity and our understanding of the variations in economic outcome between countries. It takes as a point of departure the notion that state-society relations are crucial determinants of E-Growth. Highly synergistic countries are able to tap into networks or Consultative Mechanisms (CMs) and consequently generate information to formulate and implement policies to upgrade industries, adopt new technologies, take advantage of new market opportunities while at the same time minimise the destructive impulses of current global markets. These are the foundations for the global competitiveness and consequently the remarkable economic growth of the highly synergistic autonomous states of Korea, India, Malaysia, Singapore and Thailand. By jointly making economic policy with key economic actors, governments gained the confidence of the business community to invest and secured the support of the trade union component of civil society around the transformation agenda.

I might close with one important caveat that the reader, especially students of institutions, should not overlook: it is not always the case that countries with low degrees of Auto-Synergy will always achieve low economic growth and high inequality. The Egyptian experience shows that it is possible for a country with an institutional deficit to achieve E-Growth. Non-institutional factors could therefore play a role in a country’s economic performance. In the case of Egypt, its economic achievements were due to other historical factors (such as prior distribution of income in the form of land redistribution that altered the ownership structure). In addition, natural resource endowments, such as crude oil, accounted for a significant part of Egypt’s economic growth, as well as remittances from its citizens in oil-rich Arab neighbour states. All of these are non-institutional factors that accounted for Egypt’s high economic growth rate. The implication of this is that in rare cases, countries without, or with low degrees of, Auto-Synergy can still achieve high economic growth rates and egalitarianism. Non-institutional factors, e.g. a prior land reform,
also contributed to India’s egalitarianism. In other words, other conjunctural factors can lead to E-Growth. Institutionalists should be cognizant of these facts.

For countries that hope to emulate the most successful cases, the appropriate focus should be on developing similar organisational institutions suitable to their own contexts. As we have seen in this study, in spite of the commonalities, there were certain variations in national institutional characteristics.

The main conclusion derived from the analysis is that domestic institutions – state institutions and state-society relations – matter for a state’s capacity to transform and integrate its economy into the global economy, as well as in making its development outcomes more equitable. Countries with enfeebled institutions are unlikely to become globally competitive, to grow, and/or to share equitably the fruits of integration into the global economy. Overall, therefore, the quality of domestic institutions is an important determinant in the ability of developing countries to engage with economic globalisation. The point here is not whether or not globalisation has led to a diminishing role of the state. Rather, the central argument is that states can—given the proper institutional context—successfully adapt to globalisation and even shape it to benefit their citizens. Following Evans (1997), we can agree that globalisation’s “eclipse of the state” is more of a myth than an empirical reality.
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Appendices

Appendix 1: Data on GDP and GINI for selected 40 Developing Countries, 1991 - 2001

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP</th>
<th>GINI</th>
<th>Country</th>
<th>GDP</th>
<th>GINI</th>
</tr>
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<td>Egypt, Arab Rep.</td>
<td>4.2</td>
<td>0.34</td>
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<td>Ethiopia</td>
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<td>Guatemala</td>
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Appendix 2: Questions Used from the Evans and Rauch Dataset

Bureaucratic Structure and Economic Performance:
Codebook 6/23/97

Introduction:
This codebook explains the coding of the variables in the data set produced by the Bureaucratic Structure and Economic Performance project. After the country name and country abbreviation, the next 29 variables (q101-sq20) are derived from the questionnaires filled out by the 126 country experts who participated in this project. (The original questionnaire is reproduced as the Appendix to "Bureaucratic Structure and Bureaucratic Performance in Less Developed Countries," by James E. Rauch and Peter B. Evans.) For convenience we have also included in the data set on this web site variables (sq2_rc-inv6570) used in "Bureaucracy and Growth: A Cross-National Analysis of the Effects of 'Weberian' State Structures on Economic Growth," by Peter B. Evans and James E. Rauch, and variables (corrupt1-ethfrac) used in the Rauch and Evans paper already cited. For descriptions of these variables see the respective papers.

Overview:
Narrative and Standard Answers: In order to make comparisons across countries more feasible we have provided some standard alternative answers to each question, but we are well aware that these standard answers can't capture the full complexities of real bureaucratic structures. Therefore, we hope that in addition to indicating which standard alternative comes closest to describing your case, you will offer a separate, complementary narrative discussion of how the state bureaucracies you are describing look with regard to these issues. Time Period: We are interested primarily in what these bureaucracies looked like in the recent past roughly 1970 - 1990. If there have been important changes within this period, or between this period and the present please indicate the sub-period to which your answers apply. We would also appreciate any commentary you could add on changes over time in your narrative responses.

Core Economic Agencies:

1. List the four most important agencies in the central state bureaucracy order of their power to shape overall economic policy. (e.g. Ministry of Finance, Ministry of Industry and/or Trade and/or Commerce, Planning Board, agency or Ministry)?

To aggregate these responses for the country-level data, nine variables were created:

Variable Names:

Q101 = President's office, Prime Minister's office (or Royal Palace)
Q102 = Ministry of Finance
Q103 = Central Bank
Q104 = Ministry of Economics (Economics and Finance, Economic Affairs, National Economy, etc.)
Q105 = Planning Ministry, Secretariat, Commission or Board (Development Board or Council or Development Bank)
Q106 = Ministry of Trade, Ministry of Commerce, Ministry of Industry (Trade and Industry, Industry and Commerce, etc.)
Q107 = Ministry of Defense, Military
Q108 = Monetary Authority
Q109 = Other (Ministries of Public Works, Mines and Energy, Agriculture, Privatisation, Communication, Social Development, Foreign Investment Committee, etc.)

Codes:

0 = Not mentioned
1 = Listed as 2, 3, or 4 by less than half of the respondents
2 = Listed as 2, 3, or 4 by at least half of the respondents, OR, ranked first by at least one respondent but listed as 2, 3, or 4 by less than half of the others
3 = Ranked first at least once and listed as 2, 3, or 4 by at least half of other respondents
4 = Ranked first by at least half of the respondents

**Recruitment and Careers:**

[In answering the following questions, assume that "higher officials", refers to those who hold roughly the top 500 positions in the core economic agencies you have discussed above.]

4. Approximately what proportion of the higher officials in these agencies enter the civil service via a formal examination system?

   Codes:
   
   1 = less than 30%
   2 = 30 - 60%
   3 = 60% -90%
   4 = more than 90%

   Variable Name: SQ4 - Country Average on Q4

5. Of those that do not enter via examinations, what proportion have university or post-graduate degrees.

   Codes:
   
   1 = less than 30%
   2 = 30 - 60%
   3 = 60% -90%
   4 = more than 90%
Variable Name: SQ5 - Country Average on Q5

6. Roughly how many of the top levels in these agencies are political appointees (e.g. appointed by the President or Chief Executive)

Codes:

1 = none.
2 = just agency chiefs.
3 = agency chiefs and vice-chiefs.
4 = all of top 2 or 3 levels.

Variable Name: SQ6 - Country Average on Q6

7. Of political appointees to these positions, what proportion are likely to already be members of the higher civil service?

Codes:

1 = less than 30%
2 = 30 - 70%
3 = more than 70%

Variable Name: SQ7 - Country Average on Q7

8. Of those promoted to the top 2 or 3 levels in these agencies (whether or not they are political appointees), what proportion come from within the agency itself or (its associated ministry(ies) if the agency is not itself a ministry)?

Codes:

1 = less than 50%
2 = 50 - 70%
3 = 70% - 90%
4 = over 90%

Variable Name: SQ8 - Country Average on Q8

9. Are the incumbents of these top positions likely to be moved to positions of lesser importance when political leadership changes?

Codes:

1 = almost always
2 = usually
3 = sometimes
4 = rarely

Variable Name: SQ9 - Country Average on Q9
11. What prospects for promotion can someone who enters one of these agencies through a higher civil service examination early in his/her career reasonably expect? Assuming that there are at least a half dozen steps or levels between and entry-level position and the head of the agency, how would you characterise the possibilities for moving up in the agency? [NB. more than one may apply.]

1. in most cases, will move up one or two levels but no more.

2. in most cases, will move up three or four levels, but unlikely to reach the level just below political appointees.

3. if performance is superior, moving up several levels to the level just below political appointees is not an unreasonable expectation.

4. in at least a few cases, could expect to move up several levels within the civil service and then move up to the very top of the agency on the basis of political appointments.

Codes:

=2, if 3 and/or 4 are circled, but not 1 and not 2
=1, otherwise

Variable Name: SQ11d - Country Average on Q11d

The individual responses to the above questions were aggregated to create a country-level data set, in which each country received a score equal to the average of the responses of all experts answering each question for that country.
Appendix 3

Questionnaire for Analyzing

State-Society Relations and Economic Performance in Developing Countries

By
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Background: In the recent period, participatory governance has received increased scholarly and policy attention. In particular, development and donor agencies are impressing upon governments in developing countries the need to forge cooperative relations with social and economic actors. Also donor organisations are spending a lot of funds on civil society to enhance their participation in policy formulation. Yet, no measurable indicators and datasets exist to assess the impact of associational participation in economic policy making. Even major development agencies such as the World Bank and the United Nations Development Programme (UNDP) have not been able to develop measurable indicators on state-society relations, on the basis of which they could assess their impacts on economic performance across countries. In the absence of comparable data, it is, difficult to draw a direct link between synergistic state-society relations and economic outcome.

This survey constitutes an attempt to operationalise the link between interest groups participation and socio-economic performance. It intends to do so by developing measurable indicators for the purposes of comparability across countries. Development of comparable indicators and the creation of a dataset on state-society relations will enable researchers and development agencies to explain variations in national economic performance between developing countries.

Objective: The aim of this survey is to develop cross-country comparable data on state-society relations in developing countries. As you will notice, I have provided some standard alternative answers to each question, but I am aware that these standard answers may not capture the full complexities of organised interests’ participation in economic policy-making. Therefore, I hope that in addition to indicating which standard alternative is closest to your answer, you will offer a separate, complementary narrative of how the organised interest groups participate in economic policy making at the national level.

Policy Areas: I am interested in organised societal interests’ participation at the national level in the formulation of fiscal policy, monetary policy, investment, overall industrial policy, trade policy, job creation and training, and employment law.

Time Period: The time period I am mostly concerned with is 1970 – 1990. But for the purposes of detecting whether or not there have been important changes in associational participation in economic policy making, please indicate to which sub-period your answers apply. I would appreciate your answers to these questions and any additional commentary on state-society relations in developing countries.
QUESTIONNAIRE

Respondent: __________________________ E-Mail: __________________________

Country: __________________________

State-Society Relations (Synergy)

1. Is there a consultative forum for government to have dialogue with organised interest groups around economic policies (e.g. fiscal policy, monetary policy, investment, industrial policy, trade policy, job creation and training policy, and employment law)?

   (a) Yes □ □
   (b) No □ □

2. Which of the following best describe the nature of the consultative mechanism?

   1. No consultative mechanisms. □ □
   2. Ad hoc consultative mechanism (not based in law and meet at irregular intervals). □ □
   3. Informal Consultative mechanism (although not based in law, participation of organised interests is institutionalised through regular dialogue and consultations by government). □ □
   4. Statutory consultative Mechanism/standing body (based in law, and there are regular consultations). □ □

3. How would you characterise the composition of the forum of dialogue and consultation?

   1. No consultative mechanisms. □ □
   2. It is made up of representatives of government and peak business associations. □ □
   3. It is made up of representatives of government, peak business associations and peak trade unions organisations. □ □
   4. It is made up of representatives of government, peak business associations, peak trade unions organisations and NGOs/civic organisations. □ □

4. Which of the following description best fits the outcome of such consultations?
1. No influence on final economic policy.  
   1970 – 1990 □  □  
   1991 – 2003 □  □  

2. Minimal influence on final economic policy.  
   1970 – 1990 □  □  
   1991 – 2003 □  □  

3. Moderate influence on final economic policy.  
   1970 – 1990 □  □  
   1991 – 2003 □  □  

4. Influential in determining economic policy.  
   1970 – 1990 □  □  
   1991 – 2003 □  □  

5. Very Influential in determining final economic policy.  
   1970 – 1990 □  □  
   1991 – 2003 □  □  

5. How would you characterise the relationship between the economic bureaucracy and civil society organisations (NGOs and Civic organisations) on a scale of 1 (=Hostile) to 6 (=Cooperative)?

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6. Are civil society organisations (NGOs and civic organisations) consulted by the economic bureaucracy around major economic policy?

   (a) Yes  
   1970 – 1990 □  □  
   1991 – 2003 □  □  

   (b) No  
   1970 – 1990 □  □  
   1991 – 2003 □  □  

7. Which of the following best fits the outcome of such consultations?

1. No influence on final economic policy.  
   1970 – 1990 □  □  
   1991 – 2003 □  □  

2. Minimal influence on final economic policy.  
   1970 – 1990 □  □  
   1991 – 2003 □  □  

3. Moderate influence on final economic policy.  
   1970 – 1990 □  □  
   1991 – 2003 □  □  

4. Influential in determining final economic policy.  
   1970 – 1990 □  □  
   1991 – 2003 □  □  

5. Very Influential in determining final economic policy.  
   1970 – 1990 □  □  
   1991 – 2003 □  □  

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Appreciation

Thank very much for sharing your expertise with me. I would appreciate any thoughts you might like to add on the relations between the government, trade unions, business associations and civil society.

(Limit to 800 characters)

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SW = Single Weighted, DW = Double Weighted and SS = Synergy Score