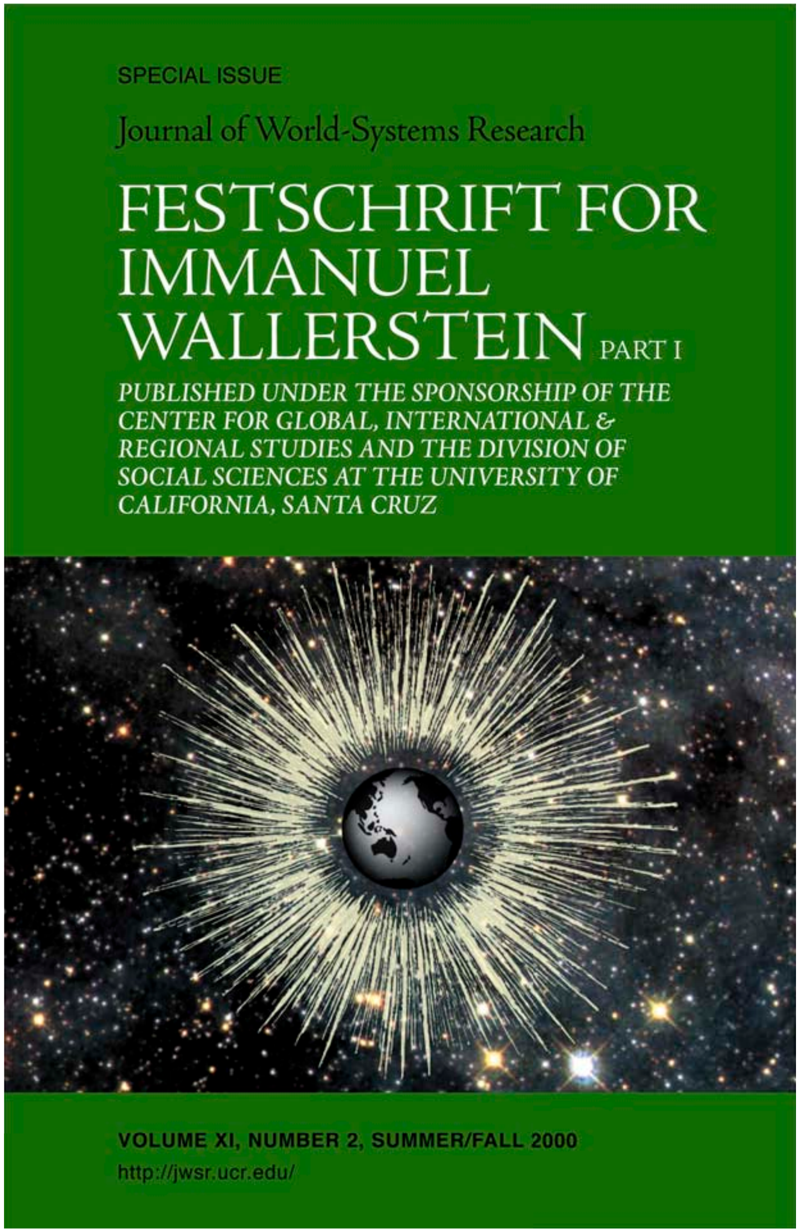

The Past and the Future of the Developmental State

Amiya Kumar Bagchi

I.The Concept of the Developmental State and Its Transformations Through History

Like most human institutions—the family, the village, the city, the state, customs, laws, the nation—the developmental state was born long before anybody thought of naming it. There are debates about when it was born, whether all developmental states (as they are usually characterized) are properly labeled, and whether there have been developmental states overlooked literature. In this paper, it will be claimed, *inter alia*, that indeed there were developmental states long before economists, political scientists or historians recognized them as such, and that not all developmental states, as conventionally labeled, have been true members of the select club of developmental states.

First, let us see what a developmental state (DS) means in the era of the global spread of capitalism. It is a state that puts economic development as the top priority of governmental policy and is able to design effective instruments to promote such a goal. The instruments would include the forging of new formal institutions, the weaving of formal and informal networks of collaboration among the citizens and officials and the utilization of new opportunities for trade and profitable production. Whether the state governs the market or exploits new opportunities thrown up by the market depends on particular historical conjunctures. One feature of a successful

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developmental state is its ability to switch gears from market-directed to state-directed growth, or vice-versa depending on geopolitical circumstances, as well as combine both market and state direction in a synergistic manner, when opportunity beckons.

Thus the degree and nature of DS involvement in economic activity are likely to vary over time, with neither undiluted *etatisme* nor a dogmatic commitment to the free market likely to characterize a successful DS. We will also see that the instruments for pursuing these goals are likely to change from state to state and epoch to epoch.

II.THE NETHERLANDS AS A DEVELOPMENTAL STATE IN THE SIXTEENTH AND SEVENTEENTH CENTURIES

The first DS in our sense to emerge since the sixteenth century was that of the northern part of the Spanish Netherlands which, after the reconquest of the southern part by Spain, evolved into today's Netherlands. The beginning of an independent state of Netherlands is generally dated to 1568, when the Protestant dukes of Egmont and Hoorn were executed at Brussels by the Spanish authorities. In 1572, the Calvinist 'Sea Beggars' captured Den Briel, a port at the mouth of the Rhine. In 1579, the seven northern provinces formed themselves into the United Provinces, with a States-General elected as the legislative (and executive) body for the federation. In 1581, William I of Orange, speaking on behalf of the seven provinces, renounced allegiance to Spain, and their career began as federated States (Boxer 1973: 332-3; Israel 1995: chapters 9-11).

During the next fifty years, the Netherlands, a country of about 1.5 million people in 1600 (Klep 1988: Table 13.4), became the top seafaring nation in Europe and the world, with an empire that dotted the globe from Indonesia (and briefly Formosa, today's Taiwan) to the Caribbean. There were many elements that led to this achievement; geography, social structure, nationalism, a fierce spirit of independence, undaunted realism and an ability to adapt their strategy to the military and political needs of the day all played a part (Israel 1995: chapters 11-24).

Feudalism had been virtually unknown in Holland and other maritime provinces of the Netherlands since the thirteenth century, and geography at least partly contributed to this situation (Israel 1995: chapters 2-6). Dikes had to be built in order to protect the land, water had to be drained in order to reclaim it, and an elaborate system of maintenance had to be devised in

order to ensure that centuries of effort were not swept away in devastating floods. This 'flood society' dispensed with both the functional need and the historical justification that buttressed social dependence in the rest of the European countryside. If deference to social superiors was based on reciprocity for physical safety, it was the dike reeve and the locally elected *heemraadschappen*, the water guardians, rather than any vassal lord, who were in the best position to require it. The autonomy of local communities in respect of taxing themselves to meet hydraulic needs was the territorial basis for their assumptions about 'the "ascending" nature of political authority, conferred (or at least assented to) from below, rather than devolved from above' (Schama 1987:40). Intensive involvement in trade and commerce facilitated by numerous rivers, inlets and ports, and the innovations called forth in the struggle to subdue an inclement nature made the agriculture and animal husbandry of the Low Countries the most productive in the whole of western Europe and provided the basis for a highly urbanized society in which more people engaged in trade, industry and other non-agricultural activities than in agriculture by the middle of the seventeenth century (De Vries 1976: 69-75; De Vries and Van der Woude 1997: chapter 11).

The revolt of the Netherlands against Habsburg rule was triggered by the determination of Philip II to impose Roman Catholicism on a country in which a large proportion had renounced it and his attempt to impose centrally appointed (and inexperienced) dike inspectors and centralize the power to tax the villages and towns for the purpose of maintaining the dikes and waterworks. The burgher oligarchs of the major towns prevailed in open conflict with their erstwhile Spanish overlords, sometimes in opposition to rural landowners exercising political power in the inland provinces. Thus, successful revolt in turn strengthened a state run by merchant princes and manufacturers. Burgher rule was a very potent weapon for the victory of the Dutch over many of their enemies still ruled by feudal lords (Boxer 1973: chapter 1; Schama 1987: chapters 1-4; Israel 1995: chapters 17-22).

A second factor which made the Netherlands into a formidable DS was the intense patriotism of the Dutch. This was strengthened in their epic conflict with the most powerful state in Europe. The Dutch rejected most of their recent history, except that part which invoked the heroism and martyrdom of their revolutionary leaders; and they reached back into the days of the Roman empire and the history of the Jews in order to create a patriotic lore for themselves. They thought of themselves as the inheritors of the Batavian republic which reputedly resisted Roman rule, and also as the Chosen People who would be tested by God in trials by water and fire (Boxer 1973: chapter 1; Mulier 1987: chapter 1; Schama 1987: chapters 1 and 2).

Their nationalism was, however, intensely practical. While they were ever ready to combat Spanish aggression and smite the Popish infidels wherever they could, they would make peace whenever the oligarchs considered it profitable to consolidate their gains rather than squander their resources seeking glory. The Dutch expected their rulers to engage in prodigious efforts and had no problems with sacrificing them when national interest seemed to demand it. Thus Johan van Oldenbarnveldt, the chief minister of the Dutch Republic, personally promoted a huge land reclamation project and also played an active part in promoting the Dutch East India Company. The latter proved a formidable agency for wresting control of the trade of Indonesia and the spice trade from the Portuguese (Boxer 1973: 25-6; Schama 1987: 38-9). Oldenbarneveldt guided the destinies of the republic for most of the period of the twelve years' peace with Spain (from 1609 to 1621). But he was executed on a trumped-up charge in 1619, when the war party, represented by Maurice of Nassau, gained the upper hand. Normally, the two most important personages among the rulers of the country would be the Stadholder, always a member of the house of Orange, and the Grand Pensionary of Holland. But between 1650 and 1672, the country was without a Stadholder (who was a half-way incumbent between the commander-in-chief of the Dutch armed forces and a constitutional monarch) and was guided by Johan De Witt, a fervent republican (Mulier 1987). However, in 1672, the Netherlands got involved in a war with two of their most powerful enemies, the English and the French. The brothers De Witt were murdered by an Amsterdam mob, and William III, the then Stadholder, assumed charge of Dutch defence.

Not only were the practical Dutch willing to sacrifice their rulers when need arose, the rulers also did not hesitate to tax themselves, and, of course, the common people for keeping up the defence forces, maintaining the elaborate infrastructure for agriculture and trade, and to some extent, succouring the poor who were no longer looked after by the church. Ironically enough, the Republic extracted a higher tax revenues from the Dutch burghers than the Spanish rulers ever managed.

A third notable characteristic of the Dutch DS was its religious tolerance. While Protestantism or even its narrower version, Calvinism, was declared the state religion in several of the states, the regents generally managed to keep the zealots among the Calvinists from enacting Draconian measures against the dissenters (Boxer 1973: chapter 5; Schama 1987: chapters 1-2). As a result, not only did the persecuted Protestants from southern Netherlands and Huguenots from France find a refuge in the northern Netherlands, but Jews and heretics fleeing the Spanish Inquisition also flocked to the republic. The influx of these refugees strengthened the skill-base of the republic and raised its productivity. The southern Netherlands, and especially Antwerp, had enjoyed primacy in trade and commerce before the revolt of the Netherlands. But they lost it after the reconquest by the Spanish army and the sacking of Antwerp by the mutinous soldiers of that army in 1576, when Philip II went bankrupt yet again. The departure of the Protestant burghers contributed to this downfall. Conversely, the northern Netherlands gained from the influx of the same refugees.

A fourth characteristic of the Dutch republic was a deliberate attempt to create institutions and habitats which would facilitate clean living and growth. The cleanliness of Dutch cities and the orderliness of its institutions of credit and taxation became a by word among contemporaries. Between 1640 and 1655, the rate of interest at which the Dutch republic was able to raise government loans came down from 6.25 percent to 4 per cent. Even in 1672, when the French troops overran the Dutch territory, the republic was able to raise loans for hiring auxiliary troops (Clark 1947: 44-5). The Bank of Amsterdam, founded in 1609, became a model for all subsequent state or state-backed banks of western Europe, and presided over a system of public and private credit extended at low rates of interest. These low rates in turn encouraged accumulation.

In many of their designs and projects the Dutch consciously emulated Italian city states, or Spain and Portugal. But they introduced their own innovations so as to adapt the foreign designs to their needs. This applied to the variety of Dutch ships which had to be easily maneuverable in the treacherous shoals and islands of the North Sea while also allowing them to carry guns that would be effective in naval warfare on the open seas. Even in armed warfare on land, Maurice of Nassau and his brother William Louis introduced major innovations such as constant drill in peacetime, and countermarches by formations of soldiers armed with slow-firing muskets who could fire almost continuous volleys at the enemy (McNeill 1983: 128-36; Parker 1988: 18-19). Maurice was also the first to use modern instruments such as the telescope in the business of war (for a list of Maurice's innovations, see Clark 1947: 112-3).

It is important to note that all these innovations presupposed a ruling class which was literate and often highly educated. The Dutch ruling class encouraged education and the useful arts and founded academies or training institutes for advancing them. New universities were founded at Leyden (in 1575) after the siege of the town by the Spanish army had been lifted (in 1574), at Harderwijk in 1600, Groningen in 1614, and Utrecht in 1634. These universities proved to be the most open seats of learning in Europe of the seventeenth century (Clark 1947: 291-2; Israel 1995: chapter 24). Thus the Dutch also displayed a high degree of ability and willingness to learn from others.

The Dutch republic, of course, was not an idyllic commonwealth. It was a highly unequal society, with great differences in income and political power between the poor and the rich. Only the wealthy merchants and landowners could participate in the apparatus of rule at different levels, and the poor were kept tightly under control. But the poor were looked after, even if under a harsh regime. The rasp-houses (where brazilwood was rasped to serve as dyes) and spinning houses of Holland became tourist attractions and later, models for workhouses in other west European countries (Lis and Soly 1982: 118-19; Schama 1987: chapter 1). During its career as an effective developmental agency, the Dutch state followed a policy of full employment for its original inhabitants and for the immigrants whom it recognized as legal entrants.

Later, we will briefly examine the causes of the demise of the developmental state of the Netherlands and some of its consequences. As we shall see, both the success of that state and the malignity and accession of strength to its competitors made for the death of the developmental state and the decline of the Netherlands (Wilson 1939).

III. ENGLAND (OR BRITAIN) AS A DEVELOPMENTAL STATE 1560-1851

In many (if not most) accounts of the triumph of industrialization in England and its emergence as the first industrial nation, only the role of private enterprise and free trade are emphasized. However, in the victory of

private enterprise, the construction of a state fostering its growth played a critical role, and free trade as a policy did not gain ascendancy until Britain had already emerged as the most powerful nation in the world economically, militarily and politically. It was the maturation of the DS that made a policy of free trade optimal for the British ruling classes. Without the success of the former, such an outcome might have remained highly problematic.

The recognition of England, and later on, the United Kingdom, as a DS has been delayed for several reasons. First, it was very slow in its maturation process. Secondly, long before it became a fully free-trading nation it had begun preaching the doctrine of free trade to others, even enforcing it with gunboats and soldiers, as in the case of the first Opium War or England's intervention in the wars of independence launched by the Latin American *criollos* against Spain and Portugal. Thirdly, although by the beginning of the eighteenth century Britain had emerged as a state with all powers of national policy-making centralized in the Parliament, it operated a highly decentralized state apparatus run by the property-owners in the counties, provincial cities and towns. Still, this failure to recognize England as a DS has begun to change (see, for example, Corrigan and Sayer 1985; Brewer 1989).

The beginnings of the DS in Britain go back to the sixteenth century, if not earlier. The peasant revolts from the fourteenth century managed to eradicate most of the real content of serfdom and feudal subjugation of the peasantry by the time the Tudor kings came to rule England. The Reformation in England occurred very much as a state-led enterprise. This had the momentous result of destroying the established (Roman Catholic) church as owner of property and a power independent of the throne while also creating a new section of landowners who became enriched through the expropriation of the church. The remnants of English feudalism were abolished in the civil war between the king and the parliament, and under the short-lived but mighty republic created by the parliamentary party led by Oliver Cromwell (Hill 1961: chapters 3 and 9; Corrigan and Sayer 1985: chapters 3 and 4). England was the first large country in Western Europe (barring the Netherlands, that is) to abolish all the usual appurtenances of feudalism and convert land into a commodity, transferable, salable and heritable, except for restrictions which sought to preserve large properties in their entirety. In the rest of Western Europe, it took another century and a half (from the 1780s to the end of Napoleon's wars) for feudalism to release land and peasants from its bondage. In much of Central and Eastern Europe feudal tenures were not abolished until after the revolutions of 1848, and in Russia, Hungary and Rumania, it was only in the 1860s that feudal tenures and serfdom were formally abolished (Blum 1978: chapters 16-19).

The abolition of feudal tenures and the formal freeing of labour from non-market bondage, the easing of medieval restrictions on trade, and the acquisition of political power by a group who owed their position to ownership of property rather than rank and birth *per se* gave England an enormous advantage over all its proto-capitalist competitors in Europe. In the sequel, England beat first the Netherlands and then France in the race for political, economic and military dominance in Europe and extended that dominance to the whole world by the middle of the nineteenth century. The acquisition of colonies and the envelopment of the major part of the Atlantic slave trade by Britain helped it to accumulate capital and ease its climb to the position of supremacy. This ability to conquer other lands militarily and economically must be seen as a result primarily of the domestic transformation that made it the formidable DS that it became.

A second aspect of the DS was the enormous capacity of the British state and society for learning from others and its ability to make its own adaptations and innovations on the foundation of foreign learning. The British learned from the other European countries, of whom perhaps the foremost were the Italian city states. Theories of states guided by precepts other than those of religion or feudal notions of honor and vassalage were borrowed from Machiavelli and other Italian writers. Then in the seventeenth century, Thomas Hobbes, John Locke and a host of other theorists formulated the principles of sovereignty and citizenship in constitutional monarchies and republics alike.

In the area of technology the British learned from the Italians, the Huguenot refugees from France, the Dutch (especially in the areas of agriculture, irrigation, drainage and land reclamation) and later on from the Chinese and the Indians. During the reign of Elizabeth I, the British imitated the practice of the Venetians in granting patents for introduction and use of foreign innovations on English soil and encouraging domestic innovations. These patents were granted to foreign immigrants endowed with the scarce knowledge and skill, and increasingly to Englishmen (Corrigan and Sayer 1985: 66; MacLeod 1988: chapter 1). In order to prevent

abuse of Englishmen's patents by arbitrary rulers, the parliament introduced the Statute of Monopolies in order to restrict the issue of patents to genuine innovations and select projects judged to be of overriding public interest. By the eighteenth century Britain emerged as the pacesetter of technological innovations the world over.

In the economic development of Britain, the role of the state has been underestimated because the state was rendered 'invisible' to many observers, and partly even to the common people in normal times through measures of decentralization, the taxing of property of the landowners and the operation of the navy rather than a large national standing army as the bulwark of British defence and its major offensive force (Corrigan and Sayer 1985: chapter 5). But the British state was strong nevertheless and exerting its influence on both the supply and the demand sides of burgeoning private enterprise. On the supply side: the growth of private enterprise was smoothed by the removal of most restrictions on the mobility and transferability of assets; the regulation of the labour market and the disciplining of labour through a series of legislative Acts going back to the Statute of Artificers of 1563; various Acts regulating the relations of masters, and 'servants'; the outlawing of workers' combinations, draconian laws such as the Black Act of 1723 protecting property (including Acts that made petty stealing a capital offence) and public and private Acts enforcing the enclosure of millions of acres of land. (Thompson 1977; Corrigan and Sayer 1985: 95-99). On the demand side the national market was protected for the production of corn, sugar, textiles, naval stores, and timber with tariffs, the banning of the importation of various kinds of goods from foreign countries including France, Spain, India, from colonies (such as Ireland). Navigation Acts passed in 1651 and 1662, made it illegal to import goods from abroad in foreign or third country bottoms, and sumptuary regulations restricted or banned the consumption of certain kinds of foreign goods within British territory.

On the demand side, again, the navy played a very important role by providing support for a host of industries catering to shipbuilding and naval armament. The British state generally spent much more on the navy than on the army (Clark 1947: 110; Brewer 1989: chapters 2-4). As the strength of the British economy and its armed forces grew, so too did military spending. Between 1710 and 1780, the estimated national income of Britain rose from £59.8 million to £97.7 million and military spending increased from £5.4

million to £12.2 million (Brewer 1989: 41). Both were to grow, and military spending at a much faster rate, during the 1790s and up to 1815, as a result of the wars with the French. Moreover, owing to the necessity of managing naval ships and large merchant boats, the skills of organizing and disciplining the workforce of large factories became diffused among property owners in Britain. A typical man-of-war in the eighteenth century cost several times a cotton spinning mill, the largest modern factory known at that time.

This scale of public expenditure required a reliable system of public credit and taxation. Here also the British learned from advanced foreign competitors and added innovations of their own. The British consciously followed the example of the Bank of Amsterdam in establishing their own Bank of England in 1694. The latter was a private bank but most of its capital was laid out for loans to the government which in turn allowed the bank to issue its own notes which could be used to settle public dues. The Bank of England, the East India Company and the South Sea Company provided the bastion of public credit which allowed the British state to raise loans at a low rate during wars as well as in peacetime (Dickson 1967; Brewer 1989).

Wars also required higher taxes. Here the British ruling classes showed their sense of responsibility as rulers by taxing themselves. They also, of course, raised a number of indirect taxes which impinged on the poor. But with the onset of the wars under Dutch William in the 1690s, a land tax was introduced on landowners without any exemption. The landowners generally managed to pass the tax on to their tenants and to consumers through higher prices (since the production of corn was protected by tariffs, or sometimes, outright prohibition of imports) (Corrigan and Sayer 1985: chapter 5). The upper classes did pay the tax and did not generally try to evade it. 'In the 1760s Britain succeeded in appropriating about 20 per cent of the nation's output in taxation, almost twice the corresponding French figure' (Thane 1990: 3). This was very important at the time, because France had emerged as England's chief political rival. Not only did the French state fail to get as large a percentage as the British state in taxes, its taxes were also resented more by the general population. Indeed, the taxation system was a major contributor to the popular upsurge that led to the French revolution. Again, in 1799, the British parliament imposed an income tax which was levied on all incomes above a certain level; it promptly abolished it in 1816, when it was deemed no longer necessary with the defeat of the French.

The taxability and disciplining of the upper classes as well as the lower is thus a characteristic of the DS. For example, the economic decline of the Netherlands in its 'periwig' phase occurred partly because its upper classes chose a life of ease rather than one of stern self-discipline.

Finally, we turn to another aspect of Britain as a DS which is often relegated to a chapter on social history, or with Polanyi, is considered a positive hindrance to Britain's career as the first fully evolved market economy. This is the extensive and decentralized system of poor relief evolved since the time of Elizabeth I. 'The Elizabethan poor laws, an amalgam of earlier laws and practices, were codified in 1597-98 and reenacted in 1601. The latter…established the principles of the "old poor law" as it later became known: the parish as the basic unit of administration, a compulsory poor rate levied on householders by overseers appointed by the local justices (the overseers obliged to serve under penalty of a fine), and various types of relief for various kinds of needy—alms and almshouses for the aged and infirm, apprenticeships for children, and work for the able-bodied (and punishment or confinement for the "sturdy beggar")' (Himmelfarb 1984: 25). The poor laws were, of course, enforced with differing degrees of slackness or harshness in the succeeding centuries. But they were taken seriously enough for them to have cost more than £2 million in rates in the second decade of the eighteenth century, in a total population of under 6 million (*Ibid.* 26). The objective of the laws (including a law which allowed the local authorities to send back paupers or persons who might claim poor relief to the parish they came from) was to discipline labour and regulate the labour market as well as to succour the poor.

By the end of the eighteenth century it was accepted that the local authorities had a special duty to relieve the poor in periods of acute scarcity. During the French wars of the 1790s prices of necessities rose all round and severely hit the poor. 'The justices of Berkshire [in England], meeting at the Pelikan Inn, in Speenhamland, near Newbury, on May 6, 1795, in a time of great distress, decided that subsidies in aid of wages should be granted in accordance with a scale dependent upon the price of bread' (Polanyi 1957: 78). This measure still did not prevent real wages, especially of agricultural labourers, from declining substantially in the decades up to the 1820s and 1830s in many counties of England. But they helped contain social and political discontent and put a ratchet below the domestic demand for the basic consumer goods.

iv. the developmental state in germany 1850-1914

The spectacular rise of a unified Germany between 1871 and 1914 to the position of the premier industrial nation in Europe, ranking only second to the USA, has obscured the fact that the career of Germany as a DS had begun considerably earlier. The real beginnings can be traced back to 1850. According to Tilly's new estimates the real acceleration of the rate of growth of net domestic product in Germany dates to the 1850s. Moreover, it was only after the abortive revolution of 1848 that the last remnants of feudalism were abolished throughout the German territory (Tilly 1991:176-77).

Many of the usual explanations for the pattern of German development take either Hoffman's theory of stages of industrial development or Gerschenkron's hypothesis of the advantages of moderate backwardness as their starting point. According to the former theory (based primarily on Britain's experience), the share of capital goods in factory production goes up only at a later stage of development while consumer goods produced in factories act as the lead sector in the beginning. Germany did not fit this pattern since by the time factory production made its presence felt on any scale production of iron, steel and mineral products took the lead. Gerschenkron's hypothesis adds on to this early growth of capital and basic goods sectors certain institutional features, such as a more pervasive intervention of the state in guiding the economy, and a more pronounced role of banks in financing industry as characteristics of the development of a backward economy (Hoffman 1955; Gerschenkron 1965).

The beginning of Germany's 'relative backwardness' within western Europe can be traced back to the Thirty Years' War in the first half of the seventeenth century. That war led to a precipitous population decline, a devastation of the infrastructure, and the consolidation of feudal-military authoritarianism in a Germany which was fragmented into a few large states (such as Prussia or Bavaria) and hundreds of tiny principalities. In the eastern parts of Germany the commercialization of the grain trade had induced a further consolidation of feudal power and the reduction of the dependent peasants to virtual slavery (Borchardt 1973: 85-98). The abolition of feudalism in most German states was the direct outcome of the challenge posed

by a revolutionary France which was easily able to defeat the military forces of the most powerful German princes until the final overthrow of Napoleon in 1815. The end of feudalism (which took place between the 1810s and 1850s) led also to the creation of a rural proletariat because emancipation came with a stiff price for the peasants. The latter had to buy the land they cultivated at a price capitalized at twenty years' rent, leaving hundreds of thousands of peasants landless when they were unable to raise the required sum (Blum 1978, Borchardt 1973).

The process of abolition of direct rule by feudal princes and the emergence of Prussia as by far the most powerful state in Germany facilitated German unification. In the centuries of feudal consolidation since the sixteenth century, German nationalism had remained dormant, and mostly confined to the sphere of literature and culture. It gained a new impetus from the example of the power of French nationalism that was unleashed after 1789 (Greenfeld 1992: chapter 4). The major central and south German states (except Austria which was part of the Austro-Hungarian empire) joined a customs union with Prussia in 1834, and the other German states joined the union between 1835 and 1867 (Borchardt 1973:105).

The economic unification of the German states, the abolition of internal tariffs, customs and serfdom, and massive investments in railway networks by Prussia and other German states from the 1830s led to a vigorous expansion of the domestic market. The bourgeoisie did not manage to gain control of the state apparatus, which was manned by the powerful bureaucrats and nobility with roots in the *ancien regime*. But the state effectively pursued goals of capitalist development, partly as a means of enhancing its military power and partly, of course, with the objective of enhancing the standards of living of all Germans. The state remained highly authoritarian in character. Authoritarianism acquired a nationalist rationale under Bismarck with his successful pursuit of a policy of Prussian imperialism. From the 1880s, the social democrats challenged the authoritarian and inegalitarian policies of the Prussian state, but this did not alter the character of the state until the German empire collapsed in defeat in the first World War. For our purpose, it is not necessary to enter into debates about whether the German state was ruled by bureaucrats and aristocrats who embraced bourgeois values or whether Germans were effectively 'feudalized' in their values and behaviour (for a survey of the debate see Blackbourn and Eley 1984). There is little doubt, however, that, especially after the consolidation of rule by conservative forces under Bismarck's patronage and the pact between the landlords and industrialists on tariff protection, the power of the *Junkers* in Prussia gained a new lease on life, and agrarian capitalism remained constrained to that extent (on *Junker* power and agrarian capitalism, see Byres 1991:23-7).

A successful DS actively encourages learning from foreigners, adaptation of technologies and organizations to local conditions and introduction of productive innovations. In that respect, even small German principalities and states had been gearing up to enable the full development of a DS long before Germany was unified. Most German states had founded universities by the eighteenth century where theology, philosophy, law, mathematics and even science were taught. Most of the states encouraged the formal training of craftsmen and technologists in state-supported or guild-supported technical schools (Blackbourn 1984:176-7). From the eighteenth century many states also encouraged the setting up of factories on the British model. While only a few of these enterprises proved financially viable, they acted as training grounds for businessmen, technocrats and technologists and laboratories for trying out the techniques and products that might ultimately win the race (Landes 1965:364-6). Some constituent states were among the pioneers of compulsory education in Europe. By the middle of the nineteenth century, Germany, with a much larger population than Britain, had a considerably higher rate of literacy. Within Prussia, already by 1850, the percentage of bridegrooms who signed with marks (and were, therefore, functionally illiterate) had declined to 10 per cent, whereas in England and Wales, even in 1853-5, the corresponding percentage was 30. In the latter it was only in 1886 that the same degree of literacy as in the Prussia of 1850 was attained (Mitchell 1973:801-2). In the discussion of the retardation of the British economy since the last third of the nineteenth century, this aspect of the British underperformance compared with the German is often overlooked.

We finally turn to the other aspects of the developmental state, particularly in unified Germany, that have received considerable attention in the literature surrounding the Gerschenkron hypothesis—the character of state patronage, and especially its paternalism and protectionism, the sectoral composition of German industrial growth, and the role of the banking system.

In Germany, both the state and the big employers tried to act paternalistically towards the workers (Lee 1978; Craig 1981:150-2). The big employers such as Krupp and Zeiss of Jena, provided housing and other facilities to workers, partly to attach the workers to the company, partly to protect industrial secrets through close surveillance, and partly to fend off the threat of militant trade unions which became a serious force after the growth of the social democratic party under the leadership of Wilhelm Liebknecht and August Bebel. In the 1880s, Germany took the leadership in Europe in passing successively a sickness insurance law for workers (in 1883), an accident insurance law (in 1884) and an old age and disability insurance law (in 1889). These laws were accompanied by the savage anti-socialist policies, backed by legislation, followed by Bismarck since 1879. Creating loyalty among workers, fighting trade unions with ideologies which challenged the established order and fending off the socialists—all of these acted as powerful motives for Bismarck and the other conservative-authoritarian elements guiding the destinies of Germany between 1866 and 1914. There were some differences between the large firms or cartels operating in iron and steel, electrical and chemicals, and other industries in which the predominant elements were small firms or even craftsmen among whom trade union organization faced lesser obstacles. During this period German scientists and technologists made major innovations (such as the Haber process for producing ammonia) which proved highly profitable. They also proved adept at taking over and further advancing inventions from other countries (such as innovations in the electrical industry by Siemens and AEG, and the Gilchrist-Thomas process for reduction of phosphatic iron ore). However, side by side with such innovations originating in or affecting large-scale firms, Germany continued the old system of apprenticeship and certification by craft associations and guilds, and built up perhaps the best-educated and best-trained working force in Europe. This system was a major departure from that prevailing in Britain, illustrating the point that every successful DS introduces its own innovations in the economic and social organization of the country and cannot afford to simply live on imitations.

In the banking sector, Germany created the system of universal banking, and the associated arrangement under which banks had a strong presence on the boards of companies funded by them, often exercising a supervisory function, particularly in periods of crisis. This system developed since the days of the railway boom of the 1830s and 1840s but matured after the economic crisis that followed the boom and inflation produced by the German victory in the Franco-Prussian war (Tilly 1986, 1991; Sylla 1991). The interventionist policy of banks partly compensated, and partly substituted, for the lack of a developed stock market until the industrialization process had gone quite far.

Finally, the German DS was highly protectionist and interventionist especially from the late 1870s (Craig 1981:78-100; Tilly 1991). The pre-unification German states had been strongly influenced by free trade doctrines and were only moderately protectionist. However, the agricultural depression beginning in 1873 hit the East German grain producers hard and some producers of iron and steel also found it difficult to cope with foreign competition. So Bismarck presided over a marriage of 'iron and rye' by steeply increasing duties on imported iron and steel and grain. The grain tariff was increased again in 1888 and 1902 as the German producers were threatened by increases in imports. The economic growth of Germany was spurred not only by this protection but also by the strong growth of capital goods industries sustained by high rates of private capital accumulation, public expenditure on social overhead capital and military expenditures (Tilly 1978). German rates of capital formation as a proportion of net national product were about one-eighth in 1870, but had risen to about one-sixth in 1899. The corresponding figures for the U.K. were a little above one-sixteenth in 1870 and one-eleventh in 1899 (Mitchell 1978: Table J1).

The German DS was hampered by its burden of military expenditure and the associated authoritarianism that kept the growth of real wages below the strong rates of growth of productivity. The full flowering of this DS, as in the case of Japan, was to be witnessed only after the military authoritarian apparatus had been largely dismantled as a result of defeat in the second World War.

V. THE DEVELOPMENTAL STATE IN JAPAN

As in the case of other DSs, the Japanese DS also evolved over time until it assumed its mature form in the late 1950s. The beginning of modern Japanese development is generally assigned to the period of the Meiji Restoration, and by and large this chronology is right. But some preconditions for the construction of a DS had been laid down before 1868. These included

freedom from foreign rule; in spite of the unequal treaties imposed on Japan after Commodore Perry's successful bombardment of Japanese ports, the Japanese attained a high degree of national autonomy in policymaking. Other factors included the intense nationalism of the Japanese ruling class and its demonstrated ability to learn from foreigners such as the Chinese who had better technologies of production or war, or useful principles for organization of the state and society (Kahn 1973: chapter 2; Morishima 1982: Introduction).

After the Meiji Restoration, the earlier, feudal '...categories of court noble, warrior, peasant, merchant and outcast were done away with and restructured into two new classes—a small nobility and everyone else. By 1876 the government also succeeded in pensioning off all the former members of the warrior class [the *samurai* A.B.].' Previously 'they had received stipends from Tokugawa or from their domains—at a cost of over 200 million yen' (Ohkawa and Rosovsky 1978:142-3). The Meiji law also freed rural labour from various degrees of debt bondage, ranging from servitude for life to bondage only for the duration that the loan was not repaid (Taira 1978: 170). But the law did not give the land to the peasants as Rosovsky and Ohkawa (1978:143) claim. It converted feudal into private tenures and most of the dependent peasantry of feudal times became tenants or part-time tenants eking out their income from their small holdings with labour on the fields of others. Around 1853, about 80 per cent of the people were farmers. By 1940 this proportion had gone down to 40 per cent, but the absolute number of families dependent on agriculture had gone up from 5,518,000 in 1886 to 5,642,000 in 1932 (Ladejinsky 1947:70). Because of the highly unequal distribution of land in a land-scarce economy (with 2.7 acres of land per agricultural household in 1939), in the 1940s 28 per cent of the farmers owned land, and 40 per cent had to supplement their income from owned land by leasing land from others (*Ibid.* 68). Because of the scarcity of land and lack of fast expanding alternative employment opportunities, the tenants and part tenants were virtually tied to the land and landlords and had to pay very high rents. In the 1930s, a survey of 9,134 villages by the Japanese Department of Agriculture showed that 'in 70 per cent of the cases the rental from a single-crop field constituted more than 50 per cent of the crop; from a two-crop field the rent [was] around 60 per cent of the crop' (*Ibid.* 41). The net income of the peasant was even lower than this figure indicates, because he had to bear the costs of cultivation, and pay a number of taxes besides the land tax.

Thus the DS in Japan was even more hampered, before the second World War, by the burden of a highly exploitative landlord class than the DS of Bismarck's Germany. This is one of the main reasons why, in spite of a tremendous effort to industrialize without allowing foreigners to gain control of any sector of the economy, the rate of growth of the Japanese economy did not attain the spectacular levels that have been witnessed since 1953 or so, by which date Japan had reconstructed her war-ravaged economy (Ohkawa and Rosovsky 1978: Table 28; Ohkawa et al. 1993: Table 2.4). The annual rates of growth of Japanese national income in the periods 1897-1919 and 1919-1938 were 2.8 per cent and 3.5 per cent respectively, and these were pulled up by two war-induced spurts in the periods 1912-1917 and 1931-1937 when the respective annual rates of growth of GNP were 4.56 per cent and 5.71 per cent (Ohkawa and Rosovsky 1978: Table 28). By contrast, the annual rates of growth of Japanese national income in the periods 1953-1969 and 1969-1979 were 10.0 per cent and 8.5 per cent respectively (Ohkawa et.al. 1993: Table 2.4).

Despite the failure to abolish landlordism in the countryside and to take adequate measures to succour the working population, the quality of the effort made, and the strategy adopted, by the Japanese ruling classes after the Meiji Restoration remain very impressive by the standards of Japan's forerunners in the industrialization race, especially in contrast with the trajectories travelled by the ruling classes of most other non-European nations. For example, many members of the *samurai* played an important role in abolishing their own class and the old rank-order of society: they realized that these impeded the release of the energy of the country and its defence against aggressive Western powers. For example, Itagaki Taisuke, head of a middle level samurai family argued in 1871 that 'human skills were the result of natural endowment' and did not depend on 'a division into classes, as samurai, farmers, artisans, and merchants' (Beasley 1973: 384). He wanted the responsibility for civil and military function to be spread among the people without confining them to the *samurai*, so that 'each [might] develop his own skill and abilities' (*Ibid.*). Itagaki cited the stiff resistance from ordinary Frenchmen against Prussian aggression at the time of the Paris Commune to argue for the creation of institutions that accorded dignity to the people:

> In order to make it possible for our country to confront the world and succeed in the task of achieving national prosperity, the whole of the people must be made to cherish sentiments of patriotism, and institutions established under which people are treated as equals. There is no other course…After all, the people's wealth and strength are the government's wealth and strength, and the people's poverty and weakness the government's poverty and weakness (Memorial by Itagaki Taisuke, 1870-71, as translated and quoted by Beasley 1973:384-5).

The leaders of the Meiji Restoration realized the supreme importance of education in their pursuit of 'civilization and enlightenment,' and their campaign for strengthening the state so as to be able to resist the Western intruders. Hence, in 1872, a law was proclaimed which set out a scheme of education from the primary to university levels, also making primary education compulsory. The enforcement of this law was not smooth-sailing (Taira 1978:196-9), but eventually resistance was overcome and the money was found for funding the programme. As a result, while in 1873 only 28 per cent of the school age population was attending school, the corresponding figure had risen to 98 by the end of the century, rendering Japan one of the most literate countries in the world (Morishima 1982:102). The close integration of government planning and business strategies also date from the early days of the Meiji Restoration.

Many other institutions characteristic of the Japanese economy—the close links between conglomerates and banks, the life-time employment system for skilled workers and managers, the promotion of managers on the basis of seniority, profit-sharing systems tying workers and employers, extensive subcontracting between a few principals and numerous small and medium-scale firms—had their basis in a bedrock of nationalism, and the ability of the Japanese ruling classes—many of them ex-*samurai* but many springing from families of merchants or prosperous farmers—to work together so as to keep out foreign control. But the specific institutions grew out of particular circumstances in different phases of post-Meiji Japanese history (Watanabe 1987; Wan 1988).

In a sustained effort to speed up the development of the economy and increase its military potential, the Japanese government promoted and financed railways, telegraph lines, ports, shipyards and naval installations. But it also set up pioneer factories. Most of these state-sponsored shipyards and factories were later turned over to private enterprise. But they acted as training grounds for workers, technologists and managers, and led to adaptations of techniques and management styles to Japanese conditions and requirements. Because of the government's continued interest in the development of capital goods industries and armaments factories and its repeated involvement in war, starting with the Sino-Japanese war of 1894-95, the close collaboration between government and business continued and was even intensified in the most militaristic phase of Japan's history viz., the period from 1931 to 1945.

The close relation of banks and trading houses grew up quite early in the Japanese drive toward industrialization: trading houses found that it was useful to start a bank which would finance their trading, and even more, their long-gestation investment activities; they were devices for mobilizing capital and spreading risks (Yamamura 1972:1978).

Similarly, the profit-sharing system and the relatively low differential in salaries between different levels of management and skilled workers and managers was a response to the shortage of trained personnel in the initial decades of industrialization and the disincentive effects of conspicuously large salaries in a society in which a sense of duty and responsibility to the state still exerted a powerful influence (Taira 1978; Morishima 1982: chapters 3-4). Again, the socalled lifetime employment system which governs perhaps a third of the male workers in large enterprises in Japan was a response to severe labour shortages, absenteeism and labour poaching during the first World War and the 1920s. Paradoxically enough, these institutions, along with a deliberate management strategy to win the loyalty of workers through the formation of company or plant-level trade unions, were strengthened in response to some initiatives taken by the post-Second World War American occupation authorities (SCAP) to provide security to workers (Taira 1978; Bagchi 1987b).

Throughout these years, even when unequal treaties were still in force, Japan kept foreign capital and foreign enterprise at bay. While showing a fierce determination to learn 'the skills of the barbarians,' the Japanese government got rid of foreign experts as soon as the skills had been absorbed and never allowed foreign enterprises to obtain a foothold in any major sector. Japan's drive for increasing exports at almost any cost was also motivated by a desire to avoid dependence on foreign capital and resulting foreign political control. It is a measure of the strength of Japan's nationalism

that such policies could be continued even when Japan was occupied by the Allied (American) forces.

Despite all these remarkable features of the society and economy, the Japanese miracle did not happen until after the Second World War. A key factor contributing to that miracle was the thoroughgoing land reform carried out under American supervision. There had been a number of attempts in Japan from 1922 to improve the condition of tenants and redistribute land to them, but the lack of any provision for confiscation or compulsory sale of land by landlords with ownership holdings above a certain size rendered such efforts ineffectual (Ladejinsky 1947:87). In December 1945, a defeated Japanese government placed before the Diet a land reform law which would have allowed landlords to retain up to 5 hectares of owned land, and would have freed forty per cent of the tenanted land as the property of former tenants (Dore 1959; Tadashi 1967). But the occupation authorities proposed a much more drastic land reform which was enacted the following year as the 'second land reform law'. This law specified that '(1) all the land of absentee owners [was] to be purchased by the government; (2) all tenanted land owned by resident landowners in excess of one *cho* (2.5 acres), or 4 *cho* in Hokkaido, [was] to be purchased by the government'; and '(3) the purchase price' would be 'in bonds bearing interest rates of 3.6 per cent and redeemable in 30 years' plus some bonus in cash (Tsuru 1993: 21). This was virtually a confiscatory land reform. This measure destroyed the power of the landlords in the countryside and released the surplus rural labour for non-agricultural employment when economic growth started at unprecedented rates in the 1950s.

The SCAP imposed on Japan a number of other reforms in the areas of civil service, labour and industrial relations (which we have already referred to), constitutional provisions and institutions for establishing formal, western-style democracy (Tsuru 1993:18-36). The Occupation authorities at first also wanted to break up the *Zaibatsu*, the Japanese conglomerates, as they saw them as major pillars of militarism. However, in every case, the Japanese ruling class adapted the reforms to suit their own conditions. This was made easier after the U.S. involvement in the Korean War when the American government came to regard Japan as the main bastion of their defensive wall against communism in Asia, moving to revive Japan's economy rather than allow it to remain weakened.

The Japanese ability to turn defeat into an opportunity is exemplified by the outcome of the attempted abolition of the *Zaibatsu* by the occupation authorities. When the directors and controllers of the ex-*Zaibatsu* groups were removed, the middle-level managers of the companies:

> …found themselves unexpectedly promoted to the top without any preparation…these new young executives began securing their positions by making their friends' companies become big shareholders in their own companies so that these persons could support them.
>
> However, these new shareholders were poor because they too had first been promoted from positions of middle management… They exploited the power accompanying [their new] positions to establish a system for the mutual support of these proletarian managers…(Morishima, 1995: 151-2).

Thus the interlocking of directorships of different firms, and of trading and industrial firms and banks, and the close involvement of banks and firms in monitoring one another was re-established in postwar Japan and was styled on the relationship between *keiretsu* firms. This system largely insulated firms from hostile takeover bids, from 'short-termism' and liquidity crises and financial collapses stemming from short-term difficulties. These relations, together with profit-sharing arrangements between firms and their employees, and the reluctance of firms to get rid of employees who had served them for a long time also ensured a degree of management-employee collaboration which was the envy of most advanced capitalist countries (Aoki 1987, Koike 1987; Ito 1993: chapter 7). Institutional reforms of the land and labour markets contributed substantially towards relatively egalitarian income distribution and expansion of the home market (Minami 1998). The relatively egalitarian distribution of earnings between managers and workers, and the drive to increase market shares of firms, contributed to the growth of the domestic market, making Japanese firms formidable competitors in export markets. The opening of western European and US markets, of course, also contributed to Japanese growth. The abolition of the burden of military expenditures freed Japanese resources and innovations for concentration on the development of products for civilian use.

The full-grown Japanese DS was very much a post-war phenomenon as was the Japanese miracle. This state began facing a crisis only at the end of the 1980s. Still, while it lasted it, this DS raised Japan to the position of the second industrial power globally and allowed the Japanese a standard

of living equal to or greater than those of the Western European countries, U.S.A., Canada, Australia and New Zealand.

VI. South Korea: The Final Frontier of the Developmental State?

We now turn to South Korea, which has been celebrated in the recent literature as one of the four East Asian dragons or tigers. South Korea is distinguished from our earlier examples of developmental states by two major characteristics, namely: it is a former colony of an imperial power, and secondly, its spectacular growth is almost entirely a post-second World War phenomenon. Formally the Netherlands had also been a colony of Spain. However, the Netherlands was only a part of the so-called Holy Roman Empire, with a system of governance of its own. Korea under Japan had been an abject dependency, and its maturation into a DS required special geopolitical conditions.

It has been sometimes argued, especially by some Japanese and American scholars, that Japanese colonialism laid the foundations of postwar growth in Korea, that Korean growth can be understood as a more or less continuous process since the days of Japanese colonialism (cf. Fei, Ohkawa, and Ranis 1985; Kikuchi and Hayami 1985). In fact, under Japanese colonialism, the growth of Korea (and Taiwan) was respectable by the standards of most nonwhite colonies of the European powers, but not at all that spectacular, indeed and may have coincided with the impoverishment of the mass of Koreans (Ladejinsky 1940; Woo 1991: chapter 2).

Alice Amsden (1987, 1989: chapter 1), in her otherwise excellent book, has alleged that South Korea shares with other 'late industrializers' the peculiarity that its industrialization was based on learning from other countries rather than any innovations in processes or products. As we have seen, one distinguishing mark of any successful DS in history has been its ability to learn from others. There were not many product or process innovations which were associated with the emergence of the Dutch as the supreme naval power in Europe in the seventeenth century, except perhaps in shipbuilding. In the case of Japan, the most important 'late industrializing country' by Amsden's criterion, innovations in automatic looms in cotton weaving preceded the second World War, and Japan has emerged as a major innovator in a whole range of consumer durables and processes of production involving microelectronic technologies since the 1960s. Moreover, innovations in organizational techniques have been almost wholly neglected by Amsden.

Korea was formally occupied by Japan in 1910. It was then developed as a base for the supply of rice to Japan. The Japanese government deployed its army and police to prevent peasant mobilization and instituted a cadastral survey and compulsory land registration. In the process, vast numbers of Koreans who could not prove their title lost their land to the occupying government or Japanese companies and individuals. The Japanese established the Oriental Development Company for exploiting Korean resources, but also passed 'a Corporation Law that empowered the colonial government to control, and to dissolve if necessary, both new and established businesses in Korea' (Woo 1991: 22). 'Through 1919…those industries that thrived in colonial Korea were mostly household industries that did not require company registration, and large-scale factories employing more than fifty workers numbered only 89 (and were mostly Japanese owned), even as late as 1922'. (*Ibid.* 23) In 1929, 'the bulk of manufacturing output still remained in foodstuffs at 63.5 per cent, followed by textiles at 10.9 per cent.' (*Ibid.* 24).

When Japan tried to conquer Manchuria and the rest of China, the Japanese government, and Japanese financial and industrial firms sought to convert Korea into a supply base for the war. The Bank of Chosen, supposedly the central bank of Korea, the Oriental Development Company, the Dai-Ichi Bank, and the Industrial Bank of Japan extended long-term loans to development corporations, and the *Zaibatsu* to establish hydroelectric power stations, steel mills, heavy machinery works and chemical factories in Korea. This policy also led to an extreme concentration of heavy industries in the hands of a few Zaibatsu. By 1945, one single Zaibatsu under the control of Noguchi Jun controlled about 35 per cent of Japanese direct investment in Korea (*Ibid.* 35). 'By 1945, Japanese ownership, most of which was in the hands of the Zaibatsu, constituted 81.7 per cent of the paid-up capital of all industrial enterprises in Korea; 97 per cent in chemical industry, 93 per cent in metal and machinery, 97 per cent in cement. Even in light manufacturing such as textiles and flour mills, the ratios were 80 per cent and 81 per cent, respectively'. (*Ibid.* 40).

Under Japanese programmes of development and exploitation, the output of farm products, especially rice, increased quickly in colonial Korea, as did landlessness and tenancy. According to one estimate, in Korea,

whereas in 1914, out of a total number of farming households of 2.59 million, 0.57 million were owner-cultivators, 1.07 million were part-owners and part-tenants, and 0.91 million were full tenants, by 1938, the number of owner-cultivator households and part-tenant and part-owner households had declined to 0.54 million and 0.81 million respectively, whereas the number of part-tenant households had risen to 1.51 million (Ladejinsky 1940:50). It was estimated that by the end of 1930, the Japanese owned 1.5 million acres or about 11 per cent of the taxable land area in the colony (*Ibid.*, p.51). By the time of the US occupation of Korea after the defeat of Japan, land held by Japanese companies and individuals amounted to 13-15 per cent of arable (Choudhury and Islam 1993: 62).

The confiscation of Japanese property thus at once transferred a large stock of industrial assets to the successor government as well as a substantial percentage of the cultivable land which could then be distributed to the Koreans. The American authorities and the Korean government proceeded with land reform measures out of fear that peasant unrest would prepare the road for the victory of communism as in China. Moreover, there were strong nationalist and left-wing movements demanding the abolition of landlordism of the Japanese and Koreans since the Korean landlords were seen as collaborators of the colonial power. In their initial drive through South Korea during the period of the Korean War, the North Koreans had abolished landlordism even during their brief sway in South Korea (Cumings 1987: 66). The Korean land reform law was similar to the Japanese in that the government was empowered to purchase the lands of all absentee landlords, lands entirely given out in lease, and all lands above 3 hectares per household (even when they were cultivated by the owners). This land was then sold to tenants or owners with a holding size of less than 3 hectares on relatively easy terms (Lee 1979; Choudhury and Islam 1993: 62-3). As a result of the land reform process, between 1947 and 1965 the percentage of full owners among farm households increased from 16.5 to 69.5, whereas that of pure tenants declined from 42.1 to 7.0 only. Correspondingly, the number of landholdings above 3 hectares per household declined from 31,000 in 1947 to 3,000 in 1965, and the number of households owning from less than 0.5 hectares to 1 hectare of land increased from 1,619,000 to 1,780,000, while the number of households owning between 1 hectare and 3 hectares showed a marginal decline (Lee 1979:26). These data also indicate the very low land/person ratio in Korea.

As a result of the pro-peasant land reform measures, rural incomes and assets became relatively equalized, and they increased substantially after 1963, particularly in the 1970s (*Ibid.*) Land was eliminated as an asset for speculation or as a lever for keeping actual producers dependent. Thus, landlordism was eliminated in South Korea as one of the major characteristics of a DS was instituted.

South Korea also fulfilled another characteristic of a DS, namely a strong and realistic sense of nationalism. This sense worked in unsuspected ways. Syngman Rhee, the dictatorial ruler of South Korea from the late 1940s to 1960, when he fell as a result of student revolt which the military refused to suppress, was utterly dependent on U.S. military and economic aid. But he played on American fears of the resurgence of communism and his threat to invade North Korea and drag the USA again into a major war, in order to extract more aid and thwart various American designs (Haggard 1990: 54-61; Woo 1991: chapter 3). He frustrated American attempts to privatise state-owned assets and to liberalise the foreign trade regime so as to make Korea revert to its prewar place of mainly supplying agricultural products in an East Asian international division of labour (mirroring the Japanese-engineered Co-prosperity Sphere) with Japan at the centre of it. During the 1950s, Rhee's regime presided over an import substitution process and a quite respectable rate of economic growth—4.5 percent of GDP growth per year.

Another contribution of the Rhee era was the education of the Koreans. From relatively low levels of literacy at the time of the end of Japanese colonial rule, the adult literacy rates were raised to 71 percent already by 1960, and by 1980, an impressive 92 percent (Chaudhury and Islam 1993:152).

Of course, American aid and the Korean involvement in feeding the supply lines of the American war effort and military presence in the whole of East Asia, including China, Korea and later Vietnam, helped ease South Korea's resource constraints and aided its skill formation (Mason *et al.*, 1980:165; Bagchi 1987:33-35). Still, a special effort at focusing the national effort and coordination of strategies was needed to utilize the privileged access South Korea enjoyed to U.S. capital and U.S. markets, especially in the 1960s and 1970s.

The turn in the 1960s in the South Korean economic policy has been often portrayed as the turn to export-led growth (e.g., Haggard 1990: chapter 3). It is better seen as a turn towards coherent planning and a drive towards accumulation for the sake of greater national strength. The bases for this had already been laid in the 1950s. A national planning body had been established in 1958, and the short-lived government of Chang Myon had drawn up a five year development plan. But real teeth were put into planning when the Park government organised an Economic Planning Board which took over the Bureau of the Budget from the Ministry of Finance, and the Bureau of Statistics from the Ministry of Home Affairs. Its head was given the rank of Deputy Prime Minister (Jones and Sakong 1980: 46-8, and Bagchi 1987: 36). Since Korea had a large balance of payments deficit, it made sense to put special emphasis on exports in order to gain policy autonomy *vis-à-vis* the US government, the sole source of aid. The basis for the export drive had been laid in the 1950s through the growth of the textile industry and a number of other light industries. The 1950s had also seen the emergence of the South Korean *chaebol*, organizations closely corresponding to the Japanese *zaibatsu*. Park's government proceeded to discipline them for purposes of national accumulation, first by arresting the chief tax-evaders among the big businessmen, and then allowing them to go free and make money on condition that they invested in areas designated by the government. The government made sure of this by nationalizing all the commercial banks (which had been briefly privatized under US pressure) and taking over all foreign exchange for allocation between designated uses (Bagchi 1987: 36-8; Dreze and Sen 1989: 193-7; Woo 1991: chapters 4-5).

While exporters were allocated foreign exchange on a priority basis, the relative price structure did not particularly favour exports (Bagchi 1987: 38-40). What favoured exports was growth, improvements in productivity through rising levels of education of the workforce, learning by doing and learning by using, and exploitation of economies of scale through the favoured treatment of large firms especially in exports (Bagchi 1987: 40-49). The regulation of real wages, which rose with productivity but at a lower rate, a rise in the share of profits and their systematic reinvestment drove the growth process forward but, of course, led to a more unequal distribution of income (*Ibid.*, and Amsden 1989: 16-17n). One difference between the Japanese and Korean developmental states and the Dutch and the British ones is that there was little explicit provision for preventing destitution through national social insurance or anti-poverty measures. However, in both cases, drastic, pro-peasant land reforms removed the worst cases of rural poverty after the second World War, and rapid growth and a tightening labour market raised real wages, especially for the more skilled male workers.

Eventually higher expenditures on R&D, a determined tying up of R&D set-ups run by the government and industrial firms, and a deliberate restructuring of industry with emphasis on such sectors as shipbuilding, electronics, automobiles, iron and steel, and petrochemicals made South Korea one of the champion performers in domestic investment and saving, the growth of national income, and exports of manufactures (Bagchi 1987: chapter 3; Amsden 1989: chapters 4-6). In this process, the close collaboration between government and business and the effective monitoring by government of strategic business decisions played a highly important role.

As the South Korean manufacturing sector developed and South Korea began generating large surpluses *vis-à-vis* the U.S.A., the Korean government played a less interventionist role in the economy. Many of the formal restrictions on entry of foreign goods and foreign capital were relaxed, partly under pressure from the US government and foreign transnational corporations.

In the 1990s, the South Korean DS entered into a phase of precocious maturity and decline. Several factors contributed to this. The deliberate promotion of *chaebol* by the South Korean government up to 1982-83, and in many cases even beyond that date, created a number of South Korean transnational corporations which set up branches and subsidiaries in many countries of the world, including the USA, Canada and major European countries. The latter now demanded freer entry for the investments and products of their firms into South Korea. Until 1993 or thereabouts, South Korea, following the Japanese example, had kept inward foreign investment at bay. After that year, restrictions on foreign portfolio and direct investment were relaxed and a much greater mobility of capital was permitted in international transactions. This led to an inflow of foreign capital. Moreover, the Japanese yen and the Chinese won were substantially devalued from around the same date. These developments led to an overvaluation of the Korean currency, and South Korea ran up large deficits in its balance of payments account. South Korean firms now borrowed large amounts abroad to meet the deficits and to take advantage of lower interest rates abroad. By the beginning of 1997, South Korea was caught in a debt trap, and in the last

quarter of that year it had to seek IMF assistance in order to avoid declaration of debt default. (Bagchi 1998). The usual IMF conditionalities ended, at least temporarily, South Korea's status as a DS.

Even though the currency crisis seems to have overwhelmed most of South and Southeast Asia, several developmental states are alive and kicking in East Asia. The most dynamic among them is the People's Republic of China, but the delineation of that state as the prime mover in development deserves a separate essay. We turn next to the financialized twilight of the developmental states.

VII. The Twilight of the Developmental State: The Dominance of Finance over Production

The Dutch DS first faltered and then crumbled. A number of reasons can be assigned to the decline: the small size of the domestic market, the rise of wages beyond what would give the Dutch a competitive edge in comparison with their two major rivals, (Britain and France), and the unequal military competition in which the Netherlands became engaged with England and France all played their part (Wilson 1939; Boxer 1973: chapter 10; De Vries 1982). But there are three other features which I would emphasize as major contributory factors. (By the criteria set out earlier, Britain between the reign of Elizabeth I and the Crystal Palace exhibition of 1851 was also a DS. When that DS entered into its twilight state it shared most of the characteristics of the twilight of the Dutch DS, except, of course, its subjugation by a foreign power). The first was the enmeshing of the economy in a network of international trade which prevented it from competing on equal terms with the newly emerging DS. While Britain, France and other close competitors of the Dutch in the seventeenth and eighteenth centuries took measures to protect their fisheries, ship-building, or infant textile industries against foreign competition and unified their national markets, the Dutch could not follow them to the logical end without hurting their *entrepot* trades. Morever, the decentralized nature of their state prevented the Dutch from getting their act together against the increasingly centralized British and French states.

Secondly, changes in the social structure, the increasing transformation of shipowners-cum-ship captains or merchants into pure shipowners, the inability of the Dutch with a stagnant population and an over-urbanized state to find seamen and other workers in adequate numbers, and the large-scale conversion of Dutch bourgeoisie into pure financiers and rentiers blunted the competitive edge of the Dutch (Boxer 1973: chapter 10; Israel 1995: chapters 37-39). Moreover, when the British industrial revolution set the pace for technical innovation in Europe, the Dutch failed not only to innovate but also to learn from other countries. As a result such vital branches of economic activity as ocean navigation, shipbuilding, whale-fishing and textiles suffered obsolescence and decline.

Finally, the Dutch capitalists increasingly used their capital to finance the public debts, private enterprises and wars of England and other countries which had emerged as their major competitors. By 1782, for example, out of an estimated Dutch investment of a thousand million florins in public loans and precious metals, fully 335 million was invested in foreign loans and another 140 million in colonial loans. Of the 335 million lent to foreigners, 280 million was invested in English loans (Braudel 1984: 267). In 1801, the Dutch were found to be the largest foreign holders of English national debt: they held £10.54 million out of £17.44 million of the English debt held abroad (Neal 1990: 207).

The Dutch Republic finally ended in 1806, after suffering the humiliation of rule by the French. In the nineteenth century Dutch industrialization had to be resumed on different foundations; explicitly, as the follower of the British. The latter aided this effort by allowing the Dutch to retake Indonesia as a colony as part the post-Napoleonic settlement. The colonial plunder of Indonesia enormously aided Dutch industrialization and the re-entry of the Dutch into the western European club of affluent nations (Bagchi 1982: chapter 4).

I need not devote much space here to the decline of the British DS, for the explanation of the end of British economic hegemony in the nineteenth century has spawned an enormous literature. The decline of the spirit of entrepreneurship, the conversion of businessmen to the ethos of the public school and its school-boy codes of honour, the stiff upper lip, the values of the gentleman who scorn trade and the sordid affair of making money, all these have been added to the more strictly economic factors such as a relatively low rate of saving and insufficient investment in the domestic economy in order to explain the decline of Britain as an economic hegemon (Elbaum and Lazonick 1986; McCloskey 1973; Wiener 1981). Through the nineteenth century, British capital markets remained imperfect, systematically discriminating against domestic industry in favor of agriculture and portfolio foreign investment and foreign and colonial public loans (Kennedy 1987). Britain invested half of its savings in foreign loans and investments during the period 1870-1914, but that investment was in fact matched by the income generated by its past investments (Pollard 1985). British agriculture and some parts of its staple industries suffered badly in the so-called Great Depression from the 1870s to the 1890s. British policies favoured free trade and free mobility of capital because the interests of the empire and its payments balances and those of its upper class demanded these policies. Domestic industrial growth could be traded against burgeoning incomes from the empire and foreign investments. The dominance of finance and empire ultimately proved detrimental to the upkeep of a developmental state.

Is Japan bound to follow the earlier example of the Dutch republic and Britain, allowing finance to dominate industry, and foreign investment to lord over the priorities of domestic economic growth? There has been a deep crisis in the stock markets and prices of real estate in Japan since the end of the 1990s (Morishima 1995), but it is not inevitable that Japan will fall into the trap of financial dominance. The close linkages of industrial firms, their subcontractors and the main banks are still in place despite some deregulation of money and capital markets (Ito 1992: chapters 5 and 7; Aoki 1994). Again, the proportion of imported manufactures in the consumer basket of the Japanese remains far lower than the corresponding figure for other affluent countries with similar levels of income. Finally, the Japanese have proved more tenacious than other advanced countries in retaining so-called sunset industries, allocating considerable amounts of public funds for adapting those industries to competition from lower-wage countries.

VIII. Failed Developmental States: The Soviet Union, Brazil, India

The collapse of the Soviet Union is generally seen as the failure of 'actually existing socialism'. But it is perhaps understood better if we view it as the breakdown of a DS that could not cope with the challenge of a resurgent global capitalism. The Soviet Union provided the model of developmentalism for many countries. The Soviet Five Year plans, implemented at the time of the deep crisis of the capitalist system, inspired developmentalism even in countries where the ruling classes professed anti-communist ideology.

The Soviet DS clocked up some major achievements up until the 1950s. It raised the rates of economic growth, however measured, way above the historical trends. It led to a high rate of industrialization and a rapid transformation of the occupational structure, so that the majority of the people ceased to be employed in agriculture. The tremendous effort at accumulation and the building of capital goods industries, and the ideology of a working class bent on building socialism, helped a relatively economically backward Soviet Union resist the onslaught of Nazi Germany, playing a major role in its downfall. The reconstruction of the Soviet Union and major parts of Eastern Europe after the Second World War, with little help from the hostile Western capitalist powers, was again a major achievement. In the fields of technology, the independent construction of nuclear power plants and the credit of putting the first man in space also belong to this era. Through the 1950s and until the beginning of the 1960s, the Soviet citizen also gained tremendously in general health and longevity.

Bairoch's calculations of comparative industrialization levels (Bairoch 1982: 281) show that the per capita index for the USSR (with the level in the U.K. in 1913 equal to 100) was 20 in 1913, remained 20 in 1928 (after recovery from the destructive effect of the first World War, foreign invasion and civil war), but increased to 73 in 1953 (after recovery from the effects of the Second World War). For Japan, the per capita levels of industrialization were 20 in 1913, 30 in 1928 and 40 in 1953. Thus, economically, the USSR was doing better than Japan up until the 1950s. After that date, however, there was drastic slippage: in 1980 the per capita industrialization levels were 252 for the USSR but 353 in Japan. This retrogression is evident also from measured rates of productivity growth (Bergson, 1989, chapter 6). The total factor productivity growth (percentage per year) in the USSR were 3.63, 1.83, and only 0.26 over the periods 1950-60, 1960-70 and 1970-75 respectively. Over this period the Soviet workers also made impressive advances in education. If allowance is made for growth in educational attainments of labour, the productivity growth rates over the three periods (1950-60, 1960-70, 1970-75) come down to 3.26, 1.29 and -0.21 respectively (*Ibid.* 113).

Even before the crisis of the 1980s engulfed Eastern Europe it was known that the Soviet economic system had become bound up in a number of mutually reinforcing problems (Nove 1977). Public enterprises systematically demanded more resources than were available and planning authorities

failed to discipline them. The result was over-investment and a fall in the productivity of inputs. The problems were compounded by an inability to devise an incentive system that would allow the results of R & D to be used for civilian production purposes: innovations in the military field were not applied to raise standards of consumption in other fields. Even when innovations were put to use in some factories no mechanism existed for their speedy diffusion to other enterprises. Partly because of Western embargoes on transfers of key technologies to the Soviet Union, but also because of the blinkered attitude of the Soviet bureaucratic-political system, the USSR increasingly failed to absorb advances in technology made in other countries (Nove 1977: chapter 6).

Behind the failure of the Soviet DS lay several political and social failures. There was little democracy within the Communist party and in the functioning of the political apparatus. The Soviet Union failed to use the market mechanism as a supplement to planning and for smoothing out awkward corners (Brus 1995). Finally, a failed DS was unable to tackle the military and economic challenge posed by an aggressive capitalist block in the 1980s (Halliday 1990). However, there was nothing inevitable about the collapse of Soviet developmentalism or Soviet-style socialism as it existed until the 1950s. It has been cogently argued (Chandra 1993) that the real rot set in during the 1960s when Krushchev's attempts to reform the party apparatus, and its relation to the people, and his bid to discipline enterprise managers through the imposition of an obligation to make profits in a more competitive environment were defeated by an entrenched and self-perpetuating party bureaucracy led by Breznev. The fruits of land reforms, expulsion of foreign oligopolists, universal education and an egalitarian income distribution were squandered by a self-serving *nomenklatura*, and a mockery was made of the real goals of socialism.

The cases of the failed Brazilian and Indian DS can be disposed of much more summarily. The reason for failure of Brazilian developmentalism was not simply that it was authoritarian (Fiori, 1992). After all, the Prussian (German), Japanese and South Korean DSs were also not exactly democratic. But Brazilian authoritarianism had insecure foundations, and was directed towards a rather narrow range of objectives. First, there was never any serious attempt to introduce or implement pro-peasant land reforms in Brazil. This led to the entrenchment of landlord power in the villages, and the tentacles of that power extended to the cities and the political apparatus of the nation, involving workers, businessmen, and political bosses in intricate patron-client relations. Secondly, the state did not try to discipline domestic or foreign capitalists. As domestic investment faltered, the economy became increasingly dependent on foreign capital, and the autonomy of state action became seriously compromised, even when the military seemed to control the whole state apparatus. Thirdly, a weak educational base and an increasingly unequal distribution badly impaired productivity growth and the international competitive prowess of Brazil.

Very similar comments would apply to the Indian DS, some of whose planning ideologies were consciously imitative of Soviet precedents. However, socialism was only a slogan for the top Indian decision-makers (Bagchi 1995a; Chaudhuri 1995; Kaviraj 1995). Except in the three states of Jammu and Kashmir, Kerala and West Bengal, no serious redistribution of land rights in favour of cultivating peasants was effected, and most of India's countryside continued to be dominated by landlords wielding non-market power. Secondly, the progress of education took place at a snail's pace, and the majority of India's population remained illiterate even in the 1980s. Thirdly, significant sectors of the Indian economy were controlled by foreign capital, which inhibited domestic capital and independent entrepreneurial initiatives. Fourthly, property laws governing the major business communities remained family-based and created barriers to entry and enormously increased transactions costs.

Democracy acted as a mechanism for arriving at compromises among the ruling, upper class strata. But it also provided an apparatus for resisting the worst excesses of domestic monopoly capital and TNCs. However, the debt crisis of 1991, which was almost deliberately engineered by certain sections of technocrats, businessmen and politicians favouring increased liberalisation, badly damaged the policy autonomy of the Indian state *vis-à-vis* the IMF, World Bank, transnational capital and internationalized domestic capital. The rise of a Hindu fundamentalist party and the fall-out of its nuclear adventurism have further eroded the prospect of rebuilding a DS on stronger foundations of social capital. The continued crisis in external payments balances has been aggravated by the increase in defence expenditures resulting from the nuclear tests, by the Asian currency crisis and by the economic sanctions imposed by the U.S.A. and some of its allies. The

'Swadeshi' (indigenous) bomb has made India more dependent on private inflows of foreign capital and subservient to transnational capital than even before.

IX. The Future of the Developmental State

At least since the sixteenth century, the DS has played a major role in pushing forward the development of economies and societies in major regions of the world. Moreover, the DS is very much alive and kicking in East Asia.

It has been argued that strong economies of scale preclude domestic nurturing of infant firms or the generation of new technologies. On the other hand, the densely networked economies of East and South East Asia have demonstrated that many such economies can be reaped by regional cooperation within countries and between countries as well, but market-driven regional integration seems to have reached its limits in that region (Bagchi, 1998). In the so-called Third Italy centered on Emilia Romagna we have witnessed the power of municipal nurturing of industry associations which can overcome problems connected with large overhead expenditures, exploiting the external economies of networking. The remarkable growth and dynamism of the town and village enterprises and some of the surviving collective village organizations in China have also shown the power of consciously designed networks of cooperation in production, research, marketing and finance. In fact, with appropriate changes in social organization and continuous upgrading of human skills through education and learning by doing, a developmental state can be energized by something akin to cellular developmentalism.

The experience of the period since the Second World War demonstrates that, with appropriate strategies in place, economies can grow much faster now than they ever did before the War. Japan and Italy made their real transition to affluence after 1945 (Maddison 1996; Zamagni 1993:37). Taiwan, Singapore, Hong Kong and South Korea have also caught up with or even surpassed standards of living of many OECD countries.

We have stressed the role of nationalism in enabling a state to pursue a cohesive, sustained development-oriented policy. The ability of the state to pursue such a policy is in turn contingent on the rapid accumulation and diffusion of what has sometimes been styled 'social capital' (Loury 1977;

Coleman 1988; Benabou 1993, 1996) sometimes called 'social construction of economic institutions' (Granovetter 1992), and sometimes covered under the generic name of 'public action'. The different analysts have focussed, however, on different aspects of the building up of social capital. Economic theorists have used game theory to model 'trust' as a 'commodity' or corporate culture resulting out of the interaction of utility-maximizing individuals (Dasgupta 1988; Kreps 1990). Historians have shown how trust, and hence the moral basis of major segments of society, can be destroyed through inimical public policies (see, for example, Pagden 1988).

'Social capital' can also be used to designate the willingness and ability of dominant groups in society to engage in the construction of enabling institutions and devote resources to the spread of education, sanitation and more generally, the conditions of better living (Loury 1977; Coleman 1988). The forms the construction of such social capital take will vary from country to country, and epoch to epoch, even in the case of a successful DS. In the case of the Dutch DS, as we have seen, the construction of 'social capital' involved the reclamation and protection of land from the sea and the building up of clean cities and educational institutions. After the abolition of the properties of the Roman Catholic Church and its doles, it also involved the provision of succour against destitution under highly punitive conditions. The decline of the DS in the eighteenth century was also associated with the deterioration of the institutions for supporting or building social capital (Israel 1995: chapters 37 and 39).

In Britain, the building of a unitary nationalism under Elizabeth I also coincided with the enactment of laws for succouring the destitute and controlling the masterless men that swelled in visibility, if not in numbers, as a result of the expropriation of the church and the massive transfers of land that took place between the sixteenth and eighteenth centuries. The Speenhamland system was introduced to cushion some of the worst effects on the poor, especially wage-earning poor, of the inflation attending the Napoleonic wars. The new Poor Law, introduced in the 1830, was meant mainly to ease the burden of the Poor Rates on local bodies and shift some of that burden from the losing parishes on to those which gained in population because of the growth of industry. Neither in the Dutch Republic nor in Britain were property owners particularly compassionate towards the poor. They had no conpunction in cutting nominal wages when they were facing stiffer

competition, nor in executing or jailing offenders against property rights. However, their consciousness of the dependence the prosperity and health of their realm had on the general social conditions covering both the rich and the poor led them collectively to build up social capital. This collective action was often locally based and apparently detached from the supreme government based in Amsterdam or London. But action by the towns of the seventeen states in the Dutch Republic, or scores of local bodies spread throughout England, created a network of local and global public goods which created a positive synergy between cleanliness, health and education.

The emphasis on an active creation of social capital is necessary to correct the impression that market-driven economic growth necessarily ensures sustained human development in the long run. The Dutch DS eventually failed not only to meet the challenges of the new, larger DS of Britain but also to reverse the demographic decline of the eighteenth century. In Britain, the industrial revolution was attended with a huge increase in mortality in many of the industrial towns. The threat of social disorder was also present in many of these towns. It was only repeated action by the central government, local bodies and private charities that led to improvement in health and education, and kept the threat of social disarray at bay (Szreter 1997; Thompson 1990). By the beginning of the twentieth century, these efforts proved to be visibly inadequate (as shown, for example, by the poor physique and morale of the common British soldier fighting the Boers of South Africa) and Lloyd George proceeded to lay the foundations of the welfare state in Britain.

Similar examples of faltering and renewed build-up of social capital can be culled from the experience of the Nordic countries and Germany (cf. Senghaas 1985). The building up of social capital will often be differentiated along class lines, and in a capitalist DS the working class will be differentiated from the capitalists by education, habitat and standards of public health. But if the demarcation line becomes an almost unbridgeable barrier and intergenerational mobility across class lines becomes too difficult then the policing costs of the social order will rise, the process of continuous upgradation of skills will be hampered, productivity growth will slow down and the state will find itself lagging behind in international competition (Benabou 1993:1996). If such stratification begins early enough, it will choke off the possibility of a country ever constructing a DS. If such stratification occurs when a DS has attained or passed the stage of maturity then capitalist affluence will be not only punctuated by the usual business cycles but also characterized by high levels of unemployment, widening earnings differentials and endemic social violence. This has been the experience of many cities of the USA for a long time, and this experience is being repeated in many European cities with large immigrant populations.

The West European DSs and Japan have joined the club of affluent nations; unregulated mobility of capital between them has led to realignments of locational patterns, and pockets and regions of severe unemployment. This pattern will be repeated again, especially if Japan ultimately demolishes most of the non-transparent barriers against the entry of foreign goods and capital. However, with similar levels of labour productivity and with endowments of TNCs in every OECD country, these countries are likely to grow at a positive rate, even if the dominance of finance over industry leads to a slowdown of investment everywhere. However, a dismantling of the welfare state is taking its toll on living standards in most of the OECD countries. In virtually all of these countries real wages of low-skilled labour have stagnated or even declined since the onslaught of financial liberalization beginning in the 1980s, and inequality has increased enormously in virtually all the European countries, as well as the U.S.A. and Canada (Atkinson et al., 1995).

The developing countries which have failed to construct DSs are now being bullied by the IMF, the World Bank and transnational capital into opening up their economies to unrestricted entry of foreign goods, services and capital, and the state is withdrawing from all sectors of economic activity except the provision of infrastructure. At the same time, their ability to raise resources for creating social capital has been crippled by the doctrine that taxing the rich is harmful for the economy. These policies have hampered the prospects of growth at a respectable rate (say 5-8 per cent per annum) and led to an increase in income inequality in these economies, even in cases, such as Brazil, where such inequality was already very high (UNCTAD 1997: Part II). There is mounting evidence that in the long run, increases in inequality tend to depress income growth further (for a summary of the evidence and the analysis, see UNCTAD 1997: Part II, chapter 5). Thus without a drastic change in policies leading to increased construction of

social and physical capital, these developing countries will remain doomed to poverty and social disarray.

For the existing DSs in East Asia not yet members of the OECD club several dangers loom ahead. The first is unregulated or badly monitored financial liberalization, which we have discussed earlier, whose effect has been evident in the recent Asian currency and macroeconomic crisis. The second is the dismantling of institutions for the building of social capital and upgrading of the skills, health and security of labour under the illusion that such dismantling and lowering of wages and public expenditures will make the country more competitive in export markets. The third danger is that the DSs concerned will continue to rely on market-driven integration without aiming at integration as a political project to be executed through deliberate policies. In Europe, individual countries achieved partial integration with one another by pursuing similar policies and permitting free mobility not only of productive capital but also labour. From the end of the Second World War, European integration was pursued as a political project with determination on the part of most segments of opinion. Such an active willingness to integrate is as yet not in evidence in East and Southeast Asia despite the existence of the ASEAN (Bagchi 1998). The difficulties recently faced by South Korea are partly attributable to this absence of integration and unregulated competitiveness prevailing in that region.

I conclude by observing that if today's underdeveloped countries are to provide decent standards of living to their citizens, construction of viable developmental states, consciously integrated with other similarly placed DSs, will have to remain high on their agenda.

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