Systemic Vulnerability and the Origins of Developmental States: Northeast and Southeast Asia in Comparative Perspective

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Abstract Scholars of development have learned a great deal about what economic institutions do, but much less about the origins of such arrangements. This article introduces and assesses a new political explanation for the origins of "developmental states"—organizational complexes in which expert and coherent bureaucratic agencies collaborate with organized private sectors to spur national economic transformation. Conventional wisdom holds that developmental states in South Korea, Taiwan, and Singapore result from "state autonomy," especially from popular pressures. We argue that these states' impressive capacities actually emerged from the challenges of delivering side payments to restive popular sectors under conditions of extreme geopolitical insecurity and severe resource constraints. Such an interactive condition of "systemic vulnerability" never confronted ruling elites in Indonesia, Malaysia, the Philippines, or Thailand—allowing them to uphold political coalitions, and hence to retain power, with much less ambitious state-building efforts.

Scholars of economic development have become increasingly avid students of economic institutions. Studies abound on the norms, rules, and organizations that regulate and, to varying degrees, coordinate a society's productive activities. Few would now question Rodrik's conclusion that "the quality of institutions is key" for economic growth.[1]

Yet our growing understanding of the economic impacts of these institutions has not been matched by our understanding of their political origins.[2] In this arti-

Authors listed alphabetically. We are grateful to the following for helpful comments: Cliff Carrubba, Eric Hershberg, Dave Kang, Stephan Haggard, Linda Lim, Greg Noble, Kristen Nordhaug, John Ravenhill, Eric Reinhardt, Dani Reiter, Tom Remington, Michael Ross, Randy Strahan, Judith Tendler, and two anonymous reviewers. Special thanks to David Waldner, whose book inspired this article and who graciously provided important insights.

1. Rodrik 2003, 10. For general reviews of the vast literature on institutions and growth, see, for example, Aron 2000. On institutions as organizations, see, for example, World Bank 2003; and Hall and Soskice 2001.
2. Bates 1995.

International Organization 59, Spring 2005, pp. 327–361

DOI: 10.1017/S0020818305050113

cle, we aim to narrow this gap by providing a political account of the emergence of a particular type of institutional arrangement: "developmental states." We define developmental states as organizational complexes in which expert and coherent bureaucratic agencies collaborate with organized private sectors to spur national economic transformation. As many scholars have argued, in the small number of countries where they emerged, these institutional features were key to an unparalleled capacity for the promotion of economic development.[3]

But why do these institutional arrangements emerge? In contrast to scholars who portray developmental states as highly autonomous entities, unconstrained by coalitional demands, we contend that developmental states will only emerge when political leaders confront extraordinarily constrained political environments. Specifically, we argue that political elites will only build such institutional arrangements when simultaneously staring down the barrels of three different guns: (1) the credible threat that any deterioration in the living standards of popular sectors could trigger unmanageable mass unrest; (2) the heightened need for foreign exchange and war matériel induced by national insecurity; and (3) the hard budget constraints imposed by a scarcity of easy revenue sources. We call this interactive condition "systemic vulnerability."

Developmental states are significant but rare. In the newly industrializing countries (NICs) of South Korea, Taiwan, and Singapore, these institutional apparatuses have enhanced information flows both within and between the public and private sector, giving bureaucrats the wherewithal to help firms compete with global rivals in more challenging economic activities. Just as critically, these institutional arrangements have given bureaucrats the political clout to make credible but conditional commitments and thus to withdraw support from firms that underperform in spite of state assistance. Solving information and commitment problems has helped these states coordinate multiple actors and pursue long-term economic objectives. The result has been an impressive level of "upgrading": shifts, based on growth in local innovation capacities, from lower-value to higher-value economic activities within global commodity chains. In other words, these countries combined export promotion with industrial deepening. This distinguishes the NICs from the four high-growth members of the Association of Southeast Asian Nations (henceforth ASEAN-4)—Malaysia, Thailand, the Philippines, and Indonesia—where "intermediate" state institutions have been associated with impressive growth and economic diversification, but little upgrading.[4]

3. Foundational studies include Johnson 1982; Amsden 1989; Wade 1990; and Haggard 1990. Subsequent work includes Noble 1998; Woo-Cumings 1991; Evans 1995; Kuo 1995; and McNamara 1999.

4. In this article, the causal relationship between developmental states and economic performance is presumed, not proven. For arguments that institutions are key for upgrading, see Evans 1995; Wade 1990; Amsden 2001; and Waldner 1999. On the important distinction between upgrading and diversification (or structural change), see Gereffi forthcoming; Waldner 1999; and Weiss 1998. For empirical studies of economic performance differences between the NICs and the ASEAN-4, see Amsden 2001; Wong and Ng 2001; Booth 1999; and Rasiah 2003.

Analysts differ as to the ultimate benefits of the interventionist policies developmental states have pursued. Yet even economists skeptical as to their benefits agree that, because such policies have been "institutionally demanding," the particular institutions comprising developmental states were critical to whatever benefits resulted from them. Because developmental failure appears to represent institutional failure, and not just policy failure, our aim in this article is to explain why "these conditions . . . [of institutional capacity] . . . rarely obtain."[5] Institutional capacity is our dependent variable.

Any explanation for the scarcity of developmental states must be a political one. Economic institutions ultimately arise from the rough-and-tumble of elite politics, not from choices by private parties to enhance mutual welfare.[6] But politicians are primarily motivated by concerns with securing their power. This typically leads them to de-emphasize the provision of broad collective goods and to fashion institutions as vehicles for channeling largesse to key constituencies—typically economic elites interested in easy profits through speculation and rent seeking—rather than serving any of the more virtuous economic functions noted above.[7]

Political incentives typically lead neither to shared goals of national economic transformation, nor to the creation of monitoring devices and incentive structures through which political leaders (principals) control the bureaucrats (agents) who implement such goals.[8] We thus cannot explain developmental states as a result of either benign motivations or "state autonomy." Rather, to avoid the "thin politics" that has characterized most work on developmental states, we must specify the constraints that make it difficult for politicians to preserve power through clientelist connections to the private sector alone, as well as the incentives that encourage them to build new institutions for economic transformation.[9]

In this article, we argue that the political origins of developmental states can be located in conditions of "systemic vulnerability," or the simultaneous interplay of three separate constraints: (1) broad coalitional commitments, (2) scarce resource endowments, and (3) severe security threats. Any subset of these constraints might make it somewhat more difficult for rulers to stay in power without improving institutional performance. Even mild constraints might inspire politicians to forego their individual interest in maximizing patronage resources, and press them to convert the bureaucracy into "more of an instrument, less of an arena."[10] But there is a cavernous gap between the political will necessary to build such "intermediate" states and that which is required to construct a developmental state.[11] Unless political leaders are confronted by all three of these constraints at the same time, we

5. Pack 2000, 64. See also World Bank 1993, 6; and Page 1994.
6. See Bates 1995; and Knight 1992.
7. Geddes 1994.
8. Moe 1984.
9. On "thin politics," see Wade 1992; Moon and Prasad 1998; and Haggard 2004.
10. Emmerson 1978, 105.
11. See Evans 1995, 60, for the distinction between "intermediate" and developmental states.

argue, they will find less challenging ways of staying in power (Figure 1). In sum, leaders such as South Korea's Park Chung Hee, Singapore's Lee Kuan Yew, and Taiwan's Chiang Kai-Shek only took the lead in building developmental states because they were more tightly bound, not more brilliant or benign, than their counterparts throughout the developing world.

Our argument thus suggests that the interactive condition of systemic vulnerability is both a necessary and sufficient condition for developmental states. We make this structuralist argument in deterministic rather than probabilistic terms not to deny the agency of state leaders, but to facilitate falsification. If future research uncovers instances when leadership failures (or other factors) forestalled the emergence of developmental states, even though all three conditions were in effect, the sufficient argument can be considered falsified. If examples of developmental states can be shown to have emerged in the absence of systemic vulnera-

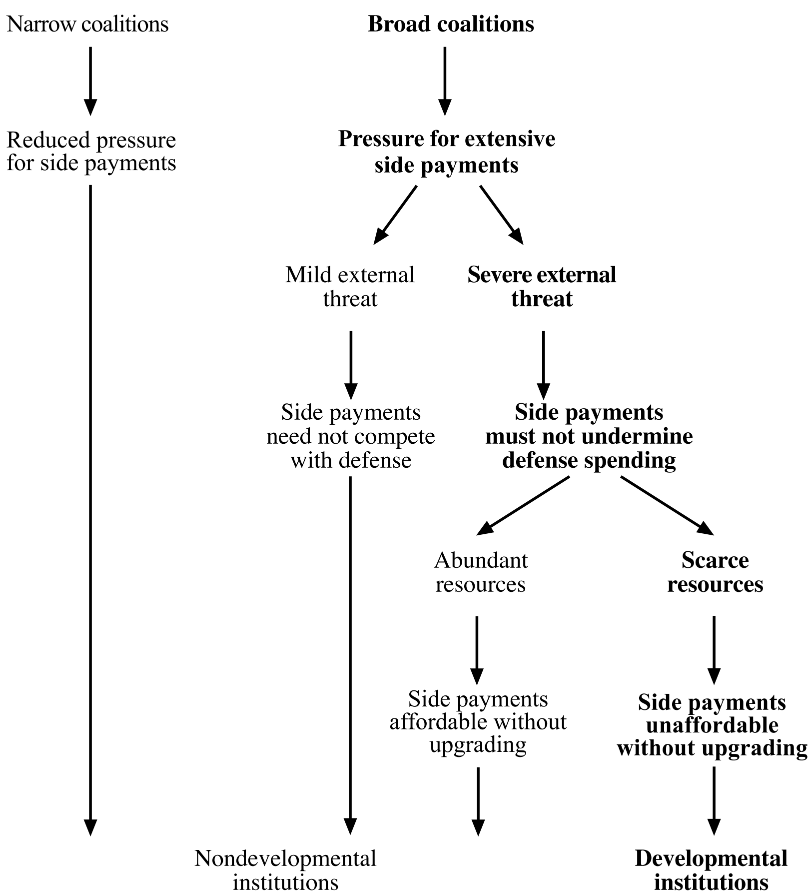

FIGURE 1. *Argument flow*

bility, that is, when one or more of the three conditions were absent, our necessary argument can be considered falsified. Until such evidence is proffered, we treat leadership and agency as epiphenomenal out of our methodological concern for parsimony, rather than any ontological conviction that agency and leadership never matter.

Our causal logic works as follows.[12] Leaders' political survival requires coalitions, which leaders generally try to keep as narrow as possible.[13] But ruling elites can be pressured to enlarge coalitions beyond their initial "minimum winning" size by intense elite or social conflict, or by the credible threat of disruptive mass mobilization. Broad coalitions are best constructed and sustained with side payments to popular sectors; but the provision of such payments is rendered difficult by security threats, which siphon revenues into the defense sector, and by resource limitations, which impose hard budget constraints. Systemic vulnerability thus makes the reconciliation of coalitional, geopolitical, and fiscal constraints a matter of ruling elites' political survival.

How can politicians build and hold together a broad coalition when revenues are desperately needed for national defense, and when there is precious little revenue to go around? Only by continuously expanding the national pie through sustained growth, yet without pursuing a cheap-labor, "race to the bottom" strategy that could alienate coalition members. We thus anticipate that systemic vulnerability will press elites to abandon low-wage-based export growth for a higher-skill, quality-based export trajectory. Elites must thus design side payments without draining the national treasury or raising exporters' costs. In other words, sustaining broad coalitions over the long run requires the ability to export high value-added goods, namely to upgrade. States exhibiting weak or even "intermediate" institutions lack the capacity to overcome these political-economic challenges.

Our suggestion that developmental states partly reflect elite responses to popular pressures might seem counterintuitive, given both the undeniably authoritarian nature of these regimes when these institutions were built, as well as recent work highlighting the contribution of democratic regimes to the provision of public goods.[14] But while popular sectors have been politically subordinated and even brutally repressed in the NICs, they have rarely been economically ignored. The key to the NICs' robust economic institutions lies in how popular sectors have been compensated for their political marginalization.

12. By "ruling elites," we refer to the political leaders atop the incumbent regime. By "broad coalitions," we mean those in which ruling elites provide tangible benefits to popular sectors in exchange for political support or acquiescence. By "severe external threat," we mean situations in which outsiders credibly threaten not merely to initiate a military dispute or seize valued territory, but to terminate the target state as a sovereign political unit. By "resource constraints," we refer to a condition in which states enjoy access to neither credible long-term commitments of foreign assistance nor easily exploited commodity resources.

13. Riker 1962.

14. Baum and Lake 2003.

Our interactive concept of systemic vulnerability remedies several weaknesses in existing accounts of developmental states. First, we improve on accounts that treat leaders' preferences as exogenous or fixed. Variation in systemic vulnerability helps explain, for instance, why leaders frequently fail to take advantage of existing institutional endowments. In the Korean case, for example, such variation over time is vital to understanding shifts in ruling elites' commitment to using Japanese colonial legacies of a strong bureaucracy and large business groups.[15]

We also address gaps in work by scholars whose explicit analysis of elite constraints has inspired our own thinking. We echo Johnson's emphasis on nationalism and Woo-Cumings's analysis of security threats as key to the potency of patriotism in Northeast Asia. But we suggest that the impact of security threats has been critically compounded by resource constraints and coalitional pressures, which channeled nationalist impulses into the building of stronger economic institutions.[16] We also build on the work of Waldner as well as Campos and Root, for whom coalitional pressures are key to institutional formation.[17] But as we show below, our own conclusions differ from these authors' in several important respects. By specifying the causal mechanisms through which broad coalitions shape developmental states, we provide a more robust explanation for intra-Asian institutional variation than has been offered to date.

We elaborate and assess our argument through a comparative-historical analysis of seven countries in Northeast and Southeast Asia. In the first section below, we specify our dependent variable and establish the empirical puzzle of these two regions' substantial institutional variation. In the second section, we first use the methods of difference and agreement to eliminate several rival hypotheses as necessary explanations. We then demonstrate the potential causal importance of systemic vulnerability: drawing on a broad range of research, we note the shortcomings of arguments that rest on any subset of its component variables, and we suggest that addressing the simultaneous presence of all three conditions requires strong institutions.

We assess our argument in two steps in the first two sections below. In the third section, we demonstrate that the South Korea and Taiwan cases both confirm its plausibility and provide insight as to how systemic vulnerability promotes institutional development. This exercise does not constitute a test of our arguments: South Korea and Taiwan lack variation on our independent and dependent variables; they themselves are the source of prior explanations from which we have developed our approach; and our examination of the two cases generates insights as to how our key causal mechanism, side payments, promoted institutional creation. Specifically, we show that the NICs experienced an incremental process of institutional development. While this process initially involved the construction of institutions

15. See Kohli 1999; and Kang 2002.
16. See Woo-Cumings 1998; and Johnson 1982.
17. See Waldner 1999; and Campos and Root 1996.

capable of providing challenging types of side payments, systemic vulnerability subsequently inspired the elaboration of full-blown developmental state arrangements, designed to facilitate the shift from easy export promotion and first-stage import substitution to the export of higher-value-added products based on domestic inputs.

In the fourth section, we test our hypotheses through cross-national and within-case analyses of all five developing capitalist nations of Southeast Asia: Singapore, Thailand, Malaysia, Indonesia, and the Philippines.[18] By matching cross- and within-case patterns with expectations derived from South Korea and Taiwan, we find initial confirmation of our core arguments. We then extend our analysis from nominal variation (namely, the presence of a developmental state in Singapore versus the absence of developmental states in the ASEAN-4) to ordinal differences, by identifying and accounting for more fine-grained variance in institutional capacity within the ASEAN-4 itself. Finally, through historical process tracing, we identify key temporal sequences to confirm the causal validity of our argument.[19]

This article extends the study of developmental state origins beyond the usual focus on the northeast Asian NICs. However, our design does not allow us to vary certain broad regional features, such as Japanese economic dynamism and U.S. security interests. But at this stage of theory development and testing, we believe it preferable to elaborate our hypotheses in some depth, and to limit our assessment of their validity to one world region. Our claims of generalizability outside Northeast and Southeast Asia thus await subsequent testing. The final section reviews our empirical argument and situates it within wider theoretical debates in political science and political economy.

The Institutional Features of Developmental States

What specific features give institutions the capacity to solve the information, commitment, and coordination problems that plague economic development? Accounting for the origins of developmental states requires that we identify such features, independently from the national economic performance with which they are associated. In this section, we identify these features in the NICs (South Korea, Taiwan, and Singapore), and contrast them with those of the "intermediate" states of the ASEAN-4 (Indonesia, Malaysia, the Philippines, and Thailand).

18. In extending our sample to countries with a range of institutional capacities beyond the NICs, we avoid selection bias on the dependent variable. This also allows us to capture variation on a range of independent variables. On the importance of variation in both dependent and independent variables, see Gerring 2001, 189.

19. On using cases to assess the plausibility of an argument and to generate new hypotheses, see McKeown 1999; Acemoglu, Johnson, and Robinson 2003, 107. On nominal versus ordinal variation, see Mahoney 2000.

Institutional Features

Developmental states are complexes of particular types of bureaucratic agencies and public-private–sector linkages. The bureaucracies in question are Weberian in nature: recruitment is by competitive exam; promotion is by merit; remuneration is competitive with rates in the private sector; tenure in office is long; sanctions for corruption are clear and effective; and leadership occurs through a "pilot" agency that "stands outside and astride" individual ministries.[20] Incentives in these bureaucracies encourage the development of independent organizational perspectives and the alignment of broader organizational goals with individual incentives.[21]

But developmental state bureaucracies go beyond the Weberian ideal by promoting linkages with private actors, particularly business and, ideally, labor as well. These public-private institutions can range from formal "deliberation councils" and joint statutory boards to more ad hoc advisory councils. At least three features distinguish these institutions from the broad spectrum of "clientelist" government-business relations that characterize most political systems, especially (but not exclusively) in the developing world. They operate on functional or industry-wide criteria; their private-sector participants tend to be "encompassing," often in the form of official, sectoral, or peak associations; and their operations tend to be transparent, at least to government and business, and to proceed according to explicit and consistent rules and norms.[22]

Institutional Variation

Drawing on a wide range of scholarship, Table 1 shows that despite some cross-national differences in institutional design (for example, degrees of centralization, roles of large versus small firms), South Korea, Taiwan, and Singapore largely conform to the aforementioned characteristics.[23] These countries combine meritocratic promotion and competitive selection. Each has powerful lead development agencies. Each exhibits relatively low levels of corruption and/or has effectively hived off such corruption from leading economic sectors.[24] Each also exhibits high levels of linkages, or "embeddedness," with organized private actors.

These features contrast with those of the "intermediate" states of Indonesia, Malaysia, the Philippines, and Thailand. Bureaucratic coherence in the ASEAN-4 is uneven at best, and public-private linkages exhibit significant degrees of clientelism and private-sector factionalism.[25] Although one finds "pockets of bureaucratic efficiency" and functional public-private–sector linkages, these either serve

20. Weiss 1998, 52.
21. Haggard 2004.
22. See Schneider and Maxfield 1997; and Kuo 1995.
23. On inter-NIC differences, see Wong and Ng 2001.
24. On corruption in Korea and Taiwan, see Kang 2002; and Fields 1997.
25. Evans 1995, chap. 3.

TABLE 1. *Dependent variable*

State bureaucracy	*Korea*	*Taiwan*	*Singapore*	*Thailand*	*Malaysia*	*Philippines*	*Indonesia*
Competitive recruitment	More than 60% take formal exam which is an important method of recruitment (1)	Almost 90%. Exam is important method of recruitment (1)	Close to 75%. Exam seemingly important (1)	60–90%. But importance of exam is ambiguous (1)	30–60%. Exam more important for recruitment than in Thailand, but still ambiguous (1)	Nearly 40%. Exam is important method of recruitment (1)	Very little (2)
Meritocratic promotion	Yes (1)	Mostly meritocratic (1)	Yes (1)	Meritocratic promotion mixed with political promotion (1)	Yes (1)	Mostly meritocratic (1)	Very little (2)
Lead pilot agency	Economic Planning Board (EPB) (8)	CEPD/IDB (3)	EDB (4)	BOI. But no power over other agencies	MIDA. But little power over other agencies	BOI. But little power over other agencies	Ministry of Industry and Trade, but oversight is fragmented and responsibility dispersed (5)
Public-private collaboration							
Either functional or industry based	Yes (6, 7)	Yes (8)	Yes	No (9)	Mixed (9, 10)	No (9)	No (2)
Encompassing associations	Yes (11)	Less encompassing, but very strong in leading sectors (8, 13)	Mixed. Large firms dominate, international associations, little for local SMEs	Mixed and declining. Less representative (11, 13)	Yes, but devoted only to resolving ethnic tensions. More effective in Penang province (14)	Yes, but empty shells or rent-seeking tools (13)	No (5)
Transparent rules	High in areas exposed to competitive markets. (6, 8, 15)	High (6, 8, 15)	Very high (15)	Low to middle (15)	Middle (15)	Very low (15)	Very low (15)

Sources: (1) Rauch and Evans 2000; (2) Emmerson 1983; (3) Evans 1995; (4) Schein 1996; (5) Dhanani 2000; (6) Waldner 1999; (7) Johnson 1982; (8) Weiss 1998; (9) Rasiah 2003; (10) Gomez and Jomo 1997; (11) Doner and Schneider 2000; (12) Kuo 1995; (13) Anek 1991; (14) Biddle and Milor 1999; (15) Transparency International 2002.
Note: BOI = Board of Investment; CEPD = Council for Economic Planning and Development; EDB = Economic Development Board; MIDA = Malaysian Investment Development Authority; SME = Small and Medium Enterprises.

noneconomic ends, such as managing communal politics in Malaysia, or govern economic domains that are necessary but far from sufficient for upgrading, such as macroeconomics in Thailand.

What accounts for this striking intra-Asian variation in institutional features?

The Argument

Scholars have cited a number of factors as possible explanations for the institutional capacity that drove the NICs' economic success. Emphasizing the importance of "initial conditions," Kohli has argued that "Japanese colonialism, as brutal as it was," created new "state structures" and "patterns of state-class relations" that helped postcolonial ruling elites build South Korea's high-growth economy.[26] Others have emphasized the ASEAN-4's heavy reliance on foreign capital in contrast to the dominance of domestic investment in Taiwan and South Korea.[27] Still others have argued that ethnic homogeneity has fostered the societal cohesion that ostensibly underlies developmental states.[28] Finally, the fact that South Korea, Taiwan, and Singapore are all commonly portrayed as predominantly Confucian suggests the potential relevance of religion and culture as factors contributing to bureaucratic strength.

"Logic of Agreement," however, eliminates the first three variables as potential necessary conditions (see Table 2). Unlike South Korea and Taiwan, Singapore's colonial legacy is British, its reliance on foreign capital has been heavy, and its ethnic structure is heterogeneous. Nor can initial conditions explain why postwar Philippine leaders squandered colonial legacies of a well-educated population and a bureaucracy that exhibited impressive pockets of expertise.[29] Even if one accepts the problematic premise that all three NICs share a common Confucian tradition, this tradition's causal relevance is undermined by the poor performance of the Kuomintang before 1949 in mainland China, the British contribution to Singapore's administrative system, and the presumed Confucian antipathy to business (which would seemingly undermine public-private–sector linkages).[30] Similarly, the intermediate states in each of the ASEAN-4 do not share any colonial legacies or religious traditions. The ASEAN-4 share ethnic heterogeneity and heavy reliance on foreign capital; yet so does Singapore, Southeast Asia's only developmental state.

Three factors identified in the broader state-building literature and explored in the Northeast Asian context prove more useful. But the utility of each of these variables is limited when considered in isolation.

26. Kohli 1999, 95, 133.
27. Welsh 2002.
28. Jesudason 1989.
29. South Korea sent its bureaucrats to the Philippines for training until the 1960s. See Chang 2002, 224; and Booth 1999.
30. See, for example, Root 1998, 60–61.

TABLE 2. *Variables*

	Control variables				*Independent variables*			*Dependent variable (1)*	
	COLONIALISM	FOREIGN CAPITAL (5)	ETHNICITY (4)	RELIGION	COALITIONS (2)	EXTERNAL THREATS	NATURAL RESOURCES (3)	BUREAUCRATIC CAPACITY	PUBLIC/PRIVATE LINKAGES
NICs									
Korea	Japanese	Closed	Homogeneous	Confucian	Broad	Severe	Scarce	Strong	Embedded/encompassing
Taiwan	Japanese	Closed	Homogeneous	Confucian	Broad	Severe	Scarce	Strong	Embedded/encompassing
Singapore	British	Open	Heterogeneous	Confucian	Broad	Severe	Scarce	Strong	Embedded/encompassing
ASEAN-4									
Indonesia	Dutch	Open	Heterogeneous	Islam	Broad	Mild	Abundant (oil)	Weak	Clientelist
Malaysia	British	Open	Heterogeneous	Islam	Broad	Mild	Abundant (rubber, tin)	Moderate	Mixed
Philippines	U.S./Spanish	Open	Heterogeneous	Christian	Narrow	Mild	Abundant (sugar)	Weak	Clientelist
Thailand	Independent	Open	Heterogeneous	Buddhist	Narrow	Mild	Abundant (rice)	Weak to moderate	Mixed

Sources: (1): Rauch and Evans 2000 (2) Crone 1988, Campos and Root 1996; (3) Sachs and Warner 1995, Auty 1994; (4) Mauro 1995, Roberts 1962, Muller 1964, Bruk, Apenchenko, and Telberg 1964; (5) Keller and Samuels 2003.

Broad Coalitions

Despite their well-known preference for "minimum winning coalitions," politicians can be induced to broaden coalitions under specific conditions.[31] Whenever elite or social conflict are perceived by political elites as intense or imminent during the early stages of state formation, coalitions tend to be broadened; where such conflicts are muted or absent, coalitions tend to remain comparatively narrow.[32] Sustaining a broad coalition is not costless: it typically requires that elites provide side payments—goods and services "that can conceivably have value" for coalition partners.[33] For our purposes, the key point is that these side payments have important institutional impacts.

Waldner argues that side payments to popular sectors inexorably increase producers' costs and swamp institutions with particularistic demands. Waldner thus concludes that narrow rather than broad coalitions were a necessary condition for the emergence of developmental states in South Korea and Taiwan.[34] Yet he does not posit any causal mechanism linking narrow coalitions to developmental states, leaving the reader to wonder why ruling elites facing mild coalitional constraints would seek to strengthen the state rather than simply stealing it. Furthermore, while rightly highlighting the dangers of populist subsidies and unconditional protection, Waldner unnecessarily precludes the possibility that ruling elites might deliver side payments with more salutary effects. There is in fact theoretical and empirical support for the view that the pursuit of selective benefits and rents may result in the "joint production" of both private and public goods. Although such arguments commonly refer to benefits accruing to business, they might also involve broad benefits to popular sectors, such as education and rural infrastructure, that can encourage productivity rather than profligacy.[35]

As we show below, certain types of side payments actually lower factor costs rather than raising them, enhancing rather than undermining a country's export competitiveness. Certain types of side payments also are essentially undeliverable unless state agencies develop enough institutional capacity to distribute them effectively. Indeed, we see side payments as the causal mechanism through which broad coalitions produce stronger institutions. Initial support for this view comes from Campos and Root, who argue that broad rather than narrow coalitions were the basis of institutional development and economic growth in both Northeast and Southeast Asia.[36]

Yet Campos and Root's blanket endorsement of broad coalitions is as problematic as Waldner's unconditional support for narrow ones. Waldner rightly insists

31. Riker 1962, 88–89.
32. See Waldner 1999, 29; Hechter and Brustein 1980; and Crone 1988 for an application to Southeast Asia.
33. Riker 1962, 105.
34. Waldner 1999.
35. See Bueno de Mesquita et al. 2003, 22–23; Acemoglu et al. 2003; and Knight 1992.
36. Campos and Root 1996.

on the potentially deleterious economic and institutional consequences of cross-class side payments. Ruling elites typically do meet broad coalitional pressures with ill-conceived subsidies that breed clientilism. The critical question is: Why do some ruling elites sustain broad coalitions with side payments that break the bank and explode factor costs, while others secure support with side payments that increase cost-competitiveness and "call forth" expanded institutional capacities?

External Threat

We find useful guidance in unraveling this puzzle from the literature on state formation in early modern Europe. This literature broadly agrees that strong states arise in response to security threats, as asserted in Tilly's famous dictum: "War made the state, and the state made war."[37] Variants of this argument have been usefully applied to Japan and the Northeast Asian NICs: Woo-Cumings has argued that "economic growth . . . (was) . . . indispensable for military security" and regime survival in South Korea and Taiwan; and Campos and Root contend that an atmosphere of "political contestability," based in large part on external threats, compelled leaders to create strong institutions to promote growth and implement wealth-sharing mechanisms for popular sectors.[38]

But research on state formation in the Middle East and Latin America shows that external threats, even in conjunction with mass coalitional pressures, are not always associated with growing institutional capacity.[39] The weakness of any such account is reflected in Campos and Root's inability to provide a systematic explanation for the much weaker commitments to education and training and more sporadic and superficial consultative mechanisms in the ASEAN-4 than in the NICs.[40] We argue that the critical factor explaining this variation is whether, in Centeno's apt phrase, threatened states will be "forced to turn inward to meet the financial challenges of war."[41] How war makes states ultimately depends on how war makes states generate revenue.

Resource Constraints

Research suggests that a state's ease of access to revenue influences institutional development. For example, "rentier state" theorists have argued that resource abundance encourages the creation of distributive rather than extractive state institutions, and Ross has proposed that this "resource curse" encourages politicians to

37. Tilly 1975, 42.
38. Woo-Cumings 1998, 322; Campos and Root 1996.
39. On Latin America, see Centeno 1997, 1569. On the Middle East, see Barnett 1992.
40. Campos and Root 1996, 58–59.
41. Centeno 1997, 1569.

dismantle state institutions in order to "seize" rents.[42] These arguments help to account for variation in institutional capacity between resource-rich and resource-poor economies. Indeed, Rasiah argues that natural-resource exports reduced fiscal pressure on the ASEAN-4 to promote the kinds of "complementary institutional and linkage development" that occurred in the NICs.[43]

But such arguments cannot account for institutional differences between countries with relatively similar resource endowments. Examples include the stark variation in institutional capacity between the Northeast Asian NICs and the resource-poor countries of sub-Saharan Africa, as well as differences between resource-rich countries such as Malaysia and Venezuela, or between Botswana, a country with both diamonds and strong institutions, and its resource-rich but often predatory African neighbors.[44] Underlying all of these weaknesses is a failure to provide a full theory of elite preferences and constraints. As Ross rightly notes, this literature mistakenly assumes that states are invariably revenue satisficers, not revenue maximizers.[45] Whether states satisfice or maximize revenue, we argue, depends fundamentally on the coalitional and geopolitical context in which they are forced to operate.

Systemic Vulnerability

Broad coalitions and external security needs constitute two critical claims on scarce resources that press ruling elites to become revenue maximizers. Under such vulnerable conditions, "easy" development strategies become difficult: shortages of foreign exchange to import inputs for domestic producers means simply subsidizing unprofitable local firms is unsustainable; coalitional obstacles to squeezing wages weaken the long-term feasibility of labor-intensive industrialization; and the lack of foreign exchange makes it difficult to grow simply by buying costly foreign technology. When elites face high levels of systemic vulnerability, they necessarily confront the challenge of simultaneously improving living standards and promoting growth by continuously upgrading local resources.[46]

Reconciling these competing political pressures requires strong institutions. Elites confronting systemic vulnerability must go beyond ensuring property rights, establishing macroeconomic stability, and socializing the risks of new investments. They are also pressed to redistribute assets, such as land, identify areas for new investments with real market potential, establish education and training programs that

42. See Beblawi and Luciani 1987; Ross 2001; and Shafer 1994. On resources and growth, see Auty 1994; and Sachs and Warner 1995.

43. Rasiah 2003, 66. Similarly, Booth 1999, 311, stresses the negative impacts of "easy to tax" sectors in the ASEAN-4.

44. See Rodrik 2003.

45. Ross 1999, 313.

46. This argument holds whether one emphasizes upgrading as simply the result of increased factor inputs or improvements in total factor productivity. On this debate, see, for example, Haggard 2004.

upgrade skills valued by the market, and set up manufacturing and agricultural extension programs that improve the competitiveness of firms.

Implementing policies in these areas poses particular challenges: they require the active "buy-in" of numerous parties. They have important distributional implications, with benefits often taking longer to appear than costs. They require considerable information, often of a specialized nature. They also lack clear "templates." In these situations, "Policy makers are dealing in much more complex political environments and often walking blind as to what needs to be done to resolve issues of public importance."[47]

Policy implementation under these conditions thus requires institutions able to formulate broad developmental objectives; to facilitate information flows within state agencies and between officials and private actors regarding market requirements; to monitor firms' performance; and to be credible in terms of both commitment to economic policies and willingness to exact reciprocity. Such capacities require Weberian bureaucracies led by pilot agencies "embedded" in organized sets of private interests. Even the smartest policies cannot implement themselves.

South Korea and Taiwan

In both South Korea and Taiwan, leaders created institutions to meet the political and economic challenges of systemic vulnerability in three stages. Both began with rural development and import substitution during the early to mid-1950s, shifted to labor-intensive export promotion in the late 1950s and early 1960s, and moved to industrial deepening and upgrading by the early 1970s. Each of these steps involved important elements of institutional growth and adaptation—but it was the third step, when political leaders faced a fateful choice between expanding manufactured exports through cutting wages versus raising productivity, which marked the maturation of developmental state institutions.[48]

Rural Development, ISI, and Initial State Building

Following World War II, leaders in South Korea and Taiwan had "real fears of attack and instability."[49] Communist regimes in Pyongyang, North Korea, and Beijing not only threatened to inflict heavy casualties on and to seize tracts of territory from their ideological rivals; they also claimed to be the rightful sovereign authority over South Korean and Taiwanese soil. Elite fears of discontented, landless peasants in South Korea and a potential repeat of China's rural revolution in

47. Grindle 2001, 373. See also Noble 1998; and Waldner 1999.
48. Amsden 1994, 632.
49. Woo-Cumings 1998, 336.

Taiwan compounded these pressures.[50] So long as the threat of national reunification via communist military infiltration remained palpable, state officials could not be sanguine in the face of potential fifth column elements within their own societies. Credible threats of geopolitical conquest thus forced ruling elites in Seoul and Taipei to see regime legitimacy and state survival as inseparable concerns.

Had revenue sources been abundant in this period, Korean and Taiwanese ruling elites would have been sorely tempted to buy popular quiescence with massive government spending programs. But with no major export commodities on hand, leaders initially relied on uncertain flows of U.S. aid to maintain state viability. Elite concerns that side payments would "break the bank" were thus considerable, especially given the likely effects of any rise in inflation on the militancy of popular sectors. Systemic vulnerability thus provided a necessary political impetus for ruling elites to craft side payments with a broad impact, but a low cost.

Rather than subsidies, side payments took the form of "wealth-sharing mechanisms" in rural development and education. In South Korea, the state "quickly enacted a thorough and extensive land reform. . . . lest the revolution in the north spill over."[51] In Taiwan, the Kuomintang implemented land reform "to elicit political loyalty from the peasants and thereby to avert a rural-based uprising like the one it had just faced on the mainland."[52] By improving rural productivity, land reform also provided cheaper food to Taiwanese in the lower rungs of the public sector, who had been involved in an earlier rebellion against the regime.[53] In addition, leaders in both countries expanded educational opportunities, introducing universal primary education.[54] Educational expansion provided many nonelites with "an important conduit for individual mobility," thereby building "a girder of underlying societal support" transcending class boundaries.[55]

These side payments were fiscally affordable, yet institutionally challenging. This largely unintended impact of side payments on institutional capacity is illustrated most clearly by rural reform efforts. Because South Korea and Taiwan needed to devote scarce foreign exchange to security needs, land reform had to be complemented by the provision of extension services to ensure that agriculture was not only more egalitarian, but more efficient.[56] In South Korea, this involved the creation of a corporatist network of public-private and parastatal organizations that gave subsidized loans to improve farmers' housing, provided technical training, expanded irrigation and access to fertilizer, and disseminated seeds for higher-yield varieties of rice.[57] Similar examples of institution-building abound in Taiwan's agricultural sector, where the government developed an "ability to combine devel-

50. For South Korea, Amsden 1989, 37, speaks of the combined impacts of "violent peasant demands" and "the Soviet example in the North."
51. Woo-Cumings 1998, 327. See also Wade 1982, 4–5.
52. See Shiau 1984, 96; and Wade 1990, 241.
53. Personal communication from Kristen Nordhaug.
54. Wade 1982.
55. Pempel 1999, 170; See also Ashton 1999; and Jeong and Armer 1994, 356.
56. Nordhaug 1997.
57. Wade 1982.

opment planning and effective local implementation through public and semi-public organizations."[58] Finally, in addition to their functional links to institutional growth, side payments themselves helped generate broader support for ambitious industrialization efforts and related institutional development.[59]

Yet agriculture alone could not bankroll the Taiwanese and Korean war machines, even when supplemented by moderate levels of American aid. These states' simultaneous drives to promote manufactured exports and import substitution of key upstream inputs in the 1950s were explicitly predicated on their shared inability to finance security and import needs through agricultural exports.[60] But while the import substitution policy was successfully implemented, the export drive lacked the institutional foundations to succeed. In Taiwan, for example, the Bank of Taiwan guaranteed a few privileged firms handsome profits through supplies of raw materials and financial support. These arrangements were nothing close to a developmental state arrangement; but neither were they purely rent-seeking coalitions. Manufacturers' access to state-guaranteed profit depended on their performance in terms of quality standards, and the government was able "to withdraw its support and force the companies to compete once . . . the economic objectives of the programme had been achieved."[61]

South Korea also initiated textile exports and import substitution, with similar results: as of the early 1960s, there were still no Korean textile exports, but labor productivity had improved significantly, and the country had achieved "complete import substitution." As in Taiwan, this effort at import-substitution industrialization (ISI) occurred through an institutional arrangement that, while involving government support for a small oligopoly, nevertheless laid the groundwork for further institutional development as constraints on ruling elites tightened.[62]

Export-Promotion and Institutional Development

Import substitution became unsustainable in Taiwan by the late 1950s and in South Korea by the early 1960s. Taiwan encountered a severely deteriorating balance of payments due to the combined impact of U.S. aid cuts and rising military expenditures to meet growing tensions in the Taiwan Straits. Unable to finance these

58. Nordhaug 1997, 181. In addition to providing key agricultural inputs, government-sponsored organizations–tenancy committees–solved more than 62,000 landlord-tenant disputes between 1952–56. Ibid., 174.

59. Politically, side payments encouraged a sense of shared growth that reduced uncertainty for risk-averse firms and dampened popular (especially rural) discontent. See Root 1996, 8; and Amsden 2001, 245. In Taiwan, land reform fostered forward linkages and increased agricultural exports; see Wade 1982, 76. Korean rural reforms directed capital away from land speculation, weakened landlords opposing agricultural modernization, and, by cutting rural-urban migration, "buttressed manufacturing wage rates." See Amsden 1989, 37, 203.

60. As Woo-Cumings 1998, 331, notes, ISI "came from the need for more state revenues, through tariffs and other duties . . . in order to support a huge military force." Unless noted, this account draws on Nordhaug 1997, 200–209.

61. Ibid., 205.

62. Amsden 1989, 65.

payments with agricultural exports or sufficient cuts in imports and government expenditures, the state turned to full-fledged export promotion.[63] A similar shift occurred a few years later in South Korea under roughly similar pressures of external threats and dwindling external financing.

Implementing these policy shifts necessitated institutional capacity. In Taiwan, export promotion spurred bureaucratic centralization under technocratic leadership. Equally important was "stronger institutionalization of government-business co-operation" involving an increasingly organized private sector. This was especially marked in light industry such as textiles and electronics, where state agencies encouraged industry rationalization, downstream efficiency, and closer ties between downstream producers and upstream suppliers.[64] In South Korea, the shift to export promotion was largely coterminous not just with a significant centralization of political power (following General Park Chung Hee's 1961 military coup), but also with increasing bureaucratic cohesion, expertise, and links with a private sector itself represented by large business groups and federations.[65]

Industrial Deepening, Upgrading, and the Developmental State

In the late 1960s and early 1970s, both countries faced more threatening external conditions: increased North Korean guerrilla infiltration of the South, U.S. preoccupation with Vietnam, reduction of U.S. troop commitments in South Korea, and Taiwan's diplomatic isolation.[66] Both responded first with efforts at military self-sufficiency through the development of domestic arms and related industries and, in the early 1970s, with heavy industrialization projects in steel, chemicals, metal, machine-building, plastics, shipbuilding, and electronics.[67]

Both countries faced significant challenges in financing this domestic industrialization effort. Labor-intensive manufactured exports were running into competition from cheaper rivals in the region, thus generating fears that continually increasing wages would price these countries' products out of world markets.[68] Meanwhile, low-skill industries lacked the technology to confront more efficient producers such as Japan.

South Korea and Taiwan therefore had only two realistic alternatives in their efforts to become internationally competitive: either cut real wages or raise the productivity of domestic firms and workers. Although these authoritarian regimes could jail individual political opponents, they feared the potential political backlash that could arise from severely disadvantaging labor as a whole. Squeezing

63. Nordhaug 1997, 248–65.
64. Ibid., 255, 266; and Kuo 1995.
65. Fields 1997, 136.
66. This discussion draws on Woo-Cumings 1998, 332–34; Zhu 2001; and Nordhaug 1998, 144.
67. Woo-Cumings 1991, chap. 5.
68. Amsden 1994, 632, and 2001, 244–48.

wages would have been political dynamite. Both therefore took the productivity path by raising the domestic value added of increasingly sophisticated exports.

An important source of value added was domestic upstream suppliers. Given hard budget constraints, however, upstream industries would have to pay for themselves. They did so by serving downstream producers who had to be globally competitive.[69] For instance, Taiwan's need to improve the quality of textile and footwear exports in the face of low-wage competition was a key impetus for the growth of the country's petrochemical, dyeing, and finishing industries.[70] Perhaps the most striking illustration of "downstream pressure" comes from one of South Korea's security-inspired heavy industries—the Pohang Iron and Steel Company (POSCO). Unlike large-scale steel initiatives in Brazil, India, Indonesia, and Malaysia, South Korea's strategy focused on the need "to interface nationally owned upstream and downstream economic activities."[71]

Implementing such an ambitious linkage strategy required benefits to labor—rising wages and cheap education—that could (1) forestall mass opposition to large-scale business subsidies, and (2) expand human resources necessary for manufacturing efficiency and innovation. Real wages in South Korea and Taiwan grew at annual rates of 7.8 percent and 8.5 percent, respectively, from 1969—90: significantly larger than wage gains in even the top performers in Latin America and Southeast Asia.[72] In South Korea, wage rates "positively soared," as "employers were under strong pressure from the government to share their gains with labor."[73] These wage gains did not overprice local producers in export markets, because they were surpassed by rates of labor productivity growth.[74]

Productivity in turn rested on educational expansion and reform. Taiwan initiated an extensive reform of its educational system in 1969, extending primary education and expanding higher education in technical subjects and natural sciences. In South Korea, the government promoted a much closer "coupling of education and economic planning," expanded secondary enrollments, and directed growth in tertiary enrollments into "engineering, science and technology, which were directly related to the economy's emerging industrial needs."[75] And while such measures, like their counterparts in health, benefited the poor, they were not targeted exclusively at the poor. "The approach was instead *universal* or 'encompassing' . . . with an emphasis . . . on human capital *investment*."[76]

Successful implementation of universal reforms devoted to improving human capital required the establishment of institutions capable of (1) enhancing consul-

69. Rodrik 1995, 83.
70. See Chen, Chen, and Chu 2001; Wade 1990, 281; and Cheng 2001, 40–41.
71. D'Costa 1999, 87.
72. Amsden 2001, 245–46.
73. Amsden 1989, 195, 200.
74. Ibid., 201.
75. Jeong and Armer 1994. See also Ashton 1999.
76. Birdsall and Haggard 2002, 60 (emphasis in original).

tation with private actors, (2) coordinating diverse interests, (3) monitoring performance of firms and research institutions, and (4) maintaining sufficient autonomy from private interests to impose reciprocity. To these ends, both countries accelerated bureaucratic reform. Centralization took the form of pilot agencies as well as a streamlining of interministerial coordination.[77] State officials established a broad range of public-private institutions to promote, monitor, and reward/sanction performance, as state support was predicated on the expansion of skill- and capital-intensive exports.[78]

At the sectoral level, these arrangements ranged from corporatist-type institutions, as in textiles and electronics, to more bilateral linkages, as in autos.[79] More broadly, officials established a web of public research agencies to support private-sector upgrading. Organizations such as South Korea's Institute of (Advanced) Science and Technology and Institute of Electronic Technology, and Taiwan's Industrial Technology Research Institute and Electronics Research and Service Organization (1) mediated between industry and bureaucracy; (2) monitored new technologies, products, and processes of international competitors; (3) organized technology transfers; and (4) coordinated new projects in alliance with local firms.[80]

The experiences of South Korea and Taiwan thus serve to confirm the plausibility of our contention that developmental institutions arose from the challenges of addressing popular pressures through the provision of side payments under hard budget constraints in a highly constrained geopolitical environment. In Southeast Asia, only Singapore has replicated this condition of systemic vulnerability.

Southeast Asia

Singapore

With a coherent and capable bureaucracy that consults extensively with business and labor, Singapore possesses the institutional profile of a developmental state. This profile emerged from ruling elites' efforts to contend with the simultaneous presence of a highly mobilized labor movement, a precarious regional security environment, and a dearth of revenues from commodity exports or external patrons. Singapore's ruling elites have famously confronted these threats with significant political repression.[81] Yet they have also done so through "wealth-sharing mechanisms" that, given hard budget constraints, have demanded continuous state attention to fostering national competitiveness. This effort to improve living standards on the basis of a more efficient economy involved the construction of strong institutions.

77. See Weiss 1998, 53; and Amsden 2001, 278–80.
78. See Amsden 1989 and 2001, 279.
79. Research by scholars such as Kuo 1995 and McNamara 1999 demonstrates not only the extent and developmental significance of these arrangements, but also their organizational complexity.
80. See Weiss 1998, 51–52; and Kim 1997, 48–52.
81. For example, Deyo 1989.

Singapore's road to independence (1945–65) was marked by significant social and elite conflict. World War II unleashed mass politics in the form of an armed anti-Japanese resistance that carried over into "a storm of labor unrest and strike action" after the reimposition of British control. Labor militancy peaked in the year from April 1946–March 1947 with "the extraordinary total of 1,173,000 man-days" lost to strikes. Militancy continued well into the 1950s, as evidenced by the 275 strikes, 946,354 man-days lost, and bloody riots of "Black Thursday" in 1955.[82]

In addition to this fait accompli of mass mobilization, Singaporean elites confronted British demands to introduce electoral democracy as a precondition for independence. With no peasant population to mobilize at the polls, political elites were forced to vie for labor's support. "The new era of mass politics from 1955 necessitated a reorientation of political style and strategy to win the hearts and minds of the largely Chinese-educated, economically discontented, and communist-infiltrated electorate."[83] Lee Kuan Yew's People's Action Party (PAP) won a commanding victory in Singapore's first competitive mass elections in May 1959, but only by "riding the tiger" of this "mass-based anti-colonial united front"[84] with programs and promises of economic redistribution.

Elite competition for mass support intensified in July 1961, after a PAP candidate lost a critical by-election to labor leader David Marshall. A subsequent split in the party left the PAP with a razor-thin 26–25 majority in parliament, as it confronted a newly formed Socialist Front that applied constant pressure on the PAP to expand and improve public services for popular sectors. The PAP leadership responded by dramatically stepping up its repression of opposition and labor forces, while increasing its delivery of side payments to ease popular opposition to its strong-armed tactics.[85]

The ruling party's strategy of extending material benefits to labor was politically unavoidable. But it was economically daunting, given Singapore's lack of access to resource revenues and foreign funds. To make matters worse, separation from Malaysia in 1965 threw Singapore into geopolitical limbo, creating a "sense of vulnerability" and shared hardship among the population.[86] This vulnerability was heightened by domestic unrest, stoked by severe Malay-Chinese racial riots in 1964, and "sharpened by Britain's 1967 decision to accelerate military withdrawal from Singapore by 1971."[87]

Singapore responded by modeling its development strategy after Israel, another resource poor, geopolitically insecure country.[88] Economically, the strategy involved "leapfrogging" unfriendly regional markets and pursuing full-fledged integration

82. Stenson 1970, 81, 104, 245.
83. Lau 2003, 9.
84. Ibid.
85. Ibid., 28.
86. Schein 1996, 70.
87. Wong 2001, 507.
88. For example, Schein 1996.

in the global economy. Politically, it meant the PAP needed to sustain its broad coalition with side payments that would not raise exporters' costs.

It accomplished this in four ways. First, to help Singaporeans own their homes, the government created the Housing Development Board (HDB) to subsidize land, building prices, and home financing.[89] Second, education was prioritized and subsidized, with a special focus on technical training. Third, the PAP restored perks and introduced an aggressive pay scale for the civil service. Finally, the state forced firms to increase their contributions to the Central Provident Fund (CPF); allowed workers to access CPF funds to pay for housing, education, and health needs; and allowed workers to buy discounted shares in government linked corporations (GLCs).

These side payments did not impose cost burdens on industrialists. Cheaper housing dissipated upward pressure on wages, improved education meant improved productivity, and high salaries helped the bureaucracy attract many of the city-state's best and brightest. Indeed, these side payments proved critical to Singapore's capacity to earn foreign exchange and generate jobs through export-led growth.

The pursuit of such growth itself—initially through labor-intensive manufacturing, and subsequently through skill-based upgrading—involved the creation of institutions that facilitated ongoing labor and business participation with public officials in policy formulation and implementation. Initial labor-intensive manufacturing required soliciting and coordinating foreign capital through Singapore's "pilot agency," the Economic Development Board (EDB). The EDB's expertise, coherence, and political backing helped Singapore establish itself in low-cost manufacturing, reaching full employment by the early 1970s.[90] But this caused wages to rise more rapidly than labor productivity.[91] The government's initial response—freezing wages—threatened to alienate labor and induce a low-wage, low-skill trap. Thus, in 1972 the government created another institution, the National Wage Council, comprised of representatives from foreign and local business, as well as labor and government, to keep wages pegged to productivity increases.[92]

In 1979, under pressure from low-cost competitors, the government launched the "Second Industrial Revolution" to solicit higher value-added, skill-intensive, and capital-intensive investments, while phasing out subsidies for labor-intensive industries.[93] This required matching skills with industry demand. To do so, the government created a Skills Development Fund, generating funds to expand training and involving both business and labor in designing, implementing, monitoring, and evaluating training programs.[94] The government also encouraged wages to rise to market levels.[95]

89. Rodan 1989.
90. Schein 1996.
91. Rodan 1989, 106.
92. Ibid.
93. Wong 2001.
94. Ritchie 2001.
95. Rodan 1989, 142.

However, this again forced wages up faster than productivity, inciting opposition from employers. The PAP rescinded the measure, realizing it could not afford to scare off foreign capital. But neither did it relish the risk of squeezing workers' wages too hard. The solution was to create institutions such as the Productivity and Standards Board and Institutes for Technical Education, through which labor worked with management to improve productivity.

Combined with the foreign direct investment (FDI) boom of the mid-1980s, these measures relieved some of the pressure of reconciling wages with skills and productivity growth. But in the early 1990s, the familiar tension between wages and productivity resurfaced. This time, the state coupled its demands for improved worker productivity with pressure on both local and foreign-owned firms to upgrade. In addition to restructuring its grants to favor firms willing to invest in research and development, the EDB established institutions such as the Local Industry Upgrading Program, through which multinational corporations (MNCs) provided technological mentoring to local companies. The government also created thirteen quasi-public institutes, in collaboration with foreign firms, to encourage research in new markets such as data storage, and engaged labor and business in the formation of development plans based on overlapping clusters of economic activities.

In sum, institutional development in Singapore was driven by the PAP's political need to promote growth in both wages and productivity against a backdrop of resource scarcity and external insecurity. The institutions that arose to meet these challenges have helped Singapore avoid becoming trapped in a low-wage development strategy, and facilitated upgrading by helping firms adapt to the exigencies of rapid economic change.

Thailand

The emergence of a centralized Thai state in the mid- to late-nineteenth century prompted predictions that the country's economy would surpass that of Meiji Japan.[96] Such expectations were not fulfilled, we suggest, because Thailand's ruling elites faced less systemic vulnerability than elites in Japan (or South Korea, Taiwan, or Singapore). Periods of tightening constraints have prompted impressive bursts of institutional creation. Yet these constraints have never been so severe or sustained as to press ruling Thai elites to build the sort of bureaucratic capacity and public-private linkages that fostered upgrading in Singapore. Thai elites have intermittently confronted broad coalitional pressures, external threats, and resource constraints, but never all three at once.

The modern Thai state was formed in the second half of the nineteenth century in the face of imminent colonial threats. But fortuitous positioning as a buffer between French and British possessions allowed Thai monarchs to preserve national sovereignty through negotiations rather than war. Avoiding annexation required national fiscal autonomy, which came from exponential growth in exports of rice,

96. Feeny 1998, 6.

tin, rubber, and sugar. Finally, early Thai state-builders confronted little elite or social conflict. Modernizing monarchs faced no entrenched landlord class, while a vast land frontier weakened tendencies toward peasant unrest.

Side payments during the 1855–1945 period were minimal, while institutional development was impressive but limited. Borders had to be secured, in part through the construction of railroads; but the necessary steel and technology could be imported with profits from bountiful agricultural exports, which, in turn, required macroeconomic stability, greater revenue collection, and efficient trade administration. All of this was achieved through the creation of a centralized civilian bureaucracy that "ran the provinces, kept the peace, collected the taxes, and educated the children."[97] But land abundance and easy commodity exports allowed Thai ruling elites to neglect basic institutions in agriculture such as property rights and irrigation. Elites also considered but rejected productivity-related institutions in rubber, silk, and shipbuilding.[98] Thus was born a tradition of extensive rather than intensive growth.[99]

Since 1945 Thailand has been intermittently pressed by growing vulnerability to improve institutional capacity, but these promising starts have faltered when constraints loosened. Soon after World War II, a fragmented military elite responded to labor protests over inflation and food shortages by destroying radical labor organizations but legalizing moderate unions and adopting legislation to improve working conditions. But by the mid-1950s, with growing U.S. military support and vibrant rice exports, military rulers outlawed unionism and plowed money into state enterprises. Institutionally, the result was a growth of intra-elite clientelism and a weakening of the state's macro-economic institutions.[100]

By the late 1950s, the end of the Korean War commodity boom had cut export revenues, and regional insurgencies were heightening security threats. Higher vulnerability led to impressive capacity in macroeconomic institutions, as well as state support for private-sector arrangements (for example, commercial banks) to promote capital accumulation and agricultural diversification. Yet Thailand also benefited from its land surplus and U.S. military spending that, by the late 1960s, "provided sufficient . . . foreign exchange . . . to free Thailand from the reserves constraint that might otherwise have materialized."[101] As a result, Thai elites were under no pressure to improve the performance of sectoral ministries or to intensify linkages with private actors. In agriculture, for example, "planning . . . research and extension were ineffective."[102]

In the early 1970s, social and elite conflict converged to force a broadening of the ruling coalition under civilian rule. As a rural insurgency gathered force, con-

97. See Pasuk and Baker 1997, 235; and Brown 1988.
98. See Christensen 1993; Brown 1988; and Feeny 1982.
99. Ingram 1971.
100. Pasuk and Baker 1997, 124–27.
101. Muscat 1994, 101–102.
102. Ibid., 98.

flict between business and military elites led Bangkok-based business interests to view the countryside as an ally to be co-opted. Now holding executive power, business elites extended benefits to peasants such as price supports and fertilizer subsidies. Labor unrest was mitigated with union recognition, collective wage bargaining, worker benefits, and training.[103]

But this shift toward distributive goals generated little pressure for productivity or administrative reform. Payments to rural actors were institutionally disjointed. Manufacturing was regulated through ad hoc and complex regulations under a highly fragmented group of state agencies, most of which maintained particularistic links with the private sector.[104] Tariffs rose without any appreciable growth in efficiency.[105] Diversification was impressive, as state institutions worked through commercial banks to promote new investments; but the technological capacity of local firms failed to improve significantly.

Rising coalitional pressures did not translate into developmental-state institutions in the 1970s due to the weakness of security and resource constraints. Security threats, temporarily sharpened by the U.S. defeat in Vietnam and Chinese support for Thailand's rural insurgency, abated toward the end of the decade. Revenues from rice and other resources remained high, and Thailand's land frontier was far from exhausted. Moreover, global rises in commodity prices loosened revenue constraints, directly by boosting Thailand's export revenues, and indirectly by permitting Thailand to pursue a strategy of "debt-financed growth."[106] Revenues required to sustain a broad political coalition were thus attainable without significant institutional capacity.

By the early 1980s, however, conditions became less permissive. Severe global recession slowed the flow of foreign exchange to the Thai state. Diminishing agricultural exports meant growth would have to come from manufactured exports, a more institutionally demanding prospect. Throughout the next decade, the Thai state's institutional responses to this challenge were impressive, surpassing previous efforts.[107] Officials initiated a restructuring committee to address key competitiveness issues, such as upstream tariff reform.

But these institutions focused almost totally on macroeconomic stabilization. Institutions devoted to upgrading lay dormant, as resource constraints were softened by a flood of foreign investment prompted by Thailand's exchange-rate and labor-cost advantages.[108] This FDI inflow helped ignite an export boom in the late 1980s that absorbed low-skilled workers from the inefficient farm sector, alleviated pressure for improved education and training, and reduced the need for improved competitiveness among domestic firms.

103. Pasuk and Baker 1995.
104. See Unger 2003, 9; Muscat 1994, 151, 159; and Siamwalla and MacIntyre 2001.
105. Jansen 1997, 33.
106. Ibid., chap. 4.
107. Muscat 1994, 197.
108. Chaipat 1989.

The "good times" of the late 1980s and early 1990s gave way to the scarcity of the postcrisis period of 1997. This familiar shift from revenue plenty to paucity was accompanied by unprecedented levels of populist pressure. Predictably, this combination of constraints has increased incentives to expand institutional capacity as ruling elites struggle to finance side payments in the context of shrinking revenues and fierce electoral competition. Thailand's initial response to the crisis, under the Democrat Party, had two components. One was to address the country's lack of value added, innovation, and competitiveness through bureaucratic reform and extensive public-private–sector consultation.[109] This upgrading initiative was largely overshadowed, however, by neoliberal policies reflecting International Monetary Fund (IMF) views.

Responding to widespread dissatisfaction with the effects of IMF orthodoxy, the Thai Rak Thai (TRT) Party won an unprecedented, near-majority victory in the 2000 elections with promises to slow liberalization and increase redistribution. The TRT aimed to prove its populist intentions by quickly introducing a large-scale village fund and a universal health-care scheme.[110] Recognizing that financing these side payments over the long term would require improving industrial competitiveness—a task for which Thai institutions were ill-prepared—the TRT passed bureaucratic reforms, created a National Committee on Competitiveness, increased the roles of industry "institutes" for public-private–sector consultation, modified the Board of Investment to emphasize "quality-over-quantity" in FDI promotion, and initiated efforts to reform education and improve vocational training.

Such initiatives will likely lose steam, however, if economic recovery provides sufficient funds to meet cross-class commitments. Thailand has officially entered a recovery period, mostly as a result of exchange rate-driven export growth and Keynesian domestic stimulus, not improvements in productivity and innovative capacities. There are already discouraging signs that education and training reform are becoming bogged down in political and redistributive wrangling as the "good times" seemingly return.[111]

Indonesia, Malaysia, and the Philippines

Like Thailand—but unlike Singapore—Indonesia, Malaysia, and the Philippines have never faced the levels of systemic vulnerability that would have pressed ruling elites to build developmental states. None have faced severe external threat, and resource conditions have generally been permissive. These cases thus provide important corroborative evidence that both the nominal (cross-national) patterns, and the ordinal (within-case) shifts depicted in Singapore and Thailand are not limited to those two examples.

109. Hicken and Ritchie 2002.
110. Hewison 2003.
111. World Bank 2003.

In all three countries, intense social conflict after World War II pressured ruling elites to pay close attention to popular sectors. Elite responses varied, however. In the Philippines, concerns with popular rebellion were addressed primarily through localized electoral mobilization rather than cross-class side payments. Coalitions stayed narrow, as presidential promises to redistribute land and resources remained grossly unfulfilled.[112]

In sharp contrast, mass mobilization in Indonesia in the decades following World War II was impossible for elites to contain with elections alone. To defeat Dutch attempts at postwar reoccupation (1945–49), Indonesia's leaders defined their "minimum winning coalition" in the broadest possible terms. Elite conflict remained intense throughout the period of parliamentary democracy (1949–57) and "Guided Democracy" (1957–65), and the population remained highly mobilized. Meanwhile, social conflict reached a fevered pitch in the mid-1960s with the meteoric political rise of the Indonesian Communist Party (PKI). The military seized power and forcibly demobilized popular sectors; yet legacies of mass politics pressured President Suharto (1966–98) to complement repression with modest levels of redistribution.

Malaysia's postwar coalition was broadened by highly intense social conflict against the backdrop of a communally divided national elite. Remnants of the anti-Japanese resistance battled British and neocolonial elites, and British plans to eliminate special privileges for the Malay majority led Malay elites to defend their political dominance by incorporating the Malay peasantry into the United Malays National Organization (UMNO) in 1946. Although UMNO initially gained power through a combination of limited electoral mobilization and moderate side payments, ethnic riots in 1969 pressed it to pay increased attention to the economic needs of its Malay base.

These conflicts helped shape side payments, which subsequently shaped state institutions. In the Philippines, low levels of side payments facilitated a virtual absence of elite attention to state-building, especially in the Cold War context of highly reliable American guarantees of military assistance, foreign aid, and preferential market access for Philippine sugar exports. Absent any strong linkage between side payments and their own political survival, elected political elites cultivated regional power bases and largely neglected institutional reforms necessary for growth and structural change, let alone upgrading. The bureaucracy is competent, but hamstrung by clientilist linkages between politicians and businessmen.[113] Only in the early 1990s, with the confluence of increasing electoral competitiveness, imminent state bankruptcy, and the closing of U.S. military bases, did the Philippines manage to implement basic first-generation institutional reforms similar to those described in Thailand. The result was temporarily improved growth and FDI-led diversification through price stabilization, not state-building.

112. Kerkvliet 1979.
113. Hutchcroft 1998.

Unlike their Philippine counterparts, Indonesian and Malaysian ruling elites have been consistently forced to sustain broad coalitions with significant side payments. They have done so in ways that avoided pricing their producers out of key export markets, as Indonesia and Malaysia are notable as two of the world's most impressive cases of export-led growth through low-cost manufacturing. Cost-competitiveness and redistributive generosity were reconciled through side payments such as Malaysia's New Economic Policy (NEP), introduced in 1971, which pressured Chinese and foreign corporations to relinquish 30 percent of their stock to government trusts, ostensibly managed on behalf of ordinary Malays.[114] By redistributing wealth through the transfer of corporate assets, Malaysian ruling elites answered broad coalitional pressures while avoiding unaffordable consumer subsidies and unsustainable wage increases.

In Indonesia, agricultural price-management by the State Logistics Board (BULOG) stimulated rural production—generating national self-sufficiency in rice by 1985—yet without raising food costs too severely for Indonesia's urban poor. Ruling elites in both Malaysia and Indonesia thus built broad coalitions while keeping factor costs low, helping both countries attract a deluge of foreign investment in export-oriented light manufacturing.

Yet Malaysia's NEP and Indonesia's BULOG also nicely illustrate the deleterious impact of resource abundance on state institutions and subsequent economic performance. Critically, both BULOG and the NEP emerged before Malaysia and Indonesia reaped the massive windfall of the OPEC oil booms, and hence operated under relatively tight budget constraints. But the postboom flushness of state coffers permitted both governments to use resource-generated revenues to bankroll highly inefficient heavy-industry projects managed by favored business cronies—even while the NEP and BULOG continued to secure mass political support in relatively cost-effective ways.[115] As a result, supporting institutions necessary for industrial upgrading have foundered in both Malaysia and Indonesia. Even Malaysian consultative mechanisms lauded by the World Bank, for example, have mostly emphasized the resolution of communal tensions, not the improvement of national competitiveness.[116]

Broad coalitional pressures in Indonesia and Malaysia have clearly forced ruling elites to worry seriously about promoting growth and structural change to generate foreign exchange and employment for supporters. But as in the Philippines, the absence of external threat and rarity of revenue shortfalls have permitted ruling elites to avoid the hard political work of institution-building in areas beyond property rights and price stabilization. Elite commitment to even such basic "first-generation" institutions has wavered in good times while returning to steadfast-

114. Jesudason 1989.

115. For example, BULOG continued to be effective in stabilizing rice prices without major distortion even through Indonesia's oil boom. We are grateful to an anonymous reviewer for pointing out this fact.

116. Biddle and Milor 1999.

ness only when times turn bad. Such an institutional profile has permitted more impressive growth and diversification in Indonesia and Malaysia than in the Philippines, but not any significant national upgrading.

Conclusion

As an exercise in empirical analysis, this article has aimed to unravel the political origins of developmental and nondevelopmental states in Northeast and Southeast Asia. We have argued that ruling elites in the NICs constructed coherent bureaucracies and public-private consultative mechanisms in response to a similar set of political-economic constraints: all were pressed to build and maintain broad coalitions and to address security threats without easy access to revenues. In contrast, ruling elites in the ASEAN-4 never confronted such a threatening mix of geopolitical, coalitional, and fiscal constraints. "Intermediate states" thus provided these countries' ruling groups with ample institutional capacity to sustain coalitions and preserve national sovereignty.

Our empirical analysis has also helped us identify a somewhat surprising causal mechanism through which systemic vulnerability actually produces developmental states. Contrary to common views that developmental states were built by utterly unconstrained and ungenerous ruling elites, we have found that the side payments these elites delivered to popular sectors "called forth" impressive new institutional capacities in South Korea, Singapore, and Taiwan. This was an incremental process. Without building new institutions, policies designed to secure mass acquiescence such as land reform, advanced technical training, and subsidized public housing could never have been effectively implemented. Given the fiscal constraints imposed by revenue paucity and daunting defense commitments, ruling elites did not enjoy the luxury of co-opting a restive mass public with more expensive but less institutionally unchallenging types of side payments. Nor was it politically feasible to pursue a low-wage export strategy based on squeezing labor. Over time, then, upholding broad coalitions amid severe fiscal constraints came to require the pursuit of both export promotion and increased domestic inputs, all without sacrificing wage buoyancy. This strategy entailed extensive institutional capacity.

Accounting for these Asian outliers allows us to address broader debates as to the conditions under which political self-interest drives ruling elites to provide growth-promoting public goods and, by implication, to construct better institutions for governance. Implicitly challenging the benefits of "state autonomy," recent scholarship stresses the contribution of democracy to the provision of public goods, such as education.[117] Drawing on market models, this view argues that democracy's competitive pressures limit states' ability to garner and distribute monopoly rents

117. See Lake and Baum 2001; and Baum and Lake 2003.

to themselves and a narrow band of supporters. But while democracy is a valuable end in itself, it does not always yield either more capable or more generous states. Democratic competition might inspire improved institutional performance and increased public provision when it helps induce elite vulnerability, as seen in contemporary Thailand. But where ruling elites develop such a stronghold on power resources that they can preserve power without delivering significant side payments, as we see in the Philippines, the "invisible hand of democracy" fails to deliver the goods.

Nor should we assume that constraints on elite actions are confined to democracies. The primary lesson of state-building in Northeast and Southeast Asia has been that systemic vulnerability, far more than electoral vulnerability, has driven ruling elites to improve institutional performance. At first, this argument might seem crudely functionalist. But it is perfectly consistent with conventional, rationalist premises regarding elite preferences. Developmental states have not arisen from political leaders' selfless love of nation and accompanying recognition that new institutions could help maximize national wealth. Rather, developmental states have arisen from political leaders' recognition that—under conditions of systemic vulnerability—only coherent bureaucracies and broad public-private linkages could produce the resources necessary to sustain coalitions, secure state survival, and thereby maximize their time in office.

We have tested the generalizability of this argument outside Northeast Asia, where our and others' hypotheses regarding the origins of developmental states have been generated. Because Southeast Asia exhibits significant variation on both our key independent variables and on the dependent variable of institutional capacity, it has provided a useful venue for testing our hypotheses. We also believe that our argument is consistent with research outside the Asian theater, such as scholarship on the origins of "nonliberal capitalisms" in the industrialized world and on institutional variation in Africa.[118] Our hope is that the hypotheses generated and tested here inspire assessments of our arguments on a broader scale.

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118. See Streeck 2001; Katzenstein 1985; Rodrik 2003; and Acemoglu, Johnson, and Robinson 2003.

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