



# Emerging Markets Studies

Edited by Joachim Ahrens, Alexander Ebner, Herman W. Hoen,  
Bernhard Seliger and Ralph Michael Wrobel

Manuel Stark

## The Emergence of Developmental States from a New Institutionalist Perspective

A Comparative Analysis  
of East Asia and Central Asia

2

PETER LANG

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## Foreword

Economists, political scientists, and development practitioners have offered numerous convincing explanations of why development projects often fail or policy and institutional reforms are implemented only half-heartedly and do not materialize as expected. In fact, empirical research confirms that the vast majority of less or least developed countries experienced a slow or highly volatile economic growth performance over the last sixty years. Only a few countries managed to sustainably grow over a long period of time with only minor or short recessions, but with social progress and significant reductions in poverty. Almost all of these high-performing economies are located in East Asia.

This book is dedicated to these so-called developmental states. The study addresses the question why and how successful economic catching-up processes could be realized. The author applies Chalmers Johnson's developmental-state approach and improves its theoretical foundation so that it gains explanatory power and becomes applicable to a greater variety of research questions. This approach, located at the interface of economics and politics, is being theoretically founded by linking it to Douglass C. North's theory of institutional change. Thereby, the author is able to explain success and failure of economic reform and catching-up processes by accounting for the importance of political, economic, and social institutions, formal as well as informal ones, in political settings in which governments assume an active role in shaping and conducting economic policies.

Confronting the reader with detailed, comprehensive case studies of developmental states in Asia, Manuel Stark persuasively argues that the state has been always an important part of the solution for problems of economic backwardness and underdevelopment. Sometimes, the state has even proven to be the driving force. Since this book identifies the institutional conditions under which states can effectively assume more active roles, its theoretical framework can be applied to a great variety of less developed countries and emerging market economies. This is being done exemplarily for Kazakhstan and Uzbekistan, the two most important Central Asian transition countries, which, in a non-democratic setting, have performed economically well over the last decade.

This book is a differentiated, critical, theoretically well-founded analysis of developmental states in Asia. Economists, political scientists, and sociologists as well as actors in the policy-making community will greatly benefit from reading the book and learning about its case studies. The work considerably improves our understanding of the importance of institutional constraints for economic development and how to politically shape them in order to make economic

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growth and social progress a viable policy choice. Most important new insights relate to the research into comparative economic systems and the historical and comparative analysis of institutions.

Joachim Ahrens (editor)

Göttingen, 12 June 2012



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## List of Abbreviations

BOT	Board of Trade (Japan)
CEPD	Council for Economic Planning and Development (Taiwan)
CIS	Commonwealth of Independent States
EBRD	European Bank for Reconstruction and Development
EDB	Economic Development Board (Singapore)
ENRC	Eurasian Natural Resource Company (Kazakhstan)
EPB	Economic Planning Board (South Korea)
ESB	Economic Stabilization Board (Japan)
FIC	Foreign Investor's Council (Kazakhstan)
GATT	General Agreement of Tariffs and Trade
GLC	Government-linked Company
HCIA	Historical and Comparative Institutional Analysis
HICOM	Heavy Industries Corporation of Malaysia
HPAEs	High-performing Asian Economies
IDB	Industrial Development Board (Taiwan)
KMT	Kuomintang
LDP	Liberal Democratic Party of Japan
MCI	Ministry of Commerce and Industry (Japan)
MITI	Ministry of International Trade and Industry (Japan)
NIE	New Institutional Economics
NJPPCC	National Joint Public and Private Sector Consultative Committee (Thailand)

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NPE	New Political Economy
OECD	Organization for Economic Cooperation and Development
PAP	People's Action Party (Singapore)
QCA	Qualitative Content Analysis
SCAP	Supreme Commander for the Allied Powers
UMNO	United Malays National Organization

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# **1 Introduction**

## **1.1 Research scope**

### **1.1.1 Central Asia after 20 years of transition**

In the scientific literature on the political and economic development of Central Asia, there are few historical events that are referred to as frequently as the “Great Game”. This term stands for the rivalry over the control of the region between the British and Russian Empires that started at the beginning of the 19<sup>th</sup> century and lasted for approximately 100 years. In earlier centuries, Central Asia had been among the scientifically, culturally and economically most advanced regions in the world. However, the khanates that ruled over the Central Asians at the beginning of this Great Game were far from being on par with the European powers regarding economic, technological or military aspects. Central Asia was not an active player in the Great Game, it was its target.

For those that inhabit the five countries of Central Asia—Kazakhstan, Uzbekistan, Turkmenistan, Kyrgyzstan and Tajikistan—the Great Game ended with Russian and later Soviet domination. The following decades of foreign rule had a profound impact on the region’s economy and culture. Today, more than two decades after the collapse of the Soviet Union, both scholars and political journalists have started to write about a new great game in Central Asia with different contenders, in particular China and the United States (see Edwards, 2003; Klevemann, 2003; Menon, 2003; and the articles in the collective volume of Laruelle, Huchet, Peyrouse, & Balci, 2010). Yet, maybe the biggest difference between the current power struggle and the situation in the 19<sup>th</sup> century is not that more or different powers have joined the contest, but that the Central Asian republics themselves have become active participants and are able to choose their path of development within certain constraints.

Since the region has always been at the intersection of various cultural and political influences, it is extremely difficult to foresee which path its development might take. Russia, bordering Central Asia to the north, still maintains close relations with the former Soviet Republics. Russia remains influential, especially in northern Kazakhstan and Kyrgyzstan, which are home to large Russian minorities. With its southern neighbors—Iran, Afghanistan and Pakistan—Central Asia shares a common cultural, religious and historical heritage that predates Russian influence. To the east, Kazakhstan, Kyrgyzstan and Tajikistan have a common border with China, whose thriving economy has made it more influential over the last years. To the west, the region is delimited by the Cas-

pian Sea with its rich oil reserves. Furthermore, the region is geographically close to Turkey, whose language is closely related to the languages of four of the five Central Asian countries,<sup>1</sup> and Eastern Europe, which shares the challenge of post-communist transition with Central Asia.

As the most recent transition indicators of the European Bank for Reconstruction and Development show, the market-oriented reforms undertaken by the Central Asian governments since the dissolution of the Soviet Union have not led to the emergence of a full-fledged market economy in any of the republics (EBRD, 2011). Whereas the transition from a command economy to a market economy has progressed well in Eastern Europe, Central Asia is lagging behind. It is reasonable to argue that this outcome is at least partly due to different historical and geopolitical conditions that the Central Asian republics faced when they became independent. When Russia and the former communist countries of Central and Eastern Europe began the transition, it was apparent that the Western market economies would serve as the main reference model for the reform process. For the smaller European countries, which had the prospect of becoming members of the European Union, both the reform path and its objective were clearly defined through the *acquis communautaire*, which assured the commitment of the political decision makers to the reforms (Ahrens, 2002, pp. 306–318). Russia also started the transition by implementing political and economic reforms that were largely consistent with the Western model of a liberal capitalist democracy (Ahrens, 1994, pp. 74–96), even though in recent years Russia has distanced itself more and more from the West.

The conditions for transition in Central Asia differed significantly from Eastern Europe and Russia in the 1990s and they continue to differ even today. The five republics were among the poorest and least industrialized parts of the USSR (Pomfret, 2003, p. 34), and had the task of supplying agricultural goods and raw materials to the Soviet economic system. In contrast to most other countries of the former Eastern Bloc, the transition in Central Asia takes place under non-European and non-democratic conditions. Political reforms that preceded the transition toward market economies in Eastern Europe are unlikely to take place soon in most of the Central Asian countries.<sup>2</sup> The region is both geographically and culturally more distant from the West than Eastern Europe and

---

1 Uzbek, Kazakh, Kyrgyz and Turkmen are Turkic languages, whereas Tajik is a variety of the Persian language.

2 Kyrgyzstan is the notable exception. In 2010, President Kurmanbek Bakiyev, who had come to power after the Tulip Revolution in 2005, was overthrown after domestic unrest. Democratic elections took place in early 2011, which resulted in the victory of the pro-Russian political leader Almasbek Atambajew (Bidder, 2011).

Russia. These factors not only lead to different constraints and incentives for political decision makers in Central Asia, but also result in more difficulties in accessing the European market. The fact that all Central Asian republics are landlocked additionally inhibits the access to potential export markets. Recommendations and reform approaches that served as the basis for the economic transition in other former communist countries may not be valid under the current conditions in Central Asia. Therefore, there is no apparent reference model for Central Asia, yet it is reasonable to take a broader perspective and to analyze not only the institutional settings of the liberal democracies of Western Europe and North America, but also the institutions of other successful economies.

### **1.1.2 The East Asian miracle and its relevance for Central Asia**

There are extremely few examples of non-Western economies that were able to achieve sustainable economic growth over a long period of time. When looking for countries beyond Western Europe and North America that could serve as reference models for successful industrialization, the leading example is clearly East Asia, where most of the remarkable economic success stories have taken place.

The first country to be mentioned in this context is Japan. At the height of imperialism in the 19th century, Japan was at the verge of being colonized by Western powers (Kohli, 1999, p. 100). Partly triggered by this imminent danger, drastic political changes took place in the course of the Meiji Restoration in 1868. Over the following decades, rapid modernization and industrialization was successfully pursued under the slogan “rich country, strong military” (Johnson, 1982, p. 20). After the devastating defeat of the Second World War, the economy in the after-war period showed another impressive growth performance, known as the Japanese miracle. By the second half of the 20th century, Japan had surpassed most Western countries to become the world’s second largest economy behind the United States.

In the 1960s, Japan was joined by other East Asian economies in the process of catching up with the most advanced economies. The four *East Asian Tigers*, South Korea, Taiwan, Singapore, and Hong Kong, began a process of rapid industrialization and economic growth. This process was sustained over decades, resulting in a drastic increase of their societies’ standard of living. During the 1980s and early 1990s, yet another group of East Asian economies—Malaysia, Thailand, and Indonesia—had begun to follow a similarly successful path of development. All eight countries, collectively referred to as the *high-performing*

*Asian economies* (HPAEs), received unprecedented attention in economic research. The notion of an East Asian economic miracle had become widespread, as is apparent from publications such as the World Bank's "The East Asian Miracle: Economic Growth and Public Policy" (1993) or "The Key to the East Asian Miracle: Making Shared Growth Credible" by Campos and Root (1996).

In light of Japan's drastic economic slowdown in the 1990s and the East Asian economic crisis of 1997 and 1998, economists and other analysts have become more critical of the accomplishments of the HPAEs. Already in his 1994 "Myth of the Asian Miracle," Nobel laureate Paul Krugman noted that forecasts assuming that the HPAEs impressive economic growth would continue indefinitely were naïve: "Rapid Asian growth is less of a model for the West than many writers claim, and the future prospects for that growth are more limited than almost anyone now imagines" (p. 64). He based this assertion on the observation that most of the economic growth in East Asia could be explained by an astonishing mobilization of productive factors, which would not continue indefinitely (Krugman, 1994, pp. 69–75; see also Young, 1995, pp. 671–675). When the Asian Crisis of the late 1990s seemed to show that the East Asian miracle was indeed over, the attention of both the public and academia began to shift toward other emerging economies. The People's Republic of China immediately became the center of attention, along with other countries such as India and Brazil. Due to the dynamic economic development of these countries and their large populations, they seem to pose a more serious threat to the Western economic domination.

However, this shift of attention of public and scholarly perspectives on the HPAEs is only partly justified. As Table 1 shows, six of the ten fastest growing economies of the second half of the 20<sup>th</sup> century belong to the group that the World Bank subsumed as HPAEs in 1993 (World Bank, 1993, p. 1).<sup>3</sup> This period includes Japan's *lost decade* of the 1990s as well as the break-down of economic growth that several newly industrializing economies suffered from in 1998. The central accomplishments of the most successful among the high-performing Asian economies lie both in the achievement of high rates of economic growth and in the ability to sustain high growth rates over a long period of time. Japan's GDP per capita in purchasing power parity has risen from a fifth of the American value in 1950 to more than 73% in 2008 (it amounted to more than 80% in 1990 before growth began to slow).<sup>4</sup> South Korea and Taiwan

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3 The HPAEs that do not appear on the list, Malaysia and Indonesia, rank 20th and 28th, respectively.

4 Own calculations based on Maddison (2010).

raised their per capita GDP in purchasing power parity from less than 11% (South Korea) and 12% (Taiwan) of the American value to more than 60% in 2008; Singapore and Hong Kong have achieved a similarly impressive catch up.<sup>4</sup> As a result, South Korea and Taiwan have shifted from the status of developing countries to that of advanced economies within 40 years. While Krugman's statement that the rapid growth of these East Asian economies does not represent a model for the economically advanced Western countries may be true, this does clearly not mean that there are no lessons to be learned from East Asia for developing and emerging economies.

*Table 1: Ranking of countries by real GDP per capita growth (PPP) 1950–2000*

Rank	Country	Compound annual real growth rate 1950–2000 [%]	Cumulated real growth 1950–2000 [%]
1	Taiwan	6.00	1742.4
2	South Korea	5.81	1583.4
3	Equatorial Guinea	5.45	1322.2
4	Botswana	5.05	1071.9
5	Oman	4.99	1041.5
6	Japan	4.87	979.7
7	Hong Kong	4.82	951.7
8	Singapore	4.74	914.8
9	Thailand	4.20	683.0
10	China	4.15	663.5

*Source: Own calculation based on Maddison (2010). Data available for 172 countries and political entities.*

The virtually unprecedented economic success of the HPAEs did not go unnoticed by the political leaders that came to power in the newly independent Central Asian republics in the 1990s. When President Nursultan Nazarbayev announced the *Strategy 2030* in his “Message of the President of the country to the people of Kazakhstan” in 1997, he made the importance of the East Asian success for Kazakhstan explicit:

Many of you know that some of the poorest countries in Asia extricated themselves of poverty within some thirty years to turn into prosperous industrial states. Korea, Taiwan and Singapore were pioneers, so say, followed by Malaysia, Indonesia and Thailand. (...)

Forty years ago when Singapore gained its independence, it was one of the poorest countries in the world with an annual per capita income less than \$200. Today the per capita income of Singaporeans exceeds \$20,000. Malaysia, a country similar to

ours with respect to the population, ethnic composition and many other parameters, gained a 10-fold rise in living standards of its citizens within less than twenty years. Such staggering achievements made these countries world famous assigning them the name of Asian Tigers. Are there any obstacles which might prevent Kazakhstan availing of fine opportunities from scoring the same success? None whatsoever. (...)

I, for my part, am sure that by the year of 2030 Kazakhstan would have become a Central-Asian Snow Leopard and would serve a fine example to be followed by other developing countries. (Nazarbayev, 1997, Section 2, para. 1–3)

The title of Nazarbayev's address itself was possibly inspired by Malaysia's *Vision 2020*, which had been announced by the Prime Minister Mahathir bin Mohamad in 1991.

Although the announcements of politicians may not necessarily influence a country's actual path of development, there are several conditions that increase the relevance of the East Asian experience for the countries of Central Asia. As one of the leading experts on Central Asia, economist Martin Spechler notes important similarities between the colonial heritage left behind by Japan in South Korea and Taiwan and that of the Soviet Union in Uzbekistan in "Hunting for the Central Asian Tiger" (Spechler, 2000a, pp. 101–102). These historical factors apply to a similar degree to the other Central Asian republics. Specifically, both Soviet and Japanese dominance resulted in massive investments in the physical infrastructure and human capital in their dependencies.

In addition, the development of countries such as South Korea, Taiwan and Singapore may have a particular relevance for Central Asia because the economic catch-up of these countries largely took place in a non-democratic setting. Both South Korea and Taiwan were governed by authoritarian regimes until the late 1980s, and the regimes of Singapore and other Southeast Asian economies are still not fully democratic.<sup>5</sup> Although Japan has been a democratic country since it regained its independence after the Second World War, the rule of a single party, the Liberal Democratic Party of Japan (LDP), has been virtually uninterrupted. In Central Asia, the two most populous countries, Kazakhstan and Uzbekistan, have been ruled by Nursultan Nazarbayev and Islam Karimov respectively since their independence in 1991. In 2011, Freedom House considered none of the Central Asian republics to be a free country. While the Kyrgyz Republic was evaluated as being "partly free", the other four republics were categorized as "not free" (Freedom House, 2011).

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5 According to Freedom House (2011) indices, South Korea shifted from being "partly free" to "free" in 1988, and Taiwan achieved this change in status in 1996. In 2011, Singapore, Malaysia and Thailand are still considered to be only "partly free".



For economists, the explanation for the conditions under which East Asian economies achieved fast and sustainable growth is also a theoretical issue. Explanations for the remarkable East Asian performance have varied over time, but there is a central theoretical concept that has gained wide recognition in the literature: the notion of a *developmental state*. The term was coined in 1982 by the political scientist Chalmers Johnson, who argued in his seminal book “MITI and the Japanese Miracle” that the key to the economic performance of Japan was the leadership of the state during industrialization and the rational manner with which the Japanese state filled this role (Johnson, 1982, pp. 17–20).

Soon thereafter, economists began to argue that the governments in the newly industrializing economies of South Korea and Taiwan were taking on a similar role as in Japan. Johnson himself had already extended his concept to cover South Korea and Taiwan (Johnson, 1986), and other publications followed (White & Wade 1988, Wade 1988, Luedde-Neurath, 1988). Two seminal books that provide extensive and detailed analyses of state intervention gained particular attention in the scientific discourse: “Asia’s Next Giant” by Alice Amsden (1989) on South Korea and “Governing the Market” by Robert Wade (1990/2004) on Taiwan. In addition, Singapore is commonly acknowledged to be a developmental state (Doner, Ritchie and Slater, 2005, p. 328; Huff 1995). Whether the emerging Southeast Asian economies of Malaysia, Thailand and Indonesia should be considered developmental states has been a subject of controversy. Even though it is generally acknowledged that they share some of the attributes that are considered characteristic for such states, they differ in several ways from the more advanced economies in Northeast Asia and Singapore (for diverging perspectives on this issue see Akyüz, Chang & Kozul-Wright, 1998; Doner et al., 2005; Jomo, 2004; Leftwich, 1995; Vu, 2007). The most successful East Asian economy of recent times, the People’s Republic of China, was not included in the World Bank’s study on the East Asian miracle (1993) and is generally not included in the literature on the developmental state. Due to China’s large size and distinct conditions, it probably represents a model of its own.<sup>6</sup>

The concept of the developmental state and the discussion it initiated among economists and other scholars directly relates to a question that has been a key issue of economics since its beginnings: What is the role of the state in the economy and what influence does it have on economic success? This is not only a theoretical question but also a practical question with immediate importance

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6 For an analysis of the institutions, economic policy, and reform process of the People’s Republic of China see Ahrens, 2002, chap. VI.; Shirk, 1993; Quian & Weingast, 1997.

for political decision makers, especially in transition countries such as the Central Asian republics. Scholars such as Johnson, Amsden, and Wade were motivated to write their respective studies on Japan, South Korea, and Taiwan in order to object to the prevailing recommendation that a state should not intervene in the economy and instead limit itself to assuming a purely regulatory role. However, while their work represented a challenge to the applicability of neo-classical reasoning to the reality of economic policy, it did not constitute a new theoretical framework of comparative scope and depth itself. In order to evaluate the relevance of the East Asian experience for Central Asia, it is necessary to examine the role of the state and the concept of the developmental state based on a broader theoretical perspective which takes into account the varying institutions that govern economic exchange in different countries.

### 1.1.3 Research questions and the relevant unit of analysis

The main research objective of this dissertation is to analyze whether institutions that were characteristic for developmental states in East Asia are present or emerging in Central Asia. The text focuses on the two most important economies of the region, Kazakhstan and Uzbekistan. Institutions in this context are defined in accordance with Nobel laureate Douglass North as “the humanly devised constraints that shape human interaction” (North, 1990, p. 3). Since both economic and political processes are relevant to the concept of the developmental state, this dissertation takes an interdisciplinary perspective at the intersection of economics and political science. The *units of analysis* of the dissertation are consequently the characteristic institutions of developmental states.

However, there is at least one preliminary research question that has to be addressed in order to answer the final research question specified above: What are the characteristic institutions of developmental states and under which circumstances did they emerge in East Asia? While the literature on the developmental state has expanded since the publication of “MITI and the Japanese miracle” in 1982, research varies widely in its focus. In most cases, studies on the developmental state lack an explicit theoretical framework, and do not put the concept into the broader perspective of economic theory. As a consequence, it has to be noted that there is no commonly recognized model which provides a clear, feasible and theory-based definition of what a developmental state actually is, even though there is widespread agreement on some key aspects of a possible model. As suggested by Kang (1995, p. 587), I will attempt to close this still existing gap by analyzing the developmental state in the context of the New Institutional Economics (NIE).

The objectives of this study can therefore be outlined as follows:

- (I) to contribute to the literature on the developmental state by providing a new approach to this concept from the dynamic perspective of the NIE and
- (II) to contribute to the literature on Central Asia by comparing the state of research in current literature with results from an empirical study based on interviews in Kazakhstan and Uzbekistan and analyzing to which degree institutions that are relevant for the emergence of successful developmental states are present in Central Asia.

## 1.2 Theoretical Framework

Since institutions are the basic unit of analysis, this study is grounded in the extensive stream of research that is collectively known as the New Institutional Economics (NIE). However, it should be noted that the NIE is not a single and coherent theory held together by universal assumptions and research objectives. Instead, it is common to distinguish between three different schools of thought within the NIE that differ in their assumptions and consequently in their respective methods of inquiry and conclusions. These schools of thought are usually referred to as *rational-choice institutionalism*, *historical institutionalism* and *sociological institutionalism* (see for a comprehensive summary on the three institutionalisms Hall & Taylor, 1996; furthermore DiMaggio 1998; Thelen 1999).<sup>7</sup>

For the purposes of this study, Douglass North's seminal book "Institutions, Institutional Change and Economic Performance" and some elaboration on North's research in Ahrens (2002, in particular pp. 38–113) will serve as the theoretical basis of the analysis. Even though North is one of the main exponents of rational-choice institutionalism, his later work (including North 1990) is conceptually close to the historical institutionalist school of thought in several aspects, as Thelen (1999, pp. 379–380) notes. One of these aspects is the importance of culture and the relevance of cultural factors for the path of institutional development (Thelen, 1999, p. 376), an interrelationship that is particularly relevant for the issues discussed in this study.

While the NIE is a deductive approach that rests on explicitly stated assumptions that are confirmed using historical examples, most literature on the

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7 DiMaggio instead distinguishes between rational-action institutionalism, mediated-conflict institutionalism and social-constructionist institutionalism (DiMaggio, 1998, pp. 696-697).

developmental state derives conclusions in an inductive way without specifying assumptions. Through a qualitative analysis of the existing research on these topics, I attempt to provide conclusions with implications for economic theory. In contrast, the section on Central Asia takes an essentially exploratory case-study approach. Desk research will be complemented by expert interviews with members of international organizations, major domestic and foreign companies, members of the bureaucracy and academics in the respective regions.

### 1.3 Ontological and methodological considerations

This study is conceptually close to a stream of research that Stanford economist Avner Greif has called *historical and comparative institutional analysis* (HCIA) in an article published in the Papers and Proceedings issue of the American Economic Review (Greif, 1998). According to Greif, the essence of HCIA is “the examination of the factors determining the relevant rules of the game, the forces that make these rules self-enforcing, and the self-enforcing constraints on behavior that emerge within these rules” (1998, p. 80). An essential difference between the study presented here and most of the research that Greif considers to be within the field of HCIA is that formal game-theoretical models will be neither applied nor developed. Instead, a comparative institutional approach that is explicitly and intentionally qualitative is presented. Even though research in economics has become increasingly focused on mathematical models for theory development and econometric analysis for theory testing over the last decades, these methods are not suitable for all issues that economic research should cover. The emergence of developmental states in East Asia and the institutional environment in Central Asia today are examples of such issues for various reasons.

The most important of these reasons is the complexity of the relevant systems and mechanisms in the process of institutional change. Furthermore, the problem of institutional equivalence, the impossibility to observe crucial decision-making processes, the large time frame of the case studies and the lack of reliable data—in particular for Central Asia today and for East Asia during the emergence of developmental states—make an analysis based on formal and quantitative methods infeasible. Similar to the contribution of North and Weingast on the institutions of seventeenth-century England (North & Weingast, 1989), I follow a qualitative, but explicitly theory-based case study approach to historical and comparative institutional analysis.

A key criticism of qualitative approaches that accounts for the relative decline of these methods in several social sciences over the last few decades is

their comparative lack of analytical rigor and, in consequence, a presumed lack of generalizability as well as reliable findings. Qualitative research does have some inevitable shortcomings concerning these issues. However, several scholars have suggested approaches to tackle these shortcomings without having to relinquish the fundamental advantages of qualitative analysis, in particular its ability to deal with complex social phenomena and its applicability to environments that are characterized by a lack of reliable data.

The approach to qualitative research used in this study was developed by Alexander George and Andrew Bennett (George, 1979; George & Bennett, 2005; Bennett, 2008) and is known as the method of *structured focused comparison*.<sup>8</sup> *Structured* in this context means that a set of general questions which reflect the previously defined research objective are devised and then asked of each case—i.e. of each country within the scope of the present study—in order to make a systematic comparison and cumulation of the conclusions possible (George & Bennett, 2005, p. 67). *Focused* means that only specific aspects of the analyzed cases are examined (George & Bennett 2005, p. 67). In the context of the present study, these specific aspects are the relevant institutions for the developmental state as well as factors that influence the emergence of these institutions.

While both the theoretical framework of the NIE and the structured focused comparison method will be applied to all cases in this study, there are major differences between the East Asian and the Central Asian cases concerning the methodology for data collection and the questions asked. These differences are a direct result of the research objectives specified above and the diverging time frames of the case studies. The examination of institutions and institutional development in several economically successful East Asian countries has the objective of identifying the essential characteristics of a developmental state. Thus, it takes an explanatory approach based on a synthesis of the extensive literature on the developmental state and the historical development of these economies during the relevant period, which reaches back till the 19<sup>th</sup> century in the case of Japan. In contrast, the analysis of Central Asia evaluates whether developmental states are currently emerging in this region. As a result, it is rather exploratory in nature and hardly deals with developments dating back further than the dissolution of the Soviet Union. The analysis is based on conclusions from the preceding sections of this study, insights of economic research on the region and inter-

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8 This methodology was strongly advocated for qualitative research in the social sciences (in particular in the field of international business) by Lorraine Eden, editor in chief of the Journal of Business Studies in a presentation at the 46th Annual International Studies Association Convention (Eden, Herman, & Li, 2005).

views conducted in Kazakhstan and Uzbekistan. Since the economic research on Central Asia is comparatively limited and the reliability of available data often subject to doubt, these interviews represent a particularly valuable source of information for the purposes of this study.

## 1.4 Outline of the study

The study is divided into three main parts subsequent to this introduction. The first part establishes the theoretical and analytical framework for the country studies in two stages. The first stage summarizes and interprets the relevant literature on the role of the state in the economy from a theoretical perspective, focusing mainly on the *Northian* New Institutional Economics and related concepts such as the New Political Economy. The second stage summarizes the extensive literature on the East Asian economic miracle and on the concept of the developmental state, focusing on the different questions asked by researchers, the diverging definitions of the concept and its placement within the economic schools of thought.

The second major part of this study is dedicated to East Asia. After specifying the methodology and the set of research questions for the historical case studies, the institutional development of several countries that are commonly considered developmental states is analyzed along chronological and conceptual lines. The focus is on the most prominent examples of developmental states. The analysis starts with Japan, the archetype of the East Asian developmental states, and continues with its two closest followers in terms of economic success and development strategy, South Korea and Taiwan. In addition, the developmental city-state of Singapore is analyzed, before discussing Malaysia, Thailand, and Indonesia more briefly in Section 5.5. This analysis of developmental states addresses the political sphere, the private sector and the international environment that these countries faced during their fast growth. Because of the limited scope of the present study and the reasons given above, the institutional development of People's Republic of China is not discussed here.

The third and final part of the study focuses on Central Asia, especially on the implications of preceding findings for Kazakhstan and Uzbekistan. After summarizing the current state of research on the issues relevant for the purposes of this study, the objectives and methodology of the empirical study based on interviews carried out within the region are explained. After the methodology is explained, the results and conclusions from these interviews are presented. In the final section, the study evaluates whether or not developmental states are currently emerging in Central Asia or could emerge in this region in the future.

PART I:

SETTING THE FRAMEWORK





## **2 The state from the perspective of economic theory**

### **2.1 NPE and NIE as extensions of neoclassical economics**

In economics and political science, the dominating view on the adequate role of the state in the economy has dramatically changed over the last few decades. In the 1950s and 60s, it was common that research in the field of economic policy focused on market failures and ways to correct them through state action, without paying much attention to the possibility of state failure (Krueger, 1993, p. 49). The presumed prevalence of market failures lead to an emphasis on infant-industry promotion and the support of physical capital accumulation, whereas possible gains from trade were deemed less important (Rodrik, 1996, p. 12). However, neoclassical economics, which introduced a radically different perspective on the state, became more dominant in both research and economic policy over the following decades.

In contrast to their classical predecessors such as Adam Smith, early neoclassical economists, like William Stanley Jevons or León Walras, developed their economic theories while assuming an essentially institution-free environment (Alesina, 2007, p. 2). Other important contributions to the neoclassical framework follow the same path. Nevertheless, economic policy and, consequently, the role of the state have always been a major topic for some economists from both the Neoclassical/Monetarist and the Keynesian schools of thought. For most of the 20<sup>th</sup> century, however, mainstream economics mainly concentrated on quantitative economic policy and dealt with issues such as the optimal money supply or government spending. Qualitative or structural policies, such as political and economic reforms as well as the corresponding legislation, were neglected to a certain extent. Policy targets were commonly treated as given, i.e. derived from economic theory and economists' recommendations or other fields such as moral philosophy (Eggertsson, 1997, p. 1987–1988). In addition, neither politicians' incentives and behavior nor political processes were explicitly modeled (Eggertsson, 1997, p. 1191).

A stream of literature that focuses exactly on these issues neglected by the traditional policy analysis is the New Political Economy (NPE). The NPE could be characterized as an application of neoclassical microeconomic reasoning to processes that are either at the interface of politics and the economy or purely political. Strongly emphasizing methodological individualism, individual bu-

reaucrats and politicians rather than organizations of the public administration or the government itself are treated as the relevant actors that maximize their individual utility (Ahrens, 2002, p. 40). Ahrens (2002) therefore describes the NPE “as an attempt to provide a rigorous and axiomatic general theory of the state, which interprets politics as a market for individual exchanges” (p. 40).

This general theory tries to incorporate various subfields of research that focused on different aspects of social and political exchange and—at least partly—lead to differing results (Besley, 2007, pp. 572–577). The most important of these subfields for the purposes of this study is public choice theory.<sup>9</sup> On the basis of the work of one of its most prominent scholars, James M. Buchanan, Besley identifies three key ideas of public choice analysis. The first idea is to model individuals as strictly seeking to “further their own narrow self-interest, narrowly defined, in terms of measured net wealth position, as predicted or expected” (Buchanan, 1989, p. 20). The second idea is that constitutions serve as constraints for the individual self-interest (Besley, 2007, pp. 574–575), which can be considered the essence of the following statement by Buchanan:

To improve politics, it is necessary to improve or reform rules, the framework within which the game of politics is played. There is no suggestion that improvement lies in the selection of morally superior agents who will use their powers in some public interest. (Buchanan, 1989, p. 18)

The last key idea of public choice theory is its normative framework that sees outcomes purely in terms of their impact on the utility of individuals. In some accounts, this goes so far as to delegitimize a state intervention that increases total public welfare if it lowers the utility of one single individual (Besley, 2007, p. 575).

One of the main contributions of public choice theory to the understanding of economic development was to model the state by treating each public official and each politician as individual economic actors interested in maximizing their own utility and facing specific incentives. In this way, government failure became one of the key issues for economists, and is nowadays considered to have been the most important impediment for economic development in many developing countries (Rodrik, 1996, p. 12). This focus on state failure led to the notion that the essential conclusion from the public choice approach is to strive for a minimal state. This means that the scope of state action and regulation should

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9 Whereas Besley (2007) refers to public choice theory as an antecedent of the NPE (p. 574–575), Ahrens (2002) asserts that public choice is one of various subfields of the NPE (p. 39–40). The present study follows the latter perspective.

be reduced as much as possible because government failures frequently produce results that are worse than market failures (Frey, 1988, p. 352).

Nevertheless, reasoning within the public choice framework has serious limitations. Not all decisions that politicians, legislators or public officials take may directly affect their individual utility or personal interest. In those cases, it could very well be that they act and vote according to what they perceive to be in the common interest of society (Ahrens, 2002, p. 46). While some contributions to the NPE do recognize that decision makers face certain constraints when they further their personal utility (Besley, 2007, 579–580), these constraints are usually not the main focus of mainstream NPE scholars. In particular, informal institutions such as cultural values and codes of behavior are commonly neglected for the sake of unambiguous theoretical models, even though early NPE scholars recognized their importance for a realistic analysis (Ahrens, 2002, pp. 45–46).

While these shortcomings are general in nature, they are of particular relevance for the issues analyzed in the present study. Theoretical microeconomic models based on utility maximization commonly require clearly defined, stable rules that are known to the relevant actors. It is questionable whether it is possible to identify such rules for complex economic and political processes in modern capitalist societies, but it is even more disputable whether such models have validity for processes that took place in pre-capitalist and non-Western societies such as late 19<sup>th</sup> century Japan, the East Asian Tigers prior to their fast economic growth or early post-communist Central Asia. It is reasonable to assume that informal cultural values and codes of behavior have a higher importance in such societies. Furthermore, formal constraints for the behavior of economic actors have changed profoundly in these societies at various stages of their development.

However, there is another branch of economic literature that deals precisely with the emergence of constraints for economic behavior and the analysis of both formal and informal constraints: New Institutional Economics (NIE). The term *institution* has been defined in varying ways in the literature. The definition that is most frequently used today was given by Douglass North (1990), who understood institutions as “the humanly devised constraints that shape human interaction” or less formally as the “rules of the game in a society” (p. 3). It is important to notice that this definition includes not only formal rules such as laws and regulations, but also informal rules such as cultural norms. Each enforced rule limits the set of feasible choices that economic and political actors face when taking a specific decision, because some options that are theoretically available may be illegal or socially unacceptable. In this way, institutions shape