
Locked in Place

STATE-BUILDING AND LATE
INDUSTRIALIZATION IN INDIA

Vivek Chibber

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Introduction

AMID THE ENORMOUS diversity of experience across developing countries since the Second World War, India has managed to stand out. At mid-century, in the years following its independence from British rule, there was a tremendous sense of anticipation as the nation embarked on its first development plan, perhaps the most ambitious yet witnessed in poor countries. Despite the grinding poverty of the bulk of the population, the expectations were that India had some of the basic ingredients required for a great leap forward economically: a rich stock of natural resources, an industrial base which, by the standards of the South, was fairly broad and advanced; a bureaucratic and administrative apparatus which was—again by the standards of the developing world—quite competent; and, lastly, a political leadership genuinely committed to launching an industrial transformation.

Adding to the sense of drama was that this massive nation of four hundred million, with its enormous diversity and history of conflict, was choosing to push forward within a bourgeois democratic framework—a fact of some significance in a continent that already boasted two large nations committed to Communism, hence making the Indian experiment all the more significant to the capitalist world. India was to be an exemplar, demonstrating the possibility that planning need not presuppose the abolition of property, but could, in fact, be harnessed to the engine of capital accumulation.

Fifty years later India still stands out, but only as a lesson in disappointment. Development planning, once seen as the instrument that would launch the country onto a path of industrial dynamism, is now regarded as having been an impediment toward that same end. The 1990s have witnessed a turning away from the statist economic policy of previous decades, ushering in a process of concerted liberalization, a dismantling of the vast panoply of controls and regulations that had slowly accumulated over the years. But the sense of ennui had, in fact, set in much earlier, during the 1970s, when the economy slowed down perceptibly, settling into the famous “Hindu rate of growth.”¹ It had become clear that the state’s ambition of pushing the country into the front ranks of the developing world had fallen far short of its target, with seemingly few prospects of changing in the near future. By the time liberalization set in during the 1990s, India had fallen from being the

prospective beacon for the developing world to what one scholar has called “the most dramatic case of a failed developmental state.”²

This book seeks to explain why the Indian state failed so conspicuously in its mission to transform India into an industrial dynamo. It does not pretend to offer a complete analysis of the development experience since 1947. My focus is quite narrower: I wish to provide an explanation of why the Indian state failed in the specific domain of industrial planning and policy. Why, when it boasted a political leadership of considerable quality and commitment, the apparent administrative wherewithal, and the requisite industrial base, did India not succeed in propelling a successful industrial transformation? To Jawaharlal Nehru and the Indian National Congress (INC), the path to development was virtually synonymous with industrialization. That they met with relatively limited success in achieving it merits an explanation.

That the failure was a *relative* one needs to be emphasized at the outset. My intention is not, by any means, to portray the Indian experience as an embodiment of the caricatures that populate neoliberal strictures against interventionist economic policy. State intervention, whatever its shortcomings, did manage to widen and deepen the country’s industrial base considerably and to move the economy along the technological ladder. India today can boast significant competence in many of the cutting-edge sectors of the world economy. This is an achievement that ought not to be slighted, especially in light of the numerous, and quite spectacular, development disasters that decorate the international landscape. But while the Indian state did manage to oversee a somewhat respectable industrial transformation, it cannot be denied that its performance as a developmental agency fell far short not only of the expectations of policy elites but also of the standards set by the states of other countries—in particular, those of Northeast Asia.

Asking why the Indian state failed in its ambitions presumes having some idea of what kinds of policies or choices *would* have been more successful. Toward this end, my examination of the Indian experience is framed by a comparison with South Korea, perhaps the exemplar developmental state in the postwar period. The fortunes of industrial policy and planning in Korea stand in glaring contrast to those of India: whereas in the latter case the state’s efforts to promote a dynamic industrial sector fell prey to the twin evils of bureaucratic paralysis and capitalist rent-seeking, Korean efforts were rewarded by unprecedented success. What makes the comparison interesting and possible are not just the divergent outcomes; there are similarities in background conditions that make it possible to draw meaningful comparisons. Both countries started their development efforts soon after World War II, making their experiences largely concurrent; both were at broadly similar levels of industrial

TABLE 1.1
Share of Manufacturing and Allied Activities in GNP, India (1950) and Korea (1960–62)

Sector	Share of GNP India (1950) (%)	Share of GNP Korea 1960–62 (%)
Manufacturing and Construction	15.4	17.1
Utilities	a	1.1
Mining and Quarrying	0.7	2.0
Total	16.1	20.2

^aIncluded in the figure for Manufacturing and Construction.

Sources: For India: Raymond Goldsmith, *The Financial Development of India, 1869–1977* (New Haven: Yale University Press, 1977), table 3.2. For Korea: Edward Mason et al., *The Economic and Social Modernization of the Republic of Korea* (Cambridge, Mass.: Harvard University Press, 1980), table 13.

development at the start of their rapid industrialization programs, as shown in table 1.1; in both countries, the industrial sector was dominated by a small number of business houses, which accounted for a disproportionate share of output and investment;³ in both cases, the policy design was heavily interventionist, relying on extensive government intervention in, and regulation of, the private sector; and in each case industrial policy was directed by the central government, and nominally concentrated in a few key ministries and agencies. Hence, despite many differences in other dimensions, these similarities allow for a meaningful comparison, and indeed have generated some efforts in this direction in recent years.⁴

The enormous success of Korea in making its traversal to a dynamic and efficient industrial economy has generated significant rethinking in development studies. When I first began thinking about the political economy of development in the late 1980s, the dominant trend among scholars evinced a strong suspicion of statist or *dirigiste* economic strategies. The decade had witnessed the derailment of several prominent experiments in state-led development, most notably in Latin America but also in India, Turkey, and other countries.⁵ Although there were many reasons for the downturn in these countries, it was impossible to ignore the fact that their maladies were at least partly generated by the domestic political economy. And most heavily implicated in this drama was the state itself. With a public sector that was often operating with large losses, a private sector bloated from state subsidies and virtually immune from competition, and bureaucracies rife with corruption and venality, the ground was laid for the suspicion that it was state intervention in the economy itself that lay at the heart of the crisis in these

countries.⁶ The natural conclusion flowing from this position would have been that India's mistake was its very turn toward development planning in the first place, an economic strategy that relied so centrally on state intervention in markets.⁷

At around this same time, a series of studies began to emerge that demanded a rethinking of the reigning consensus. Led most notably by Alice Amsden and Robert Wade, whose case studies have quickly acquired classical status, a number of scholars pointed to the extraordinary growth of the (North)East Asian economies, which they insisted was a fact of great significance for development theorists.⁸ For these economies—Japan, Taiwan, and South Korea—had engineered their spectacular success not through any fidelity to free-market policies but with a reliance on highly interventionist industrial planning. The Korean and Taiwanese states had actively manipulated trade and exchange rates,⁹ the allocation of finance,¹⁰ as well as the price structure of the domestic economy;¹¹ it was also shown that both countries not only had developed a large public enterprise sector¹² but had also been active in directing the structure of private investment.¹³

These studies have triggered a disintegration of the consensus on the role of the state in development. It can no longer be argued confidently that a reliance on an interventionist state in developing countries was a mistake. State intervention is a phenomenon that has been common *across* the development experience, in the successful cases as well as the failures. This fact has led several prominent scholars to conclude that the East Asian experience differed from that of other developing areas, not in the *fact* of state involvement in the economy but rather in its *quality*.¹⁴ The state in the newly industrializing countries (NICs) intervened in the domestic economy just as its counterparts did elsewhere, and even toward the same ends; however, it managed to succeed in prodding local industry toward greater efficiency and productivity, whereas others, like the Indian state, did not. States in these regions thus differ not so much in their orientation toward the economy—for in both cases they were committed to “governing” the market¹⁵—but in their *capacity* to bring about the desired results. This is not to say that the chief responsibility for the extraordinary growth rates in Taiwan and Korea goes to development planning. Observed rates of economic growth are driven by a combination of a host of factors—*cultural, institutional, economic, geographical, and so on*.¹⁶ What the scholarship under discussion stresses is that the state has turned out to be one of those factors after all, and a significant one at that.

The debate on the developmental state has thus come to a conclusion much like the one reached about capitalist welfare states a decade before: that much of the interesting variation in outcomes (in this case,

success in fostering industrial development) depends on the state's having the capacity to fulfill the tasks assigned to it. *State capacity* itself has been decomposed into two broad dimensions: an intrinsic component, namely, the state's *cohesiveness* as a strategic actor, which can formulate and implement policy in a coherent fashion;¹⁷ and an extrinsic component, which is the state's ability to *extract performance* from private firms—setting standards, monitoring performance, and influencing the direction of investment—in exchange for the subsidies that are doled out to them. Alice Amsden, who has argued this more forcefully than anyone else, puts it aptly:

All governments know that subsidies are most effective when they are based on performance standards. Nevertheless state power to *impose* such standards, and bureaucratic capability to implement them, vary from country to country. . . . The state in Korea, Japan, and Taiwan has been more effective than other late-industrializing countries *because it has had the power to discipline big business*.¹⁸

The difference in quality of intervention is thus explained in large measure by the state's ability to formulate and implement policy in a coherent fashion, and to impose discipline on private firms. Where Korea and Taiwan succeeded in this task, the states in South Asia and Latin America typically did not.

Hence, in answer to the question posed above—namely, what kind of policies or choices would have been more successful in India—the recent literature does provide us with some guidance, pointing to the centrality of adequate state capacity. And the arguments about East Asia, particularly Korea, certainly do contrast in appropriate ways with what we know about the Indian state: its excessively bureaucratic style, lack of coherence in policy, and utter inability to *discipline domestic business* are well known.¹⁹ But while I affirm this understanding of the Indian case in the analysis to come (in chapters 7 and 8), I direct much of my attention to two other questions, *which flow immediately from the recognition of the state's inadequacies*.

THE INSTALLATION OF THE DEVELOPMENTAL STATE

First, if the Indian state lacked the capacity to succeed in its developmental tasks, how do we explain this? In other words, why did Indian political leaders and bureaucrats fail to build the institutions adequate to the task? After all, the idea that policy needs to be coherent and that governments have to be able to impose discipline on firms is hardly a deep, arcane truth known only to intrepid social scientists. It is common

knowledge to every politician and state functionary, and mid-century Indians should have been no exception; indeed, as I show in chapters 4 and 6, they were keenly aware of the issue, and the idea of building such institutions was very much on the immediate political agenda. That the state ended up without the requisite institutional capacity, despite the national leadership's awareness of its necessity, and despite the leadership putting it on the agenda, requires explanation.

Let us call this—the lack of success in putting a developmental state in place—the question of the *installation of the state*. It is surprising that, on this issue, there has been very little discussion in the recent work on development.²⁰ This is perhaps a measure of the extent to which the neoliberal challenge has been able to set the terms of the debate of late. Scholars doing empirical work on East Asia have put considerable effort into showing that states need not fall prey to the pathologies their critics predict.²¹ It is for this reason that we have accumulated so much detail on just what these states did in their “miracle” decades, and what kinds of institutions their success required. But one consequence of the dedication to this research agenda is that the anterior issue, of why the East Asian regimes were able to build such states in the first place, has suffered from relative neglect.²²

In the chapters that follow I offer an account of the Indian experience that seeks to explain why the political leadership did not install a developmental state, despite the fact that they were aware of the need to do so. This is set in contrast to the Korean experience, examined in chapter 3, where the outcome was very different, in that a state with the appropriate institutional backbone was put into place. It needs to be noted here that, despite the comparative frame, questions such as this—in which the concern is to explain the absence of particular institutions—are often more easily posed than answered. Such questions have rightly drawn criticism from some quarters as subtly teleological, in that they presume that there is a “normal” end state (in this case, a developmental state) toward which all paths lead, so that the divergence from such a path requires explanation. But why presume, the criticism goes, that any such end state exists, and why presume that the absence of particular institutions, or types of institutions, requires explanation? There are instances where such worries have proven to be justified; I hope to show, however, that this study is not one of them.

Two conditions suffice to defuse the charge of teleology in analyses such as this one. First, it must be shown that the institutions in question—which were not, in the end, installed—were, in fact, on the political agenda at some critical juncture;²³ second, it needs to be shown that the actors in the drama were aware of this agenda and acted in cognizance of its implications. If these conditions hold, then we are fully

justified in asking why, despite being among the menu of options, the desired institutions were not installed. The Indian case meets these conditions handily. The years immediately following Independence, 1947 to 1951, constituted just this kind of critical juncture, in which a strong developmental state was very much on the political agenda. It is therefore an ideal setting to examine the constraints that exist in actualizing the project of installing such states, and I devote chapters 5 and 6 to its examination.

The argument I offer as an explanation for why Indian elites failed to actualize their state-building agenda while their Korean counterparts succeeded departs somewhat from the dominant tendency in the literature. More through default than by dint of theoretical commitment, the prevailing approach to the study of state building in development studies has been statist in orientation. Scholars have been primarily concerned to show that, given the requisite state capacity, patterns of intervention in the economy need not fall prey to neoliberal worries. The process of how such states were installed often serves as a quick, and hence somewhat perfunctory, narrative of the sequential implementation of policies. The focus therefore remains on political elites and dynamics within the governmental apparatus, giving the overarching impression that what matters is the goings-on *within* the state. This has been reinforced by some scholars who do, in fact, have a theoretical commitment to statism, taking the view that, indeed, it is the state that is the main actor in this drama; and it is the main player because it is more powerful than any other.²⁴

I argue, in contrast, that the critical conflicts for building state capacity occur not *within* the state but *between* the state and societal actors, particularly the capitalist class. I show this through a detailed analysis of the Indian case, but it is also strengthened through a new interpretation of the relevant period in Korean history. The explanation itself consists of two nested claims. First, the divergence in outcomes with respect to state capacity depended crucially on the orientation of the business class toward the state: the Indian state managers' agenda was frustrated by a well-organized offensive launched by domestic capitalists, whereas in the Korean case the state was able to harness capitalists to its project. Indian capitalists in the years immediately after Independence refused to countenance a state with wide-ranging regulatory and interventionist powers, and organized effectively against it. In so doing, they reduced the autonomy and power of political elites to build the institutions they had proposed. Conversely, it was the success in striking an alliance of sorts with its domestic business class that gave the Korean political elite the space to build appropriate state institutions. Naturally, having the autonomy to put the institutions in place was not sufficient for success;

for this, the facts internal to the state, on which much of the literature has focused, were of great importance. The argument presented in this book does suggest, however, that the antecedent autonomy garnered by the alliance with business was necessary for the state-level processes to be effective.

So the first argument states that the state-building project is critically mediated by the nature of state-capitalist relations. But this, in turn, raises a question, to which the second argument is addressed: why did the capitalist classes in the two countries react differently to the idea of a strong developmental state? Was the difference generated by contingent historical factors, or was there, in fact, a deeper, structural factor that might explain it? In other words, could we specify the circumstances in which business classes would react favorably or unfavorably to building a developmental state? I argue that, indeed, it is possible to adduce a deeper mechanism that was responsible for the diverging reactions by domestic capitalists to the state-building agenda. This mechanism is, for lack of a better term, the development model the respective regimes chose to adopt. In India the state opted for import-substituting industrialization (ISI), whereas in Korea greater emphasis was placed on export-led industrialization (ELI).²⁵ I suggest that the two models generated different political incentive structures for the capitalist classes: ISI made it possible, and even rational, for Indian capitalists to resist the effort to build a state that could impose discipline on private firms; ELI, on the other hand, made it rational for Korean business to acquiesce to its own disciplining by a developmental state.

The emphasis on the autonomy of the state from the capitalist class brings into our analysis the same categories and concerns that have framed the discussion of the welfare state in past decades. I believe that this is to be welcomed. For too long, discussions of the state in developing countries have been bracketed off from the analytical concerns that animate the study of advanced capitalist states.²⁶ A central concern of the latter debates has been to uncover the constraints that social forces impose on state action, and the conditions that govern the variation of these constraints. Of particular interest has been the manner in which capitalist class interests, and class organizational power, limits the autonomy of the state.²⁷ While these questions do enter concretely into discussions of the state in developing countries, they are not commonly conceptualized in a self-conscious fashion. Hence the possibility of research in the two settings being used for the advancement of a common framework is not fully utilized. This book is intended to contribute toward bridging this divide and bring discussions of the developmental state into the broader theoretical ambit of the capitalist state.

THE REPRODUCTION OF THE STATE

Thus the argument about the installation of the state is that it is governed in the first instance by the state's relation to the capitalist class, which is, in turn, conditioned by the adopted development model. This brings us to the second question: even if an adequate developmental state is not installed initially, why is it not reformed once its inadequacies are discovered? Why is an unsatisfactory state reproduced over time? Analyses focusing on the origins of particular institutional configurations sometimes leave their subsequent reproduction unexplained, and into this analytical vacuum step such notions as "bureaucratic inertia" or "historical momentum" in place of real explanations. This is regrettable in any setting, but in the analysis of state failure it is especially so. So long as political elites are at least nominally committed to a genuinely developmental agenda, and aware that the existing state apparatus lacks the capacity to serve this function, it is of some interest to ask why, despite their commitments, elites abide by a weak state.

This is the issue around which the last two chapters revolve, and the issue that dictates the historical end point of the book. Why the state was not restructured to better serve the purpose of industrial transformation is most easily answered if, like in the case of state installation, we can find a point at which reform was on the agenda but did not ultimately come to fruition. In India, such a window of opportunity opened in the mid-sixties, when, after the death of Jawaharlal Nehru, calls were made within the political elite as well as the bureaucracy for overhauling the planning institutions, in clear recognition of their inadequacy. Methodologically this presents an excellent opportunity to examine the hurdles, which, in the end, made state transformation a non-starter. The reform episode turned out not only to be fleeting but also one in which the very meaning of reform took on a particular cast: from making the state better at industrial planning to considerably reducing the scope of development planning itself. I offer explanations for both phenomena—the construal of reform as liberalization, as well as the squelching of even this impulse.

Once the reform episode was past, Indian development policy continued within the old groove for another decade and a half, until liberalization was initiated haltingly in the 1980s, and then on an accelerated pace in the decade that followed. The lapsing of the initial opportunity for reform was thus of some historical importance, in two ways: first, because another such window did not open again for another fifteen years; and second, because it showed that, even if reform were to occur in the future, it would not be toward *better* state intervention but *less*

intervention. The analysis of the mid-sixties conjuncture thus provides a convenient point at which to terminate the story. A close analysis of why the state and economic elites finally did undertake a path toward dismantling the policy regime in the 1980s is a task I intend to undertake in future work. For now, I hope it is enough to explain why India became saddled with an inadequate developmental state, and how, once installed, it became locked in place.

The architecture of the book is structured around answering the three main questions that have been introduced in this chapter: What do developmental states do? Why was Korea able to install a state with the ability to carry out the required tasks, while India was not? And, lastly, why was the Indian state not reformed in appropriate ways after its inadequacies became clear? Chapter 2 probes more deeply into the nature of the developmental state and into existing approaches to its study. It also presents a summary of the basic argument developed in the chapters to come. We then enter part 2 of the book, which is concerned with the installation of the state: chapter 3 examines the origins of the Korean state, in order to frame the subsequent examination of India, and chapters 4 to 6 present an argument as to why, in the Indian case, the attempt to put a developmental apparatus in place failed. Part 3 of the book attempts to answer why the state was not reformed: chapter 7 examines how its institutional structure generated a particular pattern of intervention in the economy, and chapter 8 argues that this pattern of intervention affected both the power of the planning authorities and the legitimacy of the planning process itself, which, in turn, affected their ability to fight for reform.

Late Development and State-Building

THE PHENOMENON OF late development in the capitalist world economy has typically been associated with an important role for the state. This was, of course, true for the initial batch of countries, such as Germany and Japan, attempting to catch up with their more advanced competitors;¹ it has been even more so for what Albert Hirschman called the “late late developers”—the nations across the South in the postwar twentieth century that undertook programs of development planning.² In fact, it would not be an exaggeration to suggest that it was in this period that state-led development really emerged as a well-theorized strategy and a political project, so much so that it became, for a spell, the “common sense” of political elites and their advisers.

This surface continuity with respect to the state, however, should not be allowed to mask some significant divergences between the two periods. State intervention during the latter half of the twentieth century differed from that preceding it in several respects: it extended into a wider range of activities; its subsidization of industry relied less extensively on tariffs in comparison with nineteenth-century efforts and more on direct provision of credit and finance;³ but perhaps the most conspicuous difference is that it is really during the postwar development efforts that the state has made a concerted effort not only to subsidize industrialization, or to create a favorable climate for it, but actually to coordinate the activities of firms as a means of accelerating its progress. Perhaps the hallmark of “late late development” is the appearance of *development planning* in its various forms: in its weaker form, simply in the guise of industrial policy, and, in its most pointed expression, as the ubiquitous five-year plans that so many countries proudly displayed for decades.

The changing form of intervention is of considerable analytical importance, because with it come different responsibilities, which, in turn, necessitate correspondingly different capacities on the part of the state. Attempts to foster industrialization by manipulating structural conditions—through land reforms or increasing national savings—will demand a different kind of state than those that rely on micro-level intervention at the level of the sector or firm, the hallmark of industrial policy. This chapter delves into the specifics of postwar development strategies in order to bring into relief the particular demands that they

made on the state. Once we locate just what kind of institutional capacity is required for industrial policy to succeed, it becomes possible to analyze why it was successfully acquired in some countries and not in others. It therefore sets the stage for examining why Korean political elites were able to build a state with the necessary qualities, while their Indian counterparts were not.

THE TWO DIMENSIONS OF INDUSTRIAL POLICY

There is, no doubt, something misleading in the proposition that late development is distinguished by the important role that is played by the state or, even more pointedly, by its intervention in markets. The very creation and reproduction of a society that is fully commodified has demanded, from the start, extensive state manipulation. This is nowhere more apparent than in the labor market, an institution that secured its moorings only after early modern governments closed off the exit options for laborers—through, in Marx's memorable phrase, "bloody legislation against the expropriated."⁴ And if the initial stabilization of the labor market relied on state support, its reproduction has been no less dependent on regulation and public intervention, as famously documented by Karl Polanyi.⁵ It was Polanyi who insisted that the very existence of a market in labor power was unthinkable but for constant and ubiquitous public regulation.⁶ Similar stories can be told in the case of trade—both internal and external—and the management of currency.⁷ In all these spheres, Polanyi argued, intervention is necessitated by a basic fact about capitalist markets: their inherent instability, and the welfare effects of this instability, generates a constant pressure on the state toward their management.⁸ Capitalism creates an endogenous pressure for its own regulation.

The noteworthy feature of late development is not that states regulate markets but that their focus shifts from *managing the effects* of accumulation to *accelerating its pace*. This is, of course, a stylized characterization of the phenomenon, and, like all such renderings, admits to qualifications and exceptions. But there is no gainsaying the fact that, in the past century and a half, less-developed countries (LDCs) have structured their economic policies around the task of catching up with their more advanced rivals.⁹ Toward this, the core strategy has been to hasten the transition from agricultural to industrial economies and, within that, to ratchet upward the pace and quality of capital accumulation. Perhaps the most well-known form of state intervention toward this end, especially in the earlier wave of late developers, was land reform, which was intended at once to deepen the spread of commodity produc-

tion within agriculture, increase the production of raw materials and wage goods for industry, and, in turn, provide a larger domestic market for the latter's goods.¹⁰ Land reforms belong to a class of state actions aimed at speeding up the pace of industrialization by manipulating the environment in which firms function, while leaving the firms themselves more or less untouched. From the start, however, there has been another kind of state policy, increasing in significance, which has been geared toward more directly influencing the industrial sector itself—the public subsidization of domestic enterprises.

The turn to subsidies has become an increasingly important aspect of state intervention in late developing countries. Alice Amsden has gone so far as to refer to it as the defining element of development strategy in the current era.¹¹ And, indeed, when examining the historical record of national development policies in the twentieth century, it is easy to see that state subsidization has been at the very heart of it all. First, where capital is simply uninterested in investing, the state has directly substituted for private firms through public enterprises: this has been most conspicuous in infrastructure and the capital goods sectors. Second, when capital has shown an interest in investing in particular sectors but lacked the resources to do so, public monies have been used to socialize the costs of the undertaking by providing cheap finance and, in some cases, guaranteeing acceptable rates of return. Lastly, where capital is on precarious footing in relation to international competition, governments have provided protection from such threats through the erection of trade barriers.¹²

The institutional capacities demanded of the state flow from the tasks it assumes; if its responsibilities in late developers were defined by the supply side of the subsidization process, then the chief concern of political elites ought to have been to add to the state's extractive ability—in order to collect the resources to be doled out to capital—and its managerial expertise—in order to manage those enterprises that substitute for private firms. And it is no surprise that, since the provision of subsidies has been a core component of industrialization programs, states in LDCs have placed a great deal of emphasis on these aspects of state strength. To take one prominent example, tax reform has been taken as an indispensable component of economic strategy, precisely in order to acquire the resources needed to fund development programs.¹³

In the halcyon days of development economics after the Second World War, it was this dimension of state capacity that attracted the most attention. Experts and politicians frequently considered increasing the available investable resources as the key to rapid development—as captured, for example, in W. Arthur Lewis's dictum that the central problem of economic development is to raise the savings of an economy

from 5 percent of national income, to 15 percent.¹⁴ Not surprisingly, the problem of state strength was understood mainly as relating to its *fiscal* capacity, the accretion of which was seen as the most pressing immediate task. It is no exaggeration to say that, at an overarching level, the impressive increase in the fiscal capacity of LDCs in the twentieth century has been driven, in substantial measure, by a perceived need to increase and streamline the flow of resources toward the investment process.¹⁵

But the subsidization process also brings with it another set of responsibilities, which carry in train the need for an attendant set of state institutional capabilities. As the complement to the provision of subsidies, states have also, to varying degrees, attempted to ensure that they are put to productive use. This has been motivated by the realization that providing domestic industry with greater resources is no guarantee that they will be invested in ways conducive to rapid growth. Development literature has highlighted two broad reasons why a policy of rapid industrialization may require more than just an increase in the level of financial resources at firms' disposal. First, the complementarity of investment decisions can create a variety of *coordination failures*.¹⁶ In sectors involving economies of scale, firms will be hesitant to sink funds into projects that may not command a sufficiently large market; in basic and intermediate goods sectors, this market is frequently the investment projects of downstream enterprises.¹⁷ On the other hand, downstream firms will not undertake new investments unless there is an assured stream of inputs coming from more basic industry, or from imports. Unless the appropriate coordination is effected among related investment projects, the subsidies made available to firms will very likely be directed to other, less risky lines. But this will simply mean a perpetuation of the very industrial structure that policy makers are trying to alter through their industrialization program.

Hence, in such cases, the provision of subsidies is accompanied by an explicit move to coordinate the investment decisions of the firms themselves. Perhaps the most well-known institutional mechanism of this has been French-style indicative planning, described with such admiration by Andrew Shonfield in his classic study of postwar capitalism.¹⁸ One of the key components of indicative planning was for the state to collect the disparate investment plans of domestic enterprises and, through an iterative process, bring them into line with one another. In developing countries, indicative planning has often been conjoined with efforts to organize firms into collective bodies—cartels or associations—which, in tandem with state planners, monitor and regulate the sectoral spread of investment.¹⁹ Both mechanisms are designed to reduce the uncertainty of the investment process by, among other things, allowing firms in complementary lines to communicate—either directly or through the state.

A second reason why subsidies may not be enough to generate rapid industrialization stems from the fact that the highest *private* returns to firms may come from investments that do not generate correspondingly high *social* returns.²⁰ In such situations, if the resources channeled to domestic capitalists are fungible (which they often are), there is a high likelihood that they will be invested in projects that bring high profits but do nothing to alter the industrial structure in the intended direction. States have therefore designed a variety of mechanisms to *regulate* the actual flow of capital into the desired sectors. Some of these are formal: firms may be required to secure an investment license from planning agencies before they can enter into a particular line;²¹ they may have to show proof of success in particular high-priority lines before they are allowed to expand into others; entire sectors may be declared off-limits for a period, hence forcibly closing them off to new investment; firms may be forcibly merged in order to reduce excess capacity; and, most important, they may be punished if they ignore policy signals or if they do not abide by stipulated agreements—through, for example, being refused a renewal of an investment license. States also use less formal techniques to influence investment decisions: the phone call to the managing director, the subtle threat of an especially close inspection of tax returns, and the like.

Coordination is important because, without it, firms may find themselves unable to undertake projects they find desirable; or, in other cases, it may induce them to alter investment plans in light of new information about the designs of other firms. Compulsion, of the kind described in the preceding paragraph, is important because simple coordination may not be enough. The gap between private returns and social returns may be such that firms simply do not have the desired investment on their agenda, with or without the state-sponsored collective action. Therefore developmental states in the twentieth century have typically deployed some combination of both. Together, they have functioned to turn state-sponsored industrialization from the simple provision of subsidies—which was much more the case with late-nineteenth-century late developers—to a more organized strategy of industrial policy and planning.²² This process of ensuring that subsidies do not turn into outright gifts and giveaways is what Alice Amsden has referred to as the “disciplining” of capital.²³ So for a developmental state, subsidization and discipline are two sides of the same coin.

INDUSTRIAL POLICY AND STATE CAPACITY

Just as the commitment to subsidies requires adequate extractive capacity from the state, so the turn to discipline makes its own demands on

state structure and capability. To coordinate the investment strategies of a large number of firms—or even a small number, for that matter—is no simple task. More difficult still is the goal of monitoring their performance, establishing clear and dependable lines of communication, and devising mechanisms to hold their feet to the fire in case of noncompliance with prescribed standards.²⁴ Add to these the need to ensure that the information collected about targeted sectors is processed and distributed adequately *within* the state, and then utilized to revise policy prescriptions. It goes without saying that such responsibilities call for states that have formidable organizational resources at their disposal. So just as it cannot be assumed that states will have the fiscal capacity needed for funding development projects, we cannot be certain that they will be endowed with structures adequate for organizing the investment strategies of firms. If anything, the organizational capacity for industrial policy is more problematic. The simple existence of a state implies that it has a respectable ability to extract resources from the society that supports it. If this ability is found inadequate, it often simply calls for the intensification of existing extractive practices or for their extension to new sectors of the economy. The move toward industrial planning in the postwar period, however, called for the state to take on functions that were historically unprecedented. It is not simply a matter of extending old methods to new domains—it often demands the creation of entirely new bureaucratic and inter-agency structures, and new forms of expertise.

The upshot is that states attempting to foster rapid industrialization cannot be assumed to possess the institutional capacities that the task requires. It is somewhat extraordinary, therefore, to observe how recently the problem of state capacity, on this front, has come to occupy the attention of development scholars. It is not that the importance of disciplining firms per se was lost on them or, for that matter, on state functionaries. As the preceding discussion suggests, the effort to coordinate the strategies of local capitalists was a fairly natural outgrowth of the subsidization process. Policy analysts and bureaucrats in the postwar years routinely gave a nod to imposing performance standards on firms.²⁵ But what was not appreciated as fully was how difficult it would be to carry out such commitments successfully. In the Indian case, for which considerable evidence will be presented in this book, it is difficult to escape the impression that policy planners often thought that, once the orders were handed down to the relevant agencies, the heavy lifting was finished. This is even more evident when examining the work of economists and other experts of the time, who were keenly aware of the important role to be played by the state in industrial policy but were far less concerned about its capacity to actually carry out its responsibilities.

ities. The state was not only assumed to be standing above the sectional pressures of civil society, but, perhaps even more damaging, it was assumed to possess the institutional capacity required to turn its policy pronouncements into actual achievements.²⁶

The debt crisis of the 1980s is something of a watershed in this regard. Its onset brought into relief the insufficiency of simply channeling funds toward the private sector, since the countries that were hardest hit had been awash in liquidity for years, only to see it flowing into relatively unproductive projects.²⁷ This is not to say that the crisis was seen immediately as proof positive of the importance of state discipline. In fact, in many quarters it was—and still is—adduced as evidence for the futility of *any* kind of state-led industrialization strategy.²⁸ In certain respects the travails of the 1980s in many developing countries were seen as a necessary outcome of the turn away from free markets, and therefore as reason to embrace neoliberalism. *Politically* the momentum certainly swung in the direction of the critics, and has remained with them, though the Mexican crisis of 1994 and then the East Asian collapse of 1997–98 abated it somewhat. But *intellectually* the early victories gave way to a series of counterblows coming from the new scholars of East Asia. This body of work made it abundantly clear that it was not the fact of state intervention that plunged the debt-ridden countries into crisis but rather its quality. And this quality, in turn, depended to a significant degree on the kind of state that was presiding over the development process.²⁹ In the wake of this scholarship, the possibility of state-led development has witnessed a resurrection of sorts. But it does not constitute a return to the heady optimism that seemed to blind scholars of the immediate postwar era. Instead of the *omnipotent* planner, the recent scholarship has offered us the *embattled* planner, whose success depends very much on the environment in which he functions—both within the state and without.

The Elements of State Capacity

So what is the institutional environment that allows for industrial planning to turn into disciplinary planning? There is no particular mystery to the ingredients.

A RATIONAL BUREAUCRACY

First and foremost, the state needs to be endowed with a coherent, internally coordinated policy apparatus. And the necessary condition for attaining such coherence, as Peter Evans has so forcefully argued, is that policy agencies be guided by norms of bureaucratic rationality.³⁰ The importance of bureaucratic traditions has come to light partly from

the study of East Asia, but it is safe to say that its real significance has been brought home by the disastrous experience of countries such as Zaire and the Philippines. In these latter regions the absence of any kind of rational state tradition generated political economies in which public functionaries simply used their office as a mechanism for predation (Zaire), or, at the other extreme, economic elites colonized and then bled policy agencies for personal enrichment (the Philippines).³¹

The virtue of a well-oiled bureaucracy is that it prevents both the slide into individualistic predation as well as the easy colonization of state agencies. First, a bureaucratic tradition generates norms of comportment for state functionaries and, in doing so, channels their actions away from individualistic practices. It does this by putting into place abstract and clearly specified rules, and ensuring that functionaries' decisions are guided by such rules, rather than by their own private interests.³² The effects of rule-following are compounded by a second mechanism crucial for state cohesiveness, namely, the adherence to clearly specified norms of recruitment and career mobility.³³ The establishment of such criteria for bureaucratic promotion reinforces one of the effects of proper rule-following: they orient functionaries away from personal gain and toward the duties attached to their station. They also, however, generate a kind of esprit de corps within the bureaucracy: the knowledge that they belong to a highly select "club," with similar qualifications and rare skills, creates a corporate culture among functionaries, which in turn secures state cohesiveness.³⁴ This sense of exclusiveness helps to repel attempts at colonization by economic elites, insofar as it generates a sense of purpose and of a collective, exalted enterprise.

Nodal Agencies

But for the kind of coherence needed for developmental states, bureaucratic rule-following per se will most likely be insufficient.³⁵ Economic agencies within the state—ministries, lending institutions, and so on—can often be saddled with responsibilities that are in conflict with one another and, more important, with the requirements of rapid industrialization. It is very common, for example, to find conflicts erupting between planning agencies, which typically favor easy credit policy and are willing to tolerate inflation, and central banks, which are responsible for monetary stability.³⁶ This is not the fallout of an administrative culture that is inattentive to the importance of rules; it is a conflict generated by the rules of the agencies themselves. Furthermore, the very functioning of the state, which involves inter-agency wrangling and competition for resources, generates conflicts within the administrative structure. And in these conflicts the rules of bureaucratic procedure easily become a weapon that agencies use against one another—as a means

of protecting territory, hoarding information, and so forth³⁷ In such situations a fragmented state apparatus, rather than a cohesive one, results.

The problem is that formal bureaucratic rationality can only assure that state functionaries attend to the duties of their station; it cannot make the stations themselves cohere. A developmental state certainly requires the formal rationality that a culture of rule-following delivers; but, above that, it requires a *strategic* rationality, one that is geared toward a *particular* end.³⁸ Policy agencies not only have to be administratively functional, they have to be arranged and rearranged as the surrounding environment changes in order to attain a specified goal, namely, rapid industrialization. For this, the micro-level rationality that bureaucracy allows has to be supplemented with a more meso-level *inter-agency coordination*.

Typically this has been provided by the creation of some kind of nodal agency, which has real, institutionalized authority within the state to coordinate the ministries and policy agencies connected with economic policy. The importance of a nodal agency was initially brought to light by Chalmers Johnson in his classic study of the Japanese experience, in which the Ministry of International Trade and Industry played a pivotal policy role;³⁹ in the intervening years, however, it is Korea's Economic Planning Board (EPB) that has stolen the spotlight and emerged as the exemplar nodal agency.⁴⁰ I shall have more to say about the EPB, and how it functioned in Korean industrial policy, in chapters 3 and 7. For now, let us simply note that its importance lies in its role as—to borrow a term from our Althusserian past—the *factor of cohesion* in the developmental state. This was the agency which, in the exemplar developmental states, made certain that the disparate responsibilities of the economic ministries cohered around the project of rapid industrialization.⁴¹

EMBEDDEDNESS

A well-functioning bureaucracy and inter-agency coordination are two features that secure the cohesiveness of the developmental state. But aside from its internal cohesion, the state also needs to be endowed with instruments through which policy makers and administrators can communicate with firms around the strategy of industrialization. State managers cannot discipline firms if they lack information about performance and productivity; they can hardly organize coordinated investment, backward and forward linkages, and provide public goods, if they are isolated from market dynamics; in turn, firms cannot be expected to abide by performance standards or surrender required information if they are not provided with access to planners. The construction of

structured interactions with market actors has come to be referred to as the state's "embeddedness" in the economy, specifically, in the industrial sector.⁴² This task can be fulfilled by any variety of concrete institutions: in East Asia, a common one was the state-sponsored trade association, which acted as the conduit to firms in a particular sector or industry;⁴³ in India, this role was to be played by "development councils," which were sector-specific consultative bodies of state functionaries, industry representatives, and sometimes union officials;⁴⁴ variants can also be found in European-style "social corporatism," with its state-sponsored tripartite bargaining structures.⁴⁵

Whatever the particular institutional form it takes, this dimension of state structure has proven to be of central importance in the construction and implementation of disciplinary industrial policy.⁴⁶ This is not to say, however, that institutional variations are without significance. As I argue in chapters 7 and 8, there is a big difference between institutions that serve as genuine forums for bargaining and reportage, and those that are basically "talking shops." In the latter, industrialists are present not in any official capacity as representatives of their sector but simply as advisers drawing on their own experience. This is not without its use—eliciting the opinions of experienced businessmen can be of considerable assistance to policy makers. But it has distinct disadvantages relative to a more corporatist setting, in which firms are organized into some kind of association, and industrialists in policy bodies represent the sector in an official capacity.⁴⁷ Not only is a "talking shop" of less use to planners, but it can quickly lose legitimacy with domestic industry, as it is not organically linked to the actual policy process.⁴⁸

A proper bureaucracy, a nodal policy agency, and dense ties to the industrial sector—together these three elements go a considerable distance toward providing the state with the capabilities it needs for disciplinary industrial policy. The first two appear crucial for the state's internal cohesiveness, and the third secures for it the external links required to discipline firms. They do not, by any means, exhaust the list of possibilities. But these are perhaps the mechanisms that exercise the greatest marginal impact, and whose importance is the most widely acknowledged. They are now just about universally recognized as being necessary for successful industrial policy, regardless of the analyst's attitude toward state-led development. Furthermore, confining ourselves in this fashion to a small list of components also has a distinct analytical payoff, in that it becomes easier to trace the conditions that may be responsible for particular states being weaker than others.⁴⁹

The upshot of the preceding arguments is that the variation in the quality of state intervention is governed, in substantial measure, by the variation in the strength of these institutions. I argued in the beginning

of this section that most states did not find themselves endowed with these instruments when they embarked on their development programs. Therefore the onset of these programs was, in many cases, *coeval* with state building, rather than being preceded by it. Political elites were forced to create appropriate state institutions as they crafted industrial policy, building them in tandem with it, and in reaction to it. But is this kind of state-building project historically realistic? There is certainly room to argue that it is not, and that, in many respects, simple inertial forces govern the whole matter. A bureaucratic tradition, for example, cannot be created overnight, and a state embarking on an industrial policy will, to some degree, be bound by its particular traditions of statecraft—however strong they may be. But the argument from "historical momentum" ought not to be overdrawn. Even if a functioning bureaucracy cannot be created overnight, it can certainly be strengthened and reformed where it *does* exist. And this kind of reform can have quite a dramatic impact, as we will observe in the discussion of Korea. Further, other instruments are much more amenable to rapid institutionalization, even if they cannot be created *ex nihilo*. Nodal agencies, for example, have sometimes evolved somewhat slowly, as in the case of MITI, but they have also been created and consolidated virtually overnight, as in the case of the Economic Planning Board in Korea. The institutional capacity of the state economic apparatus can therefore be built up rapidly, as new challenges appear on the horizon. Whether state managers can, in fact, succeed in this task is, of course, a different matter. But it is important to recognize that their failure—if it should so materialize—is not to be prejudged simply on the basis of inherited historical traditions.

So the task of building state institutions for promoting rapid industrialization is formidable but ought to be within reach of many aspirants. Indeed, that such states were built in Taiwan and Korea, two countries that were not even considered candidates for success in the 1950s, underscores this point. But this only serves to make the rarity of successful state building all the more puzzling. Why, if the mission was so pressing, were the successful efforts not more common? Why did so many political elites find themselves encumbered with state institutions unsuited to the task of disciplinary industrial policy?

STATE CAPACITY AS DILEMMA

The Appearance of Consensus

On the face of it, there ought not to have been prohibitively strong structural forces blocking the process of state building in the postwar

era. Starting at least from the 1930s, there emerged in many LDCs a powerful consensus around the desirability of state-led rapid industrialization. Since the collapse of world markets during the Great Depression, powerful political impulses emerged in developing countries for governments to come to the aid of "their" local capitalists. This was especially true in Latin America but was also the case in parts of the colonized world, like India.⁵⁰ The motor behind this political pressure was provided by business groups, who saw the Depression as a challenge as well as an opportunity. Three issues in particular animated local capitalists: first, and predictably, the need for protection from international competition, for which they drew on the venerable arguments in favor of "infant industry protection";⁵¹ second, the need for state assistance in the acquisition of inputs, especially finance and raw materials;⁵² and lastly, and somewhat surprisingly, business groups argued in favor of some central coordination of economic policy, as against its dispersal across provincial governments.⁵³ Such demands were initiated as early as the 1920s and continued to grow into the postwar period.

Capitalist pressure was an important component of the impulse toward state-coordinated industrial development. Complementing this was the fact that political elites, too, found it in their interest to argue for such policies. Most immediately, they provided a tremendous avenue for the advancement of a stratum of bureaucratic functionaries and political managers, who were the most advanced section of the newly emerging middle class. The growth of the state translated into greater power for this very articulate and visible section of developing societies.⁵⁴ This is not to say that political elites were driven by sectional interests alone. Certainly many among them were motivated by a genuine commitment to national development. But there can be little doubt that the nationalist aspirations of these groups found wider purchase at least in part because of the avenues they opened up for the material advancement of new middle classes. Hence, as Peter Evans has observed, rapid industrialization under state aegis emerged as a "shared project" between the state and capital, for "neither can implement the project on their own, and each brings something to the task."⁵⁵

Which brings us again to the puzzle: if there was a consensus around this project, then how did it transpire that so many attempts at state building ended as failures? After all, insofar as rapid industrialization required appropriate interventions by the state, the process of installing the needed state institutions ought to have been seen as a necessary accompaniment to industrialization itself—indeed, even as a precondition of it. The most common answer to this puzzle places emphasis on conflicts within the political elite. On this view, state-building was successful in those cases where political elites were able to organize them-

selves for the job: by forming strong parties, overcoming resistance within the state, recognizing the need for centralized administration, creating networks of ties with firms, and so on.⁵⁶ And the reason that state building failed in many cases, despite the historic opportunity presented by the coalition with capital, was supposedly that political elites were unable to get their house in order. This, indeed, is a prominent explanation for the outcome in India: despite the alliance of the Indian National Congress with domestic capital, the argument goes, the Congress, because of internal squabbles, and because of its dogmatic commitment to a socialist economy, built a state that only served to stifle local entrepreneurial initiative.⁵⁷

There is absolutely no doubt that intra-state conflicts played an important part in many such cases. But there is another explanatory avenue open to investigation, which, if conjoined with the statist approach, could also yield rich dividends. This is to reexamine the whole question of there being a "shared project" between political elites and local industrialists. It is not that the putative consensus around state-led industrialization did not exist—it very much did. But scholars have tended to elide the difference between an agreement around the *fact* of state intervention and an agreement around its *modalities*. While there was indeed a consensus around the former, we ought not to presume that it extended to the latter. In fact, there is good reason to predict that there would have been significant controversy around it. And this goes to the very heart of the question being examined here, namely, why so many political elites were unable to install appropriate institutions for disciplinary industrial policy. If indeed there was conflict around the modalities of state intervention, then, in all likelihood, this would have extended to the institutions being built to enable such intervention. This being the case, the relative failure of many state-building projects may very well have been produced by conflicts between the state and industrialists, and not simply through conflicts within, or predilections of, the political elites.

The Possibility of Conflict

What is it about the modalities of state intervention that might generate conflict, and hence impede the installation of a genuinely developmental state? The problem arises from the fact that the commitment to subsidization brings with it, for state managers, an impulse to impose *discipline*. Industrialists in developing countries can be expected to enthusiastically support the commitment to subsidize and protect local enterprise. They can therefore be expected to embrace many aspects of state building that are required purely for the subsidization of their profits⁵⁸—this

has extended in many cases even to such measures as the nationalization of banks and the extension of the public sector.⁵⁹ What such measures have in common is that, for the most part, they manipulate the environment in which private capital functions—boosting its profits and increasing its liquidity—while leaving the actual disposition of funds to owners and managers. This relation between state institutions and capitalists changes, however, when planners move to actually ensure that firms are willing and able to invest in ways that conform to policy priorities.

Earlier in the chapter I described the disciplining process as consisting, broadly, of two parts: coordination and compulsion. Although the two differ in significant ways, they have a feature in common: both elements entail, for the state, a shift from manipulating the environment in which firms function to manipulating the firms themselves. This is important because, in doing so, the state has to rely, to varying degrees, on the use of coercion to ensure the desired outcomes. Even in the case of the state's role as coordinator, there is call for the occasional, judicious use of arm-twisting and cajoling. To take the paradigmatic case: while the state's role in French indicative planning was, in theory, restricted to coordinating investment by collating firms' disparate investment plans into an aggregate model, it was always backed up by the coercive use of credit and state finance.⁶⁰ French planners did not simply try to increase the pace of investment by reducing the uncertainty that firms faced; they also pushed managers into making the desired investments by using finance in a carrot and stick policy. Hence, even though indicative planning—the exemplar of hands-off, purely consultative industrial policy—supposedly restricted the state's role to simply providing managers with information about market conditions and then letting them adjust their own investment plans, it actually shaded into measures that looked a good bit like simple compulsion.⁶¹ This should not be surprising: even in the process of collecting information, planners might have to resort to coercing it from recalcitrant managers fearful that their competitors might use it against them or simply suspicious of any governmental encroachment;⁶² or when coordinating vertically linked or complementary investment chains, planners might find themselves confronted with a firm that prefers a different course of action. So while coordination need not rely on coercion, it sometimes has to resort to it, and it may in fact work best when the threat of force can be reliably invoked.

Needless to say, the second component of the disciplinary process—simple compulsion—only amplifies the state's intrusion into the domain of firms' management. Whether it is in a negative form—as when sectors of the market are closed off to new investments—or more direct—

as when planners organize mergers in oversubscribed sectors or require firms to invest in targeted lines—this instrument amounts to a forcible encroachment on the independence of private investors. Hence, if the state's role is to extend beyond the provision of subsidies to undertaking measures designed to extract adequate performance from firms, then a degree of coercive intrusion into the investment prerogative would seem unavoidable.

Of course, such intrusion brings with it some very real benefits to capitalists collectively, as well as individually. If successful, the channeling of investment flows and the imposition of performance standards can accelerate the traversal to greater competitiveness, thereby increasing the profitability and enhancing the long-term viability of local enterprises. Therefore, at an important, albeit general level, it is certainly consistent with capitalist interests. But it also brings some real costs. First, there is no avoiding the fact that measures such as those under discussion mean that capitalists lose a significant amount of freedom over where, when, and how much to invest. Since many regard the control over investment decisions to be an essential element of private property, these measures require that capitalists willingly accept a limitation of their own class prerogative.⁶³ Second, at a more mundane level, it means having to deal with an intrusive bureaucracy as a matter of course in a very wide range of decisions. Even under the aegis of the most conservative administration, this amounts to industrialists having to “haggle” over investments with career bureaucrats. Third, the hard fact is that ceding such power to the state runs the risk of having it fall into the wrong hands—there is no guarantee that the intrusive and meddling planning apparatus will always remain in the hands of parties that are ideologically acceptable;⁶⁴ nor is there a guarantee that the bureaucrats actually administering industrial policy will be above using their power to line their pockets or to favor their particular clients.

In sum, if policy makers want to avoid letting the subsidization of industry turn into giveaways, they will have to build institutions that give them some power over firms. But this brings with it new problems. While there are good reasons for industrialists to support disciplinary industrial policy, in so far as it could, if successful, strengthen their competitive position, there are also good reasons for them to oppose it, since it could leave them vulnerable to a meddlesome and grasping state bureaucracy.⁶⁵ The upshot is that there is no reason to assume that capitalist support for state-led development will go “all the way down,” encompassing both its disciplinary as well as its subsidizing activities. The process of building institutions for the implementation of such industrial planning could very well elicit opposition from local capital—and quite rational opposition—not to the idea of state subsidization of

industrial development—for that, we should expect to see widespread support—but to the idea that the state has the right, and ought to have the power, to make demands on enterprises in exchange for the subsidies channeled their way. This is the manner in which the modalities of industrial policy could very well lead to conflict between the state and local capital, despite the shared commitment to subsidizing industrial development.

Why It Matters

Here, then, is a possible clue as to why, despite the alliance between industrialists and political elites around industrial development, the construction of state capacity to promote this mission was so uneven. State managers, at mid-century and after, faced a pointed dilemma. The commitment to subsidizing domestic enterprises was taken as binding, but the ability to coax adequate performance from them was limited. This latter ability would depend on building, fairly quickly, adequate institutions within the state, such as those enumerated in the preceding section. But the very project of adding to the state's capacity for this purpose might elicit concerted opposition from domestic industrialists wary of bureaucrats' intrusion into their most prized domain. The end result, therefore, could very well be a process of state formation in which these crucial institutions remained underdeveloped, rendering state managers unable to carry out the tasks for which the institutions are required. Whether the whole process culminated in this fashion would depend on which of the consequences that discipline brought in train motivated domestic capital—the possibility of greater competitiveness or of becoming burdened with an intrusive state. If the former, then the project of industrialization would be a genuinely shared endeavor, and the project of state building could proceed smoothly; if the latter, then the outcome would be far less certain, for the appropriate state institutions would have to be installed over the opposition of domestic capitalists.

This gives us a framework for understanding the divergent outcomes in state formation, which does not rely on the statist premise that the critical mechanism is the quality of, or conflicts within, the political elite. While the orientations of state managers and political leaders are indeed important, the preceding arguments suggest that their ability to successfully install developmental states may be mediated by the reactions of local firms to the project. The analytical focus, therefore, needs to shift from an exclusive focus on the state to a consideration of its relations with local classes. The same arguments, however, also call for modifying the characterization of “late industrialization” as a joint

project between the state and firms. Nothing in my arguments calls for rejecting this view. Rather, I contend that, although there may be a consensus around the *fact* of state intervention, it may coexist with considerable tension around its *character*—in particular, around whether it should or should not be disciplinary. This is crucial, because a large part of the puzzle regarding the developmental state has to do with this very issue—why the ability to impose discipline has been so uneven across cases.

That being said, we are now in a position to approach the facts. In what follows I summarize the chapters to come in a fashion that ties them to the arguments of the preceding section. The arguments are broken up into two broad sections. The first summarizes part 2 of the book, which are the chapters on the *installation* of the state apparatus in India and Korea. Here the animating issue is, why were political elites in Korea able to put a developmental state into place while their Indian counterparts were not? I show that the divergent outcomes are quite consistent with the arguments developed so far. Then, in the second section, I summarize part 3 of the book, the chapters dealing with the *reproduction* of the state. There are two main issues in this regard. First, how did the different capacities of the two states, once installed, matter? And, just as important, if the quality of the state did matter, and the Indian state was in fact unable to perform the tasks required of it, then why did political elites not reform it in an appropriate fashion? The arguments of part 2 explain how India became saddled with a substandard developmental state; those of part 3 explain why, having put such a state in place, Indian elites then had to learn to live with it.

INSTALLING THE DEVELOPMENTAL STATE: FOUR THESES

Thesis 1: *State building in India was stunted because of a highly organized and concerted offensive launched by the business class against the idea of disciplinary planning, whereas it was successful in Korea because state managers were able to harness a leading segment of the business class to the developmental agenda.*

In both countries, political elites came to power with a firm commitment to building developmental states. If anything, the project was more clearly enunciated and conceptualized in the Indian case. The difference was that, in the latter, state managers met with concerted opposition from domestic capital, whereas in Korea they did not. This is, it should be noted, a revisionist view of the Indian case, perhaps even in the extreme. It is a matter of almost unanimous agreement among students of Indian development that the onset of industrial planning was

underwritten by solid support, even enthusiasm, on the part of the business class. According to the accepted view, India was just about unique in the developing world in having a bourgeois class that had announced its support of capitalist planning even before the attainment of Independence in 1947. This support found its most visible expression in a two-part document published in 1944–45, in which six of the leading industrialists in the country not only declared their enthusiasm for industrial planning but even laid out the rudiments of what such a plan might look like. This document, which has become known as the Bombay Plan (after the city where the authors convened), is typically seen as the template on which future plans were constructed. The support from capital was, in turn, balanced by a deep commitment to planning on the part of the Indian National Congress as well, particularly Jawaharlal Nehru, who instituted the new developmental state soon after Independence. Given this putative level of support among relevant actors, explanations of state failure in India typically come to rest on the failure of state managers to take *advantage* of their opportunity. Instead of instituting a regime that could take advantage of bourgeois enthusiasm for planning, they built a leviathan that stifled business initiative, over-extended the administrative capacity of the state, and lost coherence in a dense web of bureaucratic red tape. The failure of the developmental state thus rests on the failure of state managers.

Against this venerable view, I argue that the Indian capitalist class did not support a developmental state *in the relevant sense*. The appearance of agreement between state managers and industrialists on the issue of “planning” was a mirage. Underlying it were two very different conceptions of what it entailed: for business, it meant support for the *subsidiarization* process: that is, that the state should do everything it can to encourage the development of domestic firms, while leaving the actual disposition of investable funds to the firms themselves; for state managers, its meaning was closer to a regime of *disciplinary* planning. Naturally, this difference brought with it sharply divergent ideas of the institutions through which planning would be carried out. So when the Congress government proposed legislation that would not only grant industry the protection and subsidies it sought but would also regulate the flow of investment and impose punishment on noncompliant firms, this triggered a massive offensive by the class against the new state. This offensive took the form of an investment slowdown, on the one hand, and, on the other, a concerted campaign in public and private against the proposed legislation.

The business offensive also had the effect of sharpening fissures *within* the Congress government on relevant issues. A natural consequence of disciplinary planning would have been the subordination of various

economic policy agencies to the new Planning Commission, so that planners could impose discipline within the state as well as without. The economic downturn and organized outcry by business provided an opening to forces *within* the state to beat back the ambitious planning agenda. Thus the business offensive was joined by a group of ministers and bureaucrats—most notably those in the Finance Ministry—who now saw the new regime as a threat to their own power inside the state. The result was that planners were forced to make one concession after another, until the end product was one that was simply incapable of implementing disciplinary planning.

Conversely, in Korea, the new regime was able to successfully harness the leading segments of the industrial class to its project. Most of the literature on the Korean case has assumed that the project of state building was successful because the state was simply dominant over its industrial class. The need for a “pact” with the bourgeoisie is therefore underplayed. This makes for an interesting contrast with the Indian case: whereas in the latter it is the putative *existence* of a “pact” that leads analysis to statist conclusions, in Korea such an analysis is encouraged by the apparent *absence* of a “pact.” But just as I show that, in fact, there was no appropriate alliance between the state and capital in India, I will show that, in Korea, it *did* obtain. Once this alliance was cemented around a clearly defined economic strategy, state managers could build institutions not only for doling out subsidies to firms but also for disciplining them. This coalition was an important precondition for Korea’s success in state building; for even if state managers and some firms did harbor resentment against planners, it could not find expression in an organized wide-scale attack.

Thus the first lesson we gain from the India-Korea comparison is that, as argued in the previous section, the commitment to industrial planning *as such* from capitalists need not extend to *disciplinary* planning. When it does not, as in the Indian case, then state managers either have to refashion their agenda so that the objectionable elements are removed, making planning more amenable to the business class, or find some way to overcome their resistance and impose the new state on them—regardless of their preferences. On the other hand, if leading segments of the class can be brought onboard, then a pact can translate into a consistent and successful arc of state-building—as in the Korean case. The project of building state capacity is thus centrally mediated by the relation of the state to the capitalist class.

But this raises an interesting question: if the capitalists had such different orientations with regard to planning in India and Korea, what explains this difference? The argument that business power has a decisive effect on state building is not a trivial one, to be sure. As I have

observed above, it is given little analytical play in the current literature. Nevertheless, the argument does seem incomplete without some investigation of the causes of this divergent orientation. Were there structural reasons for Indian capitalists to oppose disciplinary planning? If so, why were they absent in Korea? If there were such mechanisms, can they be theorized at a general level, so that India and Korea are seen as exemplars of certain *types*, and not just two diverging cases? I contend that there were indeed structural reasons for the different orientations, and this is presented in the next thesis.

Thesis 2: *Indian capital opposed disciplinary planning because, in the import-substituting model that India was undertaking, it was rational for capital to do so; conversely, Korean capitalists offered greater support to it because Korea embarked on a very different development model—an export-led one—which made it in capital’s interest to support a developmental state.*

Throughout the book I refer to import-substituting industrialization (ISI) and export-led industrialization (ELI) as two contrasting development models. There is no novelty in this; students of the subject commonly recognize the two as such. For our purposes, development models are important because they imply quite different conditions for capital accumulation; more precisely, they generate distinct capitalist accumulation strategies. These accumulation strategies, in turn, generate a different incentive structure for firms vis-à-vis the state-building project. One makes it rational to reject the idea of a disciplinary state, whereas the other induces its acceptance.

The Incentive Structure of Import-Substituting Industrialization

Why should import-substituting industrialization generate incentives to resist the disciplinary side of the state-building project? Two facts about this development model are relevant here: the nature of its economic benefits to domestic firms and the general market conditions in which it was implemented.

At the core of ISI was the doctrine of infant industry protection, which aimed to nurture domestic business undertakings to ready them for the rigors of the world market.⁶⁶ This had two sides to it. One was protection from foreign competition, through the erection of tariff barriers, quantitative restrictions on imports, and other such measures. These were intended to create a space for the products of local capitalists, which otherwise, it was felt, would not survive long enough to mature. The second side of infant-industry protection was the funneling of public funds to local firms—often the same ones that enjoyed protec-

tion—as subsidies, incentives, credit, and the like.⁶⁷ This second component was not only intended to assist firms in their investments and growth, although that was certainly an important motivation. It was also driven by another conviction, namely, that domestic firms would not spontaneously take up the kinds of investments that were required for development. Domestic firms were more prone to venture into sectors that offered quick and high returns, like luxury consumer goods; but future development would require investment in projects that initially would not render high yields and carried greater risks. Private capital was to be drawn to these sectors by the offer of considerable subsidies and safe markets.

An important consequence of this development model was that it also typically generated a monopoly or oligopoly in the sectors targeted for growth. The first step toward this was, of course, the insulation from international competition. But competition among domestic producers was also attenuated, because of two factors. First, the small size of the market meant that it was easy for the first entrant to secure a dominant position. Since market and product diversification was still very narrow, there was a direct benefit of being the first mover into new areas and establishing market control. This would not be the case, of course, if each producer was very small, as in neoclassical models. But the fact about late developers is that firms are quite often very large, part of larger conglomerates, and can easily establish control over a considerable portion of the market.⁶⁸ A second route to monopoly or oligopoly was that policy makers themselves intentionally limited the number of producers in each sector, for fear of allowing over-investment and hence idle capacity. In a developing country, with its severe constraints, planners often saw excess capacity as an unconscionable waste of precious resources.

Development theorists have recognized these economic consequences of ISI; what has not been adequately appreciated are its *political* consequences, particularly with regard to the project of building disciplinary developmental states. The intention of political elites and economic planners in these countries was not only to offer local industrialists safe profit-making opportunities, but also to regulate and monitor the flow of capital, to ensure it went into targeted areas, and that it was used efficiently. Investment licenses and credit agreements were therefore typically granted with certain conditions attached to them, which stipulated the sector in which investment was to occur, the scale of operations, and so on. The agreements were, to the policy agencies, a kind of contract.

But for the recipients of the largesse, there was ample reason to resist the *terms* of these contracts. While state policy agencies granted sub-

sidies to firms on the basis of a development plan with particular priorities, business houses made their own investment plans, based on their prognoses and their priorities—which often did not coincide with those of planners.⁶⁹ Domestic industrialists rightly saw ISI as a tremendous opportunity for growth and profits, because of the sectors being literally handed over to them free of international competition. But for this very reason, they also regarded the disciplinary component of ISI as an unacceptable encumbrance; in order to exploit their opportunities fully, firms would need maximum latitude to make their own decisions as to which sectors they would expand into, where new investments would be made. The best way to use ISI was to encourage the state's commitment to subsidies while insisting that private capital have the maximum latitude in their actual disposition. Again, this was all the more attractive because of the highly diversified character of many business houses.⁷⁰ Funds given by the state for one project could easily be diverted to other, more attractive projects being taken up by an enterprise in the business group—if the group could escape the state's monitoring apparatus.⁷¹ Capitalists therefore had an interest in supporting the subsidizing side of ISI, while strenuously opposing the state's power to regulate and monitor the flow and utilization of investment.

This has a direct bearing on the orientation of business groups toward the state-building project. Since their preference is for the state to offer its assistance, but without the right, or the ability, to make demands on them, firms will have an incentive to oppose the project of building a disciplinary planning apparatus. This is not to say that they will oppose state intervention in the economy; after all, the offer of subsidies and protection can hardly be regarded as an instance of *laissez faire*. The opposition will be to a particular *kind* of intervention, one that seeks to regulate the flow and disposition of investment. The political consequences of ISI, therefore, are that capitalists will support the idea of planning as state subsidization of industry but not the project of building the institutional basis for a *disciplinary* planning regime. They will support building the means to mobilize and distribute funds to the private sector but oppose the state's moves to monitor and regulate their use.

The critical factor underlying this resistance to discipline is the attenuation of competitive pressures in ISI. One may wonder why firms would resent demands made by the state to perform at competitive standards, which, in many respects, is certainly in their interests. The reason is that, with the entry of international competitors blocked by protectionist measures, and with internal competition muted owing to the small size of the market, firms are under no systematic pressure to constantly upgrade their operations.⁷² With each influx of newly acquired credit,

managers do not feel compelled to increase the efficiency of existing undertakings, since there is no imminent threat of losing market share. Instead, as long as their market positions are secure, there is an incentive to enter new lines, new market niches, as first movers, and secure a dominant position.⁷³ The state's insistence on operating at certain warranted levels of efficiency are thus resisted in favor of diversifying their position into new, lucrative fields.⁷⁴ The way that ISI thus generates a peculiar political incentive structure for firms can be appreciated better by turning now to the political consequences of export-led industrialization.

The Incentive Structure of Export-Led Industrialization

Most developing countries in the aftermath of the Second World War resorted to ISI as the nucleus of their development strategy.⁷⁵ But starting in the late 1950s, and especially in the early 1960s, many countries began placing a greater emphasis on exports in their economic policies; in a very few cases, this push for export promotion was carried even further, so that exports came to occupy the strategic core of the development policy.⁷⁶ This was the case most famously in Korea and Taiwan, which are rightly considered the exemplars of an export-led path of industrialization. Two features of ELI need to be highlighted before proceeding to examine its incentive structure in order to avoid misunderstandings.

First, The ELI model I refer to in this discussion and throughout the book ought not to be confused with its forerunner in the nineteenth century. During that period many developing countries adopted growth paths heavily dependent on exports—this, of course, was the case in South America but was also true for much of the colonial world, including India.⁷⁷ This initial brand of ELI differed from that which emerged after the Second World War in that it was almost entirely based on the export of raw materials and agricultural commodities; the emphasis in the latter variety, however, has been not only on manufactured goods but also on continually moving up the value chain to products of increasing technical sophistication. So it is not simply the turn to exports that concerns us but rather exports of modern manufactured goods.

Second, it is important to note that the turn to this more contemporary variety of ELI was not symptomatic of a broader commitment to an open trade regime, as some commentators have suggested. The turn to ELI was not tantamount to the adoption of free trade. Indeed, in Korea, imports continued to be subject to strict controls and the domestic market, through the 1980s, to be carefully protected.⁷⁸ Nevertheless, exports grew at phenomenal rates starting in the 1960s, until they ac-

counted for a substantial part of the domestic economy. Further, aside from the quantitative importance of exports, they exercised a critical qualitative impact on the economy, as the regime used firms' export success as a condition for access to further subsidies.⁷⁹

With these caveats in mind, we can turn to the incentive structure of the development model. Unlike the case of ISI, where investment plans of local firms were shaped by the easy opportunities of the domestic market, firms in ELI had to adapt to the rigors of international competition. And from this difference in economic challenges came the difference in political incentive structures. Recall that the resort to import controls and protection across the developing world—including Korea—came because of the apprehension that competitors from more advanced economies would decimate local producers. If local firms could not be expected to withstand international competition at home, they hardly stood a chance as exporters to the markets of the industrialized countries. Indeed, the difficulty of entry and survival there would be even greater. First, they would have to secure funds to make the minimum scales of investment individually; but a more important obstacle was that these investments would have to be in technologies that the firms had no experience and training with; worse yet, any given investment would typically require complementary investment by other firms, either upstream or downstream, if it were to bear fruit.

In addition to these investment-related obstacles, there was also the overhead cost of establishing marketing and sales networks in countries where the firms had no history of success, a barrier which, as Gary Gereffi and others have pointed out, is perhaps the most important one for producers in textiles and other light industry—precisely those lines in which LDCs first enter as exporters.⁸⁰ Success thus involved overcoming the paucity of funds, acquiring and mastering new technology, solving the problem of investment coordination, and gathering the information and contacts needed for marketing. These problems, of course, are present in any capitalist market, whether local or external. What made such problems pressing and forbidding for exporters, however, was that they had to be solved in a context of intense competition with producers who had access to far greater funds, who not only had experience with new technology but had, in fact, *developed* it, and who had a massive advantage in sales networks.⁸¹ This placed severe pressure on exporting firms not only to solve the problems just outlined but to do so rapidly and on a continuing basis.

The severity of these conditions makes for a different kind of relation with the state, as compared to that in ISI. First, state managers now have far greater leverage against firms, since the latter must depend on the former to solve many of the problems just mentioned. So long as

firms are willing to hazard the export market, and hence must survive in that market, they have to depend on the state to provide a steady stream of finance, help acquire and unpack technology and its attendant supports, establish sales and marketing networks, and, perhaps most important, coordinate investment in complementary lines. This gives state managers the bargaining power to make demands on firms in return for the subsidization and support they provide.

But just as crucial is a second aspect of the state-business relation: under ELI, not only does the state's role assume greater importance, but firms have a greater incentive to *comply* with state managers' demands for performance. Under ISI, the ability of firms to secure dominant positions in particular lines and deter entry in them tends to sever the link between high profits and efficient production; businesses can take loans or credits granted for a particular project and divert them to other lines, with no great worry about losing market share. But when firms have to perform in the more competitive external markets, they have a direct incentive to adhere to the state's demands for increasing the efficiency of production in a line, because the firm's survival in that line depends in steadily increasing its productivity.

It is this second effect of ELI that most sharply distinguishes its incentive structure from that of ISI. In both models the state provides firms with assistance and support; in both models, as a conditionality of that support, it demands certain standards of performance in return. But in pure import-substituting regimes, the economic environment gives firms an incentive to take the subsidies the state offers while rejecting its prerogative to regulate their flow and utilization. Hence firms will also have a political incentive to resist the agenda to build a state with the institutional capacity to impose disciplinary industrial policy. In ELI, however, because of the more extreme competitive pressure, firms have a greater reason to take the subsidies and channel them into upgrading productive efficiency. Further yet, they have an interest in having a state that has the capacity to effectively coordinate and monitor investment in order to more ably assist their expansion into external markets. The more stringent competitive conditions, the greater uncertainty, the tenuous relations with customers, and so on, all decrease the margin for error that firms can take for granted in safer domestic markets. While slow and maladroit coordination of investment may not be a serious problem in protected domestic markets, where firms do not face strong competitive threats, it poses a considerable threat in export markets, where firms have to be able to respond rapidly to new entrants, new technologies, and the like. In addition, matters such as quality standards, which are almost a non-issue in monopolistic domestic markets, become exceedingly important under more competitive conditions.

Here, too, state monitoring and imposition of such standards is not only unlikely to elicit firms' objections but is, in fact, more likely to be welcomed. The upshot is that in export-led strategies capitalists have no reason to oppose the project of building a disciplinary developmental state; indeed, they have good reason to support it—so long as such a state is a precondition for export success.

The different environment established by the two development models thus calls for quite distinct accumulation strategies for local firms, and the latter, in turn, generate different incentives with regard to the state. If the preceding argument is correct, then we have an explanation for why the two capitalist classes reacted differently to the state-building project. For Indian industrialists, the knowledge that future policy would be framed around the protection of domestic industry meant that they could make easy profits without the whip of market competition. On top of this was the promise of other kinds of subsidies—cheap credit, inputs, and the like—which would only further grease the wheels of local accumulation. Lastly, adding to this was a fact peculiar to the Indian case. In the immediate postwar scenario, British firms were evacuating segments of the Indian market, leaving open vistas for Indian capital's entrance. It was therefore in the interest of the largest business houses to demand the widest possible latitude regarding the disposition of their funds, so they could swiftly move into the vacated sectors—at least some of which would be low priority for economic planners. With such opportunities already on tap, what did the disciplinary components of development policy have to offer, other than a meddling and overweening bureaucracy? With easy profits virtually guaranteed, a disciplinary state was only an encumbrance. For Korean capitalists, however, having a state with considerable capacity to monitor, coordinate, and even coerce firms made eminent sense—for it was an essential precondition for surviving in export markets. It is not that the Chaebols, the few enormous conglomerates dominating the Korean industrial structure, relished the idea of an intrusive state; rather, they considered it an acceptable encumbrance since the rewards it brought were so handsome. For firms coming from small, developing economies, success in the massive markets of the West meant almost limitless expansion and growth. Hence, far from an encumbrance, a disciplinary state was a needed ally in the competitive battle.

This takes us some distance toward understanding why the installation of a developmental state met with such different degrees of success in the two cases. The Indian capitalist class had a very strong incentive to reject any such agenda, because of the incentives generated by the ISI model. This did not necessarily make the prospect of installing a disciplinary planning apparatus impossible. It did imply, however, that if

such a state were to be a real possibility, it would either have to be *imposed* on the class against its preferences or somehow the ordering of preferences itself would have to be changed. To accomplish the latter, the Indian state would have had to move rapidly to ELI, which, if the arguments in this section are correct, would have made local firms much more amenable to the state-building agenda. So why did the Indian state not take either of these alternatives? The next thesis examines the problem of adopting ELI, and the following one explores why state managers could not simply impose a strong planning apparatus on the class against its will.

Thesis 3: Korea was able to switch from ISI to ELI because certain conditions virtually unique in the world economy were available to Korea, conditions that simply were not available to other LDCs. Absent such conditions, business classes throughout the developing world resisted attempts by governments to turn to an export-led strategy, and this was true in India as well.

Why India chose to turn to ISI as the first step in its development strategy is not a mystery. The fact is that in the countries which undertook rapid industrialization programs after the Great Depression, it was simply taken for granted that the road to success involved a period of import-substitution. This premise was common to political and economic elites throughout the developing world at the time—including Korea and Taiwan—and was the basis for the “shared project,” as discussed above. It was the immediate and perhaps most important reason why, in the aftermath of the Second World War, a turn to exports was simply not on India's agenda—for it was not the agenda anywhere. But other, more structural reasons also made the commitment to ISI attractive, and hence perhaps overdetermined.

The most important inducement to ISI, and deterrent to ELI, in the 1950s may have been the nature of the international trade regime. This decade is often presented as the time when trade barriers were removed throughout the world, in contrast to the protectionism of the interwar period. What this overlooks, however, is that the removal of barriers was limited mainly to trade within countries belonging to the Organization for Economic Cooperation and Development (OECD). The provisions of the GATT regime that allowed for freer trade did not apply to all trade, only trade within Europe and between Europe and North America. Imports from developing countries were subject to differential and higher tariffs relative to those faced by imports from other advanced industrial countries. In effect, this put the threshold level of productivity required for success beyond the reach of developing countries.⁸² Developing countries have often been criticized for their “export pessi-

mism” in these years, and it may be true that a concerted commitment to exports may have allowed for a greater degree of success in foreign markets. But it seems far-fetched indeed to suppose that strategies which placed exports at the core of the development process, as ELI did, could have been possible at this stage for newly industrializing economies.

A third and less recognized reason for the reliance on ISI was the influence of the U.S. aid conditions on LDCs. In an important but still unpublished dissertation, Yeonmi Ahn has described the myriad ways in which, throughout the 1950s, countries receiving grants from the United States for the purchase of capital goods were prohibited from exporting commodities produced through their use.⁸³ Since foreign assistance in the 1950s was mainly in the form of grants, and not commercial loans, this meant that U.S. restrictions applied to any country receiving American aid. This acted as a powerful deterrent to ELI, given that almost all developing countries lacked a capital goods industry of their own; most of the semi-developed nations were heavily dependent on the United States for machinery, parts, and raw materials for their manufacturing activities. It was not until the next decade, Ahn argues, that changes in U.S. law made it legal for recipient countries to use materials acquired in aid packages for exports.⁸⁴

As a result of these three factors, almost the entire developing world embraced ISI during the 1950s, including Korea and India. Only in the early 1960s was there a turn to exports, and, again, this was partly occasioned by a change in the attitude of the United States. The passing of the Foreign Assistance Act of 1961 made economic aid subject to disbursement as loans instead of grants, which meant, in turn, that recipients would have to generate exports to repay the loans.⁸⁵ American advisers in LDCs thus began urging their hosts to put greater emphasis on exports. Partly as a response to this advice, and partly as a reaction to their own need for greater foreign exchange, a large number of countries in the 1960s turned to export-promotion—including India and Korea.

But only Korea and Taiwan not only maintained a commitment to export-orientation but took the policy even further, to ELI.⁸⁶ In country after country, state managers found that local industrialists refused to treat export markets as anything but an outlet for excess capacity in their plants. Committing to exports as the center of their investment strategy was something that business classes refused to countenance. The reasons are not hard to fathom: as discussed earlier, export markets were the site of fierce competition and hence uncertainty, whereas firms in domestic markets were virtually assured high and safe profits. Furthermore, the commodities that LDCs were capable of exporting in

large quantities—light manufacturing goods—were ones that were highly dependent on ready links to sales and marketing outlets, which is precisely what firms in LDCs lacked.⁸⁷ This meant that the start-up costs of success in the markets of the industrialized countries were considered too high, especially when compared to the ready alternative of domestic markets.

Why, then, did Korean firms take the plunge? Commentators suggest that there were two predominant factors: pressure by the United States to place greater emphasis on exports⁸⁸ and the steadily approaching saturation of the Korean domestic market.⁸⁹ Whereas the former induced the *state* to orient its *policies* toward export promotion, the latter generated a willingness among *firms* to orient their *production* in the same direction. Added to this was the recognition by Park Chung-Hee himself that the massive import needs of his development plans could not be sustained unless the country also generated correspondingly impressive gains in export revenues. Hence, by the early 1960s, there was a switch from a pure ISI strategy to one reliant on ELI.

Although these three factors undoubtedly played an important role in Korea's adoption of an export-led model of industrialization, it is highly unlikely that they *sufficed* in themselves to actually produce the turn. In fact, by the 1960s, the two crucial conditions adduced to be the impulse behind ELI—U.S. pressure and a sated domestic market—*were present in a large number of developing countries*. We have already seen that the switch to aid in the form of loans induced American advisers to press for export promotion among virtually all their clients. It is also true that domestic markets were rapidly becoming saturated across the developing world—in South America, South Asia, and the Middle East. Despite this, when state managers attempted to initiate a turn to export promotion, they found stiff resistance from local firms. In one country after another, firms continued to use foreign markets as outlets for inventory buildup during the business cycle rather than as the primary destination for local manufactures.⁹⁰ As I show in chapter 8, India was no exception to this dynamic when it launched its own export program in the late 1950s and found little interest among local capitalists. But the range of examples extends far beyond the subcontinent; indeed, in discussions of the Korean and Taiwanese cases, it is often forgotten that attempts at ELI were quite common in the 1960s.⁹¹

External pressure and slumping local markets cannot have been sufficient, therefore, to push Korean firms outward (though these two conditions may have been necessary). I suggest that the turn to ELI emerged because another factor came into the picture, one that was absent in most other cases but played a crucial, enabling role in Korea, and it was this: during the 1960s Korea fell within the ambit of Japan's industrial

strategy, which had as one of its components the *relinquishing of markets in the United States to Korean firms*. In other words, Japanese firms were vacating markets in the United States and bequeathing them to Korean firms, along with their marketing and sales outlets.⁹² In addition to this demand-side bounty, Japanese trading companies—the Sogo Shosha—also secured critical finance and machinery for Korean firms, which was essential to building the muscle required for competitive success. Japanese firms, for their part, were able to secure a captured market in Korea for their capital goods and other inputs, as well as a lucrative outlet for their excess savings.⁹³ In any case, this meant that Korean capitalists were able to circumvent the most important entry barriers to the markets of the industrial world, the very barriers that acted as a powerful deterrent to all the other developing countries. A similar dynamic occurred in Taiwan, and also at about the same time, in the early 1960s.⁹⁴

The Korean state-building effort was thus the beneficiary of an enormous bit of good luck in terms of timing: Park came to power in 1961, just as Japanese capital was moving to make its switch in its industrialization strategy and establish ties with Korean capital. Of course, this was not sufficient to produce a developmental state; the Chaebol's partnership with Japanese capital simply gave the new regime an opening it could exploit. That it did exploit it successfully was not preordained. This was a genuine achievement of Park Chung-Hee's developmental state, and the statist literature has traced its vicissitudes with admirable thoroughness. Indeed, it is difficult to imagine that Korean firms would have committed themselves to competing in export markets for anything but the most rudimentary manufactures, had they not had credible signals from the political elite that the state, too, would be restructured around the ELI strategy, just as firms were restructuring themselves. Japanese patronage was critical to securing *entry* into export markets; *remaining* in them successfully would depend on the state fulfilling its role with respect to the provision of subsidies and coordination. It was therefore of central significance that Park's restructuring of the state around the demands of developmentalism was concurrent with the arrival of Japanese patron firms into Korea.

Korean ELI was thus made possible by a combination of luck and genuine effort. It was plain good fortune that, as Park initiated a turn to export-promotion, Japanese firms were looking for regional partners to whom they could off-load their low-end export lines: this was crucial in *lowering* a critical set of entry costs into world markets. But also critical was that Park, at the same time, launched his program of transforming the state in a developmental direction: this added to the momentum toward ELI by further *socializing* another set of costs to firms, as well

as solving basic coordination problems. So while the Japanese partners lowered some costs of entry, the state socialized others and also provided services essential to export success. This was a combination of inducements that states in other countries simply could not muster.

In the rest of the developing world, ISI remained the order of the day. This had the effect of turning local capital against the idea of disciplinary planning, because state discipline was not required for garnering high profits. If political elites were to install a developmental state, it would have to be through a route that was different from the Korean one—there was no developmental pact in the offing, at least not of an appropriate kind. The new state apparatus, therefore, would have to be installed *over the resistance* of domestic capital. And this brings us to the next, final issue, that frames the structure of politics during the critical years after Independence.

Thesis 4: *A full explanation for why the Indian National Congress was unsuccessful in installing a developmental state is that, in addition to facing a mobilized business class set against the project, Party leaders also demobilized a massive and quite organized labor movement—thus reducing the state's leverage against the capitalist class.*

To readers familiar with Indian history, it might appear as somewhat mysterious that the simple fact of business opposition could have forced the state to retreat on its agenda, as described in Thesis 1. For it was also the case that, in the aftermath of the war, the subcontinent was rocked by the biggest labor upsurge in the first half of the century. Further, there was an enormously widespread sentiment across the labor movement and the Congress that business had prospered tremendously during the war—often by taking advantage of scarcities, sometimes by creating them—and therefore ought to submit to state regulation in the new dispensation. This being the case, the Congress leadership should have been able to take advantage of this sentiment to push through its agenda. Indeed, though this has been lost in the historiography of India, the sheer size and scope of the postwar labor upsurge did, for a period, intimidate the bourgeoisie enough for it to ask unions for a “truce,” in exchange for which it acceded to a series of far-reaching concessions on economic matters.⁹⁵ So there was not only a social base for reigning in domestic capital, but it was sufficiently powerful for the latter to take note.

But instead of using this movement as a battering ram against the unified business class, the Indian National Congress chose to *split* the movement by creating a new union federation, and then *demobilized* it. This was premised on the Congress High Command's own antipathy to labor as an independent political force. Throughout its history, the or-

ganization had maintained a discreet distance from the growing working-class movement in the cities. At best, the top leadership's attitude toward it was of an Olympian paternalism and, at worst, one of outright suspicion and hostility. Elements in the Congress did call for a closer relationship with unions—mainly the Congress Socialists led by Jayprakash Narain—but their calls went unheeded and, indeed, were part of the reason why the Socialists bolted from the party in 1948. So instead of riding the crest of the union movement, the Congress High Command reacted to the escalation of class conflict in the postwar years by strengthening its alliance with *capital* and demobilizing *labor*. This was partly brought about by its basic antipathy to the movement; it was also occasioned, however, by its own confidence that, indeed, there was a basis for an alliance with domestic business around state-led industrialization. But as I argued in Thesis 1 and will show in detail in chapter 6, this was a fatal misreading of the situation, for business had no intention of cooperating. With the labor movement excluded from the political scene, the supporters of planning in the Congress found their hand greatly weakened relative to the forces lined up against the agenda. The Congress slid more deeply into a strategy of making concession after concession to business demands in the hope of placating Indian industrialists, a strategy that failed spectacularly. Thus the Indian planners attempted to appease the capitalist class, in a situation where they needed to usurp their autonomy from it.

LOCKED IN PLACE: THE REPRODUCTION OF THE STATE

The outcome of the initial critical years after Independence in India was the installation of a regime that was, as Peter Evans has correctly observed, in the middling range of developmental states. The arguments adduced in the preceding pages go some way toward explaining this outcome. What we have not yet understood, however, is why these institutions *persisted*, despite their obvious failings. Why did political elites not reform the institutions in the appropriate direction, given that they were committed to fostering economic development? One answer, which is rarely made explicitly, is that institutions reproduce themselves through a kind of inertial dynamic—once in place, they generate a momentum that makes it too costly to remove them, or perhaps clouds the availability of alternatives. But while it is true that institutional change has costs, so does the reproduction of *useless* institutions. That the latter nonetheless remain in place must be seen as a choice state managers make *between* two costs, and hence not part of an inertial process. Nor is it plausible to suggest that the dust thrown up by existing institu-

tions—perhaps in the form of roles and expectations that sustain them normatively—obscures the availability of alternatives. This may be valid for some institutions, but it is not convincing in the case of those overseeing economic planning. There are clear benchmarks for failure and success in this field, against which planners constantly weigh their own performance, and which therefore make failure something that is difficult to miss. Further, the variety of institutions in the world is something that is visible, and even studied, by all bureaucracies. A kind of menu of options is constantly available.

A more plausible alternative is the idea that states remain in place as an outcome of power relations. Once institutions are in place, agents coalesce around them, as the reproduction of the former becomes a condition for the welfare of the latter. And this may be a condition that obtains within the state as well as without. I suggest that the Indian experience be understood along these lines, but with a twist. The analysis thus far has operated at two levels: one is the structural level, at which I have investigated the relation between accumulation models and capitalist class interests vis-à-vis the state; the second is the institutional level, which has to do with the internal structure of the state. I have tried to show that the process of institution building was heavily affected by the orientation of the capitalist class and that this orientation, in turn, was conditioned by the accumulation strategy each country adopted. To be complete, the analysis of the state's immutability, once in place, ought also to operate at both levels, not simply the institutional.

By the 1960s state managers knew that the institutions of planning were not functioning as originally intended. There could have been two routes to reform, each resting at a different level: the first option would have been to change the orientation of the business class, making it more amenable to discipline. The most obvious route to this would be changing their investment strategy, from domestically based to export-oriented. Failing this, the second option would be to overhaul the state itself, so that the economic apparatus would be up to the task of monitoring and disciplining capital, even within an ISI strategy.

I show that both strategies were tried, and both failed. Starting in the early 1960s the Indian state installed a series of export-promotion measures to encourage firms to ease pressures on the external sector and induce greater efficiency. But it met with little success, for two basic reasons: first, without an entree into world markets, of the sort the Koreans received from Japan, Indian firms were hesitant to take the plunge; indeed, the foreign investment that did come into the country often *forbade* local partners from exporting their products. These investments were typically made by American and British multinationals,

which differed in this respect from the Japanese firms that went into Korea—whereas the latter were interested in using their host country (Korea) as a springboard for exports, Western multinational corporations (MNCs) were mainly interested in their host country's internal market. The lack of easy access to foreign markets was made all the more significant as long as domestic markets continued to offer easy profits. Second, the fractured and uncoordinated nature of the state itself made its efforts to subsidize exports quite ineffective, and hence made the credibility of its overall export promotion program suffer. Credits and subsidies were neither effectively coordinated with existing taxes and surcharges that exporting firms paid nor were they effectively disbursed. This compounded the problem of the firms' own resistance to exporting.

A second route would have been to initiate reform at the level of the state itself, to make the planning apparatus more capable of disciplining capital. Now, even had such reforms been successful, it is highly unlikely that they would have resulted in an industrial policy as successful as that in Korea, since Indian firms would still have had more incentive than Korean firms to ignore policy signals. But it was a moot issue. Once the window for reforms opened, the legacy of past failure once again meshed with the dilemma of the current juncture. The central outcome of the struggles of 1947–51 had been the installation of a Planning Commission that had little power to implement its own plans. As a secular trend, the weakness of the planning agencies served to gradually erode their legitimacy within the state. The Planning Commission came to be identified with ineffectual red tape and bureaucratic hurdles, rather than with policy success. This gave its rivals within the state greater power to block any moves to increase its control over plan implementation; the agenda for reform was thus tilted *away* from giving planners greater power over capital, and *toward* granting capital greater freedom from the state.

There was thus little chance that a call would come from within the bureaucracy and political elites to give the planning agencies greater power. Rather, the call that was issued was to radically reduce the scope of planning itself, a tacit recognition of the ineffectiveness of the whole enterprise. The only remaining chance for a turn to a Korea-style state apparatus came with the installation of the new prime minister Indira Gandhi in 1966. But unlike Park Chung-Hee in Korea, Gandhi was in no position to overhaul the state apparatus: having little organizational base within her party and with few political allies, Gandhi turned, instead, to stabilizing her base within and without the state. And one of the conditions of this was sidelining the Planning Commission to the periphery of the economic state apparatus.

The end result was that, as India entered the 1970s, the “reform” impulse had spent itself, and the institutional structures of the state were even more enfeebled. Although the state continued to implement industrial policy and churn out five-year plans, its capacity to implement them was even weaker than in the preceding decade. The state had become locked in place.