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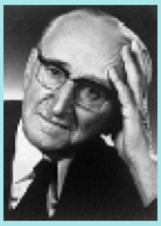



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Independent organizations in authoritarian regimes: contradiction in terms or an effective instrument of developmental states

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Abstract

This contribution explores the importance of independent organizations in authoritarian regimes. While some authoritarian governments delegate policy tasks to (relatively) autonomous agencies simply in order to improve their domestic or international image as modern political leaders or to build up democratic facades to conceal the actual nature of their regime, other political leaders do so in order to make their genuine commitment to economic growth and development more credible. This relates to the central questions of this paper: Why do political elites in authoritarian regimes craft, or accept the emergence of, (relatively) independent organizations? Which specific forms and functions of these organizations can be identified? The main observation of this paper is that authoritarian governments of so-called developmental states have effectively used (relatively) independent organizations in order to implement market-oriented reforms, to improve private-sector coordination, and to foster economic growth and development in the long run.

Keywords:

Political Economy of Authoritarianism, Governance of State Capitalist Systems

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Independent organizations in authoritarian regimes:

contradiction in terms or an effective instrument of developmental states?[1]

1. Introduction

Politically independent organizations which assume specific tasks in public policy-making have played important roles in advanced democratic market economies. Despite the possible issue oflacking democratic legitimation, independent organizations such as central banks, courts, regulatory and anti-trust agencies among others are considered essential actors which operate autonomously and help to depoliticize the fulfilment of distinct public tasks. This implies that these agencies maybe relatively effectively shielded against opportunistic behavior of politicians, political parties or factions in the government. In addition, they are usually also well protected against the influence of pressure groups and private interests. Political independence helps to reduce rent seeking and lobbying and may enhance the credibility of authorities because unexpected and sudden policy shifts serving narrow interests or according to changing political fads and fashions are avoided.[2] This, in turn, makes public policymaking more predictable and transparent, helps to stabilize the expectations of households and companies, and eventually improves the institutional foundation of economic growth and development.

Politically independent organizations would be also conducive to policy reform in les developed countries, transition or emerging market economies all of which rely on sustained and broad-based economic growth and development in order to overcome severe problems associated with under-development. Remarkably, many of these countries possess non-democratic, i.e. authoritarian, regimes ranging from defect democracies to fully institutionalized autocracies. Authoritarian regimes are usually characterized by the restriction or suppression of political participation, the closed and non-competitive recruitment of the executive elite as well as a lack of institutionalized control of the exercise of power.[3]

At first sight, the notion of independent organizations which influence or monitor *economic* policymaking in authoritarian regimes may appear as a contradiction in terms. Moustafa and Ginsburg (2009: 12), however, argue with respect to judicial organizations that “(t)he decision to accord autonomy to courts depends on the particular configuration of challenges faced byauthoritarian regimes, but in an astonishing array of circumstances, limited autonomy makes sense [from the authorities’ perspective; JA

[1] This article is a slightly modified and translated reprint from our contribution in Theurl (ed.) (2013).
[2] See Kruse (2012) as well as Heine and Mause (2012) for a comprehensive discussion of these aspects.
[3] See Albrecht and Frankenberger (2011) who also discuss different definitions and types of authoritarian regimes and various approaches to measure the extent of autocracy.

and MS]". One may add that this observation also holds for non-judicial organizations if the granted degree of independence is in the interest of the ruling elite.[4]

While some authoritarian governments may delegate particular policy tasks to (relatively) autonomous agencies simply in order to improve their domestic or international image as modern political leaders or to build up democratic facades to conceal the actual nature of their regime, other political leaders may in fact do so in order to make their genuine commitment to economic growth and development more credible. This relates to the central questions of this paper: Why do political elites in authoritarian regimes craft, or accept the emergence of, (relatively) independent organizations? Which specific forms and functions of these organizations can be identified? The main observation of this paper is that authoritarian governments of so-called *developmental states* have effectively used (relatively) independent organizations in order to implement market-oriented reforms, to improve private-sector coordination, and to foster economic growth and development in the long run.

The following considerations aim at explaining and illustrating this finding. The next section introduces the notion of the developmental state, its characteristics and institutional foundation. Section 3 suggests various realms in which independent organizations may exert essential functions and illustrates the arguments with distinct country examples. Section 4 concludes.

2. Characteristics and institutional underpinnings of developmental states

The emergence of the developmental-state concept

Effective market-oriented policy reform and sustained economic growth-cum-development require a government which is strong, i.e. capable of formulating and implementing reform policies, protect property rights, and enforce the rules of market exchange.[5] Within a non-democratic context, such "capable states" (World Bank, 1997) do not frequently occur. In the political-economy literature, the notion of a non-democratic, though capable state is often associated with the concept of the so-called *capitalist developmental state*. The term is due to Johnson (1982), who distinguished a developmental state from both classical market-type economies on the one hand and centrally planned economies on the other. While he conceived the Socialist command economies to act in a plan-ideological way and the Western (regulatory) market economies to act market-rational, he suggested that a developmental state is best described as plan-rational (Johnson, 1982: 18).

The developmental-state concept was inductively developed reflecting the experiences of the fast-growing economies of Japan (especially since the post-war era) as well as South Korea and Taiwan (since the 1960s) in order to emphasize the differences between the market economies in the West, in particular the United States and the United Kingdom, and those in North East Asia (Johnson 1999). At later stages, countries such as Singapore, Malaysia, Indonesia, Thailand, and more recently, China have been considered developmental states.[6] This classification reflects the over-

[4] See, e.g., North et al. (2009), Li and Lian (1999), and Stark (2012).

[5] This section draws from Ahrens (2002).

[6] See, e.g., Sasada (2013), Song (2009), and Beeson (2009). Note, however, that the concept of the developmental state has not been exclusively applied to North East Asia. See, e.g., Bardhan (2010) for an application to India, Meyns and Musamba (2010) with a view on Africa, the contributions in Woo-Cumings (1999) for applications to India as well as to Latin American and European countries as

all growth performance of these and other countries in the second half of the twentieth century. It showed that seven of the ten fastest growing countries belonged to the group of high-performing Asian economies which had been labeled developmental states (Table 1). Malaysia and Indonesia had been ranked 20th and 28th, respectively.

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

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

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

Remarkably, these East Asian economies did not only outperform most other countries in terms of economic growth, they also realized declining poverty rates over time, improved income distribution, and achieved social progress. What is more, most growth processes appeared to be steady with relatively weak volatilities and quick recoveries after recessions. Finally, policiespursued in these countries were non-orthodox and contradicted those recommendations which later should become known as the so-called Washington Consensus.

Developmental states and authoritarian regimes

Not by definition, but by actual politico-economic records, most developmental states have been (at least initially) authoritarian regimes.[7] South Korea was under the control of different regimes with a varying degree of legitimacy from the end of the Korean War in 1953 until its democratization in 1987. Essentially, the dictatorial regimes of Syngman Rhee (1950–1960) and General Park Chung- Hee (1962–1979) dominated this period. The rule of Park Chung-Hee marked the beginning of the fast economic growth period. The Park era is usually portrayed as the crucial developmental-state period in South Korea (Minns 2001). In Taiwan, the Kuomintang (KMT), which was disposed from mainland China in the Chinese civil war against the Communist Party in 1949, ruled in a single-party system until the 1980s. Until his death in 1975, the KMT and Taiwan were controlled by Generalissimo Chiang Kai-Shek. Thereafter, the most prominent political figure was his son Chiang Ching-Kuo who died in office

well as a more recent survey by Beeson (2007).

[7] The following arguments are essentially taken from Stark (2010).

in 1988 (Wade, 1990:70–71). As in South Korea, the unions and the labor movement in general were repressed by the regime (Thompson, 1996: 632–633).

While democratization took place in both Taiwan and South Korea at the end of the 1980s, other high performing East Asian economies like Singapore, Malaysia, and the People's Republic of China are still governed by authoritarian regimes today. In contrast, the archetype of the developmental state, Japan, stands out in several ways. Japan had an authoritarian regime from the beginning of its industrialization in 1868 until the end of the Second World War, but it has been a democracy since the post-war period. However, it should be noted that all prime ministers of Japan have been members the LDP (Liberal-Democratic Party) since the foundation of this party in 1955, with the sole exception of a short period from 1993–1996.

The prevalence of authoritarian regimes in developmental states had fueled the debate on the relationship between regime-type and growth (for a discussion of this topic see, e.g., Thompson (1996). There is no common agreement on this question. Nevertheless, it is widely accepted that a developmental state has to be 'strong' in order to avoid the rent-seeking pressures typical for less developed countries (Cheng et al. 1998: 88). Furthermore, Haggard (2004: 60) argued that the ability to make credible commitments concerning economic and particularly industrial policy objectives was an important success factor for the East Asian economies. Such long-term commitments are hardly possible in an environment of frequent government changes. In the Japanese democracy, continuity in economic policy was not only guaranteed by the dominant role of a single party but also by the powerful role of bureaucrats, who have been employees of the ministries and thus not directly affected by political elections.

Characteristics of developmental states

Chang (1999: 192) calls a state developmental if it "can create and regulate the economic and political relationships that can support sustained industrialization (...) [and if it; JA and MS] takes the goals of long-term growth and structural change seriously, 'politically' manages the economy to ease the conflicts inevitable during the process of such change (but with a firm eye on the long-term goals), and engages in institutional adaptation and innovation to achieve those goals."

The concrete features of developmental states differ across countries and change through time. But essentially the main characteristics include[8]:

(1) a political leadership with a firm commitment to foster sustained and broad-based economic growth;

(2) stable political rule ensured by a sufficiently autonomous political-administrative elite that is staffed with the best available managerial talent and that does not accede to political pressures which could impede economic growth;

(3) cooperation between the public and the private sector that is guided by a pilot economic planning agency;

(4) continuous investment in universal education and policies aiming at a more equitable distribution of opportunities and wealth; and

(5) a government, whose members understand the need for market-conforming policies and interventions.

[8] See, e.g., Chang (1999), Johnson (1987 and 1999), and Stark (2012).

Autonomy of the economic bureaucracy

A key aspect of an ideal-type developmental state is to ensure autonomy of the economic bureaucracy as well as the political elite who are in charge of strategy formulation, actual decision making, and policy implementation. The challenge is to avoid a situation in which policy makers become captured by organizations or individuals who represent influential private business. In order to prevent vested interests from colluding with state officials, institutional arrangements, policy makers' access to financial means, as well as the sources of their political power may play an important role. The fewer funds are provided to the public sector by private actors, the easier it is to ensure the autonomy of policy makers from private interests. The independence of the *economic* bureaucracy is at least equally important. In order to achieve sustainable market-based growth, economic policy must be consistent, show a long-term focus, and exhibit complementary policy instruments. While this holds true for public policy making in general; it is even more essential if a government intends to implement more selective industrial policies. For that reason, authorities with the vision to implement a long-term development strategy need to depoliticize economic decision making. That is why adherents to the idea of the developmental state consider bureaucratic autonomy from social entanglements as a constituent characteristic of developmental states. In these states, depoliticization is facilitated through a separation of reigning and ruling actors. While politicians determine broad policy goals and protect the public administration from vested interests, the bureaucrats are in charge of planning and implementing policies and guiding the economy. Moreover, as Pempel (1999: 160) notes, "technocrats and bureaucrats enjoy disproportionately high levels of power and wield a variety of tools to enforce their will. State actors are also relatively free from major populist pressures, most especially from organized labor and organized peasants."

The organization of, and the incentives for civil servants within, the public sector crucially affect the developmental outcomes of public policies.[9] To varying degrees across countries and through time, economic, institutional, and policy reforms in East Asian developmental states relied on the establishment of an economic administration which exhibited key characteristics of a Weberian-type bureaucracy and was able to implement overall macroeconomic policies, enforce private property rights, and autonomously conduct industrial policy measures. Max Weber (1972/1921) proposed a powerful approach to strengthen a state's internal organization, i.e., ist capacity to foster market development and economic growth. He suggested that efficient market operations require high degrees of calculability driven by legal rationality. In this framework, the public administration is a central and powerful tool in order to craft a functioning, modern market economy. Such an economic bureaucracy is characterized by duties which are defined according to functions. Civil servants are exclusively devoted to administrative tasks, and they are relatively independent of societal pressures. According to Weber, a government's capability of strengthening and complementing market exchange is enhanced if the administration represents a coherent entity and if bureaucrats perceive the pursuit of public-policy objectives as the most appropriate way to improve their individual well-being. An administration showing a corporate identity, which aligns the individual objectives of civil servants with those of the political leadership, must be able to act autonomously, i.e., it needs to be shielded against the pressures of vested (business) interests.

[9] See Campos and Root (1996), Evans (1995), Qian and Weingast (1997), and World Bank (1997).

Bureaucratic professionalism is necessary, but it is not sufficient in order to ensure development-enhancing consequences of economic policies. Further key institutions constituting a Weberian-type bureaucracy comprise the replacement of political appointments or dismissals by performance-based standards in both recruitment and promotion. These standards should be based on impartial and competitive examinations. In addition, civil servants should be provided with adequate opportunities to gain long-term career rewards, and transparent hiring-and-firing rules need to be established. Taken together, all this can improve the expertise in the public administration, help to create commitment, and enhance the effectiveness of administrative action. However, authorities have to give a high priority to education policies in order to generate large numbers of qualified bureaucrats, who will perform well in a meritocratic environment.[10]

Credible developmental commitment

These arguments highlight the importance of crafting a strong state with distinct bureaucratic capabilities. However, even an effective economic bureaucracy will produce developmental improvements only if public announcements, political promises, and administrative actions of civil servants and policy makers are conceived to be credible. This insight reveals a weak point in the concept of a strong developmental state. In order to enhance its political credibility, a reform- oriented government of such a developmental state needs to show and document its commitment to long-term economic development, e.g., through particular public investments in the public education or health sector. Moreover, it can open up the economy and expose itself to the international competition between governments for mobile resources, or it may join international organizations (like the WTO or the IMF) and thereby constrain its available policy options at least in distinct realms of policy making. Such policy decisions, in combination with a relatively autonomous and competent economic bureaucracy, can help to enhance the government's ability to deliver according to its prior policy announcements. But if there is a lack of such institutional safeguards, which bind the government to its promises, a convincing credible commitment will not be achieved. Development-enhancing consequences of economic reform policies are unlikely if the political leadership lacks legitimacy and does not show an encompassing interest in economic and social development. In such a case, the structural features of a so-called developmental state can be easily abused through arbitrary and discretionary government action. Then, a would-be- developmental state may become a predatory state.

Government-business interface

Besides a meritocratic economic administration, distinct government-business interfaces have been typical for developmental states. Relations between government and the economic bureaucracy on the one hand and the private sector on the other hand differed across countries, but in almost all countries these relations were formally or informally institutionalized and linked a relatively autonomous public administration to the private sector. This allowed for channels to exchange information and to better plan, communicate, and implement economic policies. This institutional fabric, which Evans (1995 and 1998) dubbed *embedded autonomy*, established a participatory mechanism for major private businesses in policymaking processes (World

[10] See, e.g., Root (1996 and 1998) Ahrens (2002), Stark (2012).

Bank 1993; Evans 1998). The institutionalized exchange of information between private sector representatives and public agencies enabled the bureaucracy and the political leadership to gather information on the condition of the economy, the situation of private businesses, and new trends in technology. Moreover, feedback on the effects of existing regulations and previously implemented economic policies could be gathered (Root 1998; World Bank 1993). This way, businesses had notable influence on the formulation of new policies. Furthermore, the flow of information also goes from the state to the private sector. This was crucial for the effective implementation of policies (Evans, 1998) and increased the credibility of the state's commitment to these policies (Root 1996; Stiglitz, 1996). In the East Asian developmental states, the continuous interaction between economic bureaucracy and private business was a precondition for the implementation of what Evans (1998: 75) has called the "support/performance bargain". This means that the state apparatus on the one hand supported specific companies and industries through subsidies and similar measures. On the other hand, the impact of these measures and the performance of supported companies was closely monitored (Amsden 1995: 795).

The actual organization of government-business ties has varied among the high-performing Asian economies (Evans 1998: 76). An essential mechanism in the state-business interface of several developmental states were credible intermediary organizations such as autonomous business associations which served to share information between companies and the state and mediated in case of conflicts (Root 1998: 69). In addition, deliberation councils, which brought together bureaucrats of specific agencies and private industry, were frequently emphasized in the research on East Asian institutions.[11] These councils were of major importance in Japan and South Korea and were also emulated to a certain degree in Malaysia beginning in the mid-1980s (World Bank 1993: 181–184). Taiwan and Singapore used different channels of communication. In Singapore, private citizens reviewed government policies and commented on them by serving as directors of government statutory boards and as members of ad hoc advisory boards (World Bank 1993: 184). In contrast to other countries, formal connections between government and business were much less prominent in Taiwan (World Bank 1993; Evans 1998). However, the high importance of state- owned companies in the Taiwanese economy resulted in a considerable influence of the state on the smaller companies of the private sector (World Bank 1993). Furthermore, periodic large-scale conferences that brought together economic policy makers, business leaders and academics had been held (Evans 1998). Proponents of the *market-enhancing view* stressed the importance of banks and credit markets as intermediaries between East Asian governments and the private sector. According to Aoki et al. (1997: 8–11), state interventions in the financial sector that credibly signaled government's commitment to sustainable economic growth fostered banks' long-term orientation. This increased their willingness to invest in information-gathering, give long-term credits and to carefully monitor their debtors.

The capability and organization of the bureaucracy, as well as the functioning of the state- business interface, differed between the East Asian developmental states and their less successful counterparts in Southeast Asia. As summarized by Doner et al. (2005: 334–336), elements of the ideal-type of a meritocratic bureaucracy, which had close ties to the private sector and whose economic policies were coordinated by a pilot agency, were largely present in South Korea, Taiwan, and Singapore, but only to a limited degree in Malaysia and Thailand and even less in Indonesia. Similar differences were found in the sphere of the state-business nexus. While public- private

[11] See, e.g., Root (1998: 69–70), Stiglitz (1996: 164), and Evans (1998: 75–76).

collaboration was governed by transparent rules in South Korea, Taiwan, and Singapore, the transparency of rules was much lower in the other Southeast Asian economies (Doner et al. 2005: 335).

In the course of time, bureaucratic agencies of developmental states did not always act entirely independently of other interest groups. Private companies striving for less state control over the economy found allies within the bureaucracy, as did politicians willing to respond to foreign pressures for more liberalization. As a consequence of bureaucratic competition for influence, agencies faced a constant need to justify their actions and policies. This need for justification was an important reason why state action was overall rational, as argued by Johnson (1982: 18), and adaptive, as stressed by Root (1996: 15–16). The presence of agencies in favor of a more liberal approach to economic policy represented a potential threat to the power of economic planners and, therefore, increased their incentive to prove the viability of state interventions.[12]

Strong but limited states due to institution building and exogenous constraints

Many accounts on the developmental state characterize it as autonomous or strong, meaning that a developmental state is supposedly able to act largely independently of special interest groups and override the power of such groups to act in the national interest (Leftwich 1995: 408). Root (1996) complemented this notion by arguing that East Asian developmental states were not only strong, but also limited, which distinguished them from most other states in the developing world. The East Asian states were strong in the sense that they possessed institutional arrangements that enabled them to resist the pressures of narrow interests, to reduce rent seeking, lobbying, and corruption. They were limited in the sense that the power of governments and the bureaucracy was constrained by exogenous factors, binding rules, and credible commitments (Root 1996: 141–143). A meritocratic, autonomous, public bureaucracy along with close and transparent ties between the state and private companies were important institutional foundations of such a state. From this perspective, the stability and transparency of the consultative mechanisms involved in the process of policy making in East Asia also served to tie the regime’s hands to policies once they had been chosen (Root 1998: 69).

But why did authoritarian rulers themselves decide to tie their own hands and to develop a firm, long-term commitment to pursue a broad-based growth strategy with an encompassing national interest? Moustafa and Ginsburg (2009: 9) argue that shared economic growth could threaten the coalition of ruling elites in many regimes. Particularly, authoritarian leaderships in resource-rich countries such as Saudi Arabia may not see the necessity to establish legal norms or other institutional mechanisms to attract investment and to foster growth. Instead, authorities may prefer narrow bases to finance the regime. In such cases, the perceived costs of granting autonomy to organizations in the administrative or judicial realm may outweigh the expected benefits. Therefore, authorities would be better off if they apply other mechanisms in order secure their regime.

In so-called developmental states, the cost-benefit ratio of pursuing long-term and broad-based growth and granting some independence to judicial, administrative, or

[12] One instructive example is the case of Taiwan, where the interventionist Industrial Development Board (IDB) competed for influence with the more liberal Council for Economic Planning and Development (CEPD).

economic organizations may have been just the opposite. A crucial reason for this lies in *exogenous constraints* for the ruling elites which shaped the incentives of the political leadership, limited the set of feasible policy choices and eventually the power of political and bureaucratic actors in East Asia (Doner et al. 2005; Woo-Cumings 1998).[13]

The abolishment of the feudal regime of the Shogun and the beginning of rapid modernization in Japan occurred to a large degree as a reaction to the perceived threat to become colonized or at least economically exploited by Western powers. In a country that had been sealing itself from foreign influences for centuries, it was this eminent external threat that lead to a fast adaptation of western technology, laws and customs. Even in the post-war period, it was a perceived backwardness vis-à- vis the western countries that drove the majority of Japanese politicians and bureaucrats to give a clear priority to economic development (Stark 2012).

Notably, most other East Asian developmental states had been subject to similar threats or constraints at the beginning of their economic development (Haggard 2004: 60; Ahrens 2002: 210). In the case of South Korea, North Korea had been a permanent and serious threat to the autonomy and existence of the country. For Taiwan and, to a lesser degree, for Hong Kong, a similar threat came from the People's Republic of China, which never dropped its claims to either of these de facto sovereign entities. The resource-poor city state of Singapore had been part of Malaysia prior to its independence in 1965. In addition to the external threats, the fact that neither Japan nor the other early developmental states had noteworthy natural resources forced their governments to pursue market-based reform and economic development.

The prevalence of serious external threats in combination with the lack of easily disposable revenues can be considered a major reason why industrialization and catching up with the advanced economies were considered the only feasible option by East Asian authorities. Both conditions can be interpreted as constraints which limited the options available to the relevant authorities. The external threats also made the commitment of the government to economic development credible for the private sector, which was a precondition for the willingness of companies to undertake entrepreneurial risks (Root 1996; Stark 2010).

On the positive side, Taiwan and South Korea, in the immediate post-war period also Japan, received substantial financial aid from the United States. This gave the authorities in those countries free access to noteworthy financial resources; however, there was always an eminent danger that these resources could have been withdrawn quickly in the case of obvious unjustified enrichment by the political elite. Furthermore, and probably even more important, the high performing East Asian nations had free access to important western markets, which proved to be a key factor for the success of their export-led economic strategy. In addition, the specific political circumstances of the Cold War and the privileged relationship that South Korea, Taiwan and Japan enjoyed with the United States in the post-war period enabled them to export to foreign markets while protecting domestic companies in infant industries from foreign competition and hostile takeovers (Amsden 1991).

[13] Moreover, political leaderships faced increasingly long time horizons of their regime, e.g., due to external protection through the United States, but also, in the course of time, due to continuous economic success, initiated through state activism, and political stability which strengthened the regimes' legitimacy and authorities' commitment to further economic development.

Another exogenous factor which contributed to the emergence of developmental states in South Korea and Taiwan was Japan's colonial legacy in both countries. While Japanese colonial rule in Korea was oppressive and ruthless, it was also credited for boosting agricultural production, starting industrialization, building a cohesive bureaucracy and constructing centralized, coercive institutions. Furthermore, the colonial rule left both countries with a significantly improved infrastructure and a major accumulation of physical and human capital (Kohli 1999 and 2004).

3. The role of (relatively) independent organizations in developmental states

Political economists use to emphasize the importance of political independence of certain public agencies which are delegated to pursue distinct tasks. The foregoing considerations emphasized that independent organizations can and have played important roles even in authoritarian developmental states. The subsequent sections identify the realms in which independent organizations have existed in these states and give country-specific examples.

3.1 Forms and realms of independence in developmental states

Political independence of public agencies usually implies (i) the absence of any authority of an individual politician, government factions or other political bodies to give directives to these agencies and (ii) incentive structures of members of these independent organizations which are not influenced by the interests of politicians or political bodies (Kruse 2012). In our context of developmental states, we extend the notion of independence and also include two further categories: economic independence and business independence. *Economic independence* implies that distinct public organizations are not only independent of political influence, but that they are neither subject to rent seeking and lobbying from business associations or private pressure groups. Finally, *business independence* entails that private sector organizations are not subject to arbitrary political interference and that private businesses can freely thrive within the given legal and regulatory environment. All three forms of independence deserve particular attention in the institutional setup of developmental states: political independence, because the political leadership is basically strong enough to influence or directly steer (parts of) the economic bureaucracy or other public agencies; business independence, because authorities are usually strong enough to transgress against private actors' rights; and economic independence, because interventionist and selective government policies usually create numerous opportunities for lobbying and rent seeking which, if pursued excessively and uncontrolled, would undermine authorities efforts to foster overall growth and development.

Why may authoritarian governments be actually willing to grant (some) independence to public agencies, courts, or other organizations? Moustafa and Ginsburg (2009) provide some arguments with respect to the establishment of relatively independent courts. Considering the experiences of developmental states, some of their considerations may also hold for granting different degrees of autonomy to other organizations.

At first sight, one may reckon that authoritarian governments would prefer possibly opaque institutions which allow elites to amass rents and increase their private wealth through the exploitation of domestic or foreign investors who would depend on officials and other members of the political elite for protecting their investments (Root and May 2009). In cases, in which such governments grant or maintain independence of judicial or other organizations, this may simply serve as a de jure (not de facto) act to enhance the regime's legitimacy and to create an image that they seek to constrain arbitrary rule. In reality, numerous authoritarian governments have pursued exactly such an approach. However, the empirical reality also provides examples which contradict that conventional wisdom (Moustafa and Ginsburg 2009).

In fact, authoritarian government may have an interest in crafting predictable, transparent, and even accountable public organizations, procedures, and policies in order to foster economic growth and development. The precondition for that is that the political leadership relies on, and has developed a commitment to, these economic objectives, and the side condition is that the leadership's political power is not being compromised. Root and May (2009), e.g., argue that an automatic connection between strengthening the independence of courts and liberalizing the political order does not necessarily exist. They add that crafting independent rule-based organizations including a court system helps to restrict executive discretion. This, however, will not necessarily weaken the political regime, but rather contribute to craft a stable institutional framework that ensures the longevity of the regime.

A nexus of relatively independent organizations helps to build a rule of law for elites which may become an effective, accepted, and low-cost tool for intra-elite conflict resolution. This also holds for business elites, on which governments rely for investments and the support of economic growth policies. Governments can make their promise credible not to interfere arbitrarily into private business by establishing a neutral and autonomous organization which monitors and punishes transgressions against private property rights.

Furthermore, Root and May (2009: 307) identify three managerial dilemmas of authoritarian leaders which could be effectively dealt with through the establishment of a relatively independent system of courts and possibly other organizations. In their words:

"Authoritarians face three peculiar managerial dilemmas by virtue of the status of the head of state as 'above the law.' That status limits the effectiveness of the state and its institutions because it implies the primacy of discretion over rules. Building a court system (…) can actually help establish a stable framework for regime longevity. First, autocrats require investment and therefore must create a legal system to facilitate transactions. Second, they need to enhance revenue collection and credit; therefore, they need a legal framework that holds financial intermediaries accountable for their private debts and for dealing equitably with citizens. Third, they need to ferret out disobedience and noncompliance by subordinates; a legal system that discloses the abuses of officials enhances the leader's renown and ensures greater compliance from citizens. Administrative courts can make the state's administrative apparatus work more smoothly to ensure that information about performance and malfeasance is uncovered. Improved loyalty of administrative personnel is thereby attained as well as a more contented populace."

Crafting independent organizations has been an effective strategy in authoritarian regimes in order to ensure enduring and credible economic policies. Autonomous central banks, courts, or securities regulation agencies represent important elements of such an approach. Independence in those realms helps to ensure that government's promises are credible and also that it will not renege on its promise at a later stage. Autonomous courts, e.g., provide the possibility that private investors challenge public policy measures and government decisions, thereby making it more costly for government to interfere with economic transactions. In addition, ‘autonomous’ judicial organizations, if they are in charge of addressing controversial economic reform issue, may serve as effective devices, e.g., for a reform-minded and growth-oriented government to promote, legitimize, and enforce badly needed institutional and policy reforms in formerly populist regimes. As Moustafa and Ginsburg (2009: 10) argue: “Authoritarian rules in these contexts are sensitive to the risks of retreating from prior state commitments to subsidized goods and services, state-owned enterprises, commitments to full employment, and broad pledges to labor rights generally. They rightly fear popular backlash or elite-level splits if they renege on policies that previously formed the ideological basis of their rule.”

The incentive for authorities to grant important functions to (relatively) independents courts may be strengthened and reinforced if the country is exposed to, and dependent on, international trade and capital flows and if it is a member of international organizations. “The WTO regime explicitly requires states to provide judicial or quasi-judicial institutions in trade-related arenas; a network of bilateral investment treaties promises neutral dispute resolution to reassure investors; and multilateral institutions such as the World Bank (…) expend vast resources to promote judicial reform designed to make legal institutions more effective, efficient, and predictable” (Moustafa and Ginsburg 2009: 9).

Last but not least, (relatively) independent organizations can help to strengthen the regime’s legitimacy through tying the government’s hands. If governments comply with these self-imposed limits on their power, they may develop a reputation for delivering on their promises and thereby strengthen their credibility and societal acceptance.

Given their exogenous constraints and their firm commitment to long-term, broad-based economic growth and development, political leaderships in developmental states faced distinct incentives to craft relatively independent public organizations, at times to accept the emergence of comparatively autonomous political jurisdictions, and increasingly to tolerate the emergence of autonomous business actors. Independent economic actors were seen as an unalterable prerequisite for a flourishing market economy and for private businesses which were willing to invest in long- term projects thereby laying the basis for economic growth. Long-term and broad-based growth had been seen in all countries as a foundation for regime survival and (in the absence of democratic input legitimation) as a justification of the leaderships continual rule through the accomplishment of economic and social objectives such as growth, a more equal income distribution, less poverty, and generally improving living standards.

Relatively independent organizations can be identified in the public as well as in the private realms of developmental states. As will be illustrated in the following section, forms of relatively independent organizations have existed in the economic administration, in economic pilot agencies and individual ministries, in subnational governments, and in courts. In some developmental states, the organizations of the government-business interface such as deliberation councils and business associations have played crucial roles and proved to operate relatively autonomously. In the private sector, (relatively) autonomous organizations have included private businesses and private intermediary organizations.

As a consequence, governments needed to accept limits on their own power in order to make their commitment to long-term economic growth credible. These limits were strengthened by granting increasing economic freedom and autonomy to private business, opening up the economy and expose domestic businesses to international competition, and granting a certain degree of independence to public agencies. Hence, independent organizations and competition limited political and economic power and helped to establish strong but limited states; strong in the sense that states could resist pressures of narrow interests; limited because government and bureaucratic powers were constrained by binding rules and credible commitment giving the private sector economic independence.

3.2 Country examples

The following mini-case studies provide snapshot-like examples which illustrate the role of relatively independent organizations and autonomous decision-making in the public realm and the private business sector and their importance for the overall economic performance of individual countries. Thereby, these cases seek to illustrate the context (along general lines) in which these organizations and institutions became effective.

3.2.1 The original developmental states: Japan, South Korea, Taiwan, and Singapore[14]

The economic bureaucracy

An important precondition for the emergence of a capable bureaucracy in the East Asian developmental states was that a strict meritocracy in the recruitment and promotion process for public officials was implemented and enforced. In addition to a transparent recruitment process through highly competitive exams, the generally high prestige of working for the state in East Asia contributed to attracting highly qualified graduates from the best universities. Once hired, these high potentials received an attractive remuneration much closer to salaries of the private sector than in other countries (Root 1996) and usually stayed in public service for most of their professional life, rising through the different ranks and acquiring detailed knowledge about the activities of ministries and agencies. Thus, a significant amount of expert knowledge was accumulated within the bureaucracy (Akyüz et al. 1998; Root 1996).

Another important characteristic of the bureaucracy of East Asian developmental states was their relative freedom from the influence of vested interests. As the World Bank notes in its study on the "East Asian Miracle", economic technocrats in East Asia were able to formulate and implement policies with a minimum of lobbying for special favors from politicians and interest groups (World Bank 1993: 167). In Japan, the Ministry of International Trade and Industry (MITI) is generally believed to have been the most important agency in this respect. MITI had the primary responsibility for economic planning and industrial policy in the catch-up phase of the Japanese economy (Johnson 1982). In the democratic setting of post-war Japan, the powerful position of the bureaucracy was also strengthened because vice-ministers – bureaucrats who had successfully risen in the ranks of a certain ministry up to the highest possible position – often possessed both more support from the lower levels of the hierarchy and more detailed expert knowledge than the minister who officially headed

[14] This section draws from Ahrens (2002) and Stark (2012).

the respective ministry (Johnson 1982). Consequently, it was hard if not impossible for the frequently changing elected governments of Japan and their ministers to induce significant policy changes without the cooperation of the long established high-ranking bureaucrats.

The situation in Taiwan, South Korea and Singapore was different because these countries were ruled by authoritarian regimes for most of their high-growth period. In spite of the authoritarian nature of these regimes, their economic bureaucracies enjoyed a considerable degree of autonomy and influence. Powerful economic agencies similar to MITI existed in Taiwan and South Korea (Cheng et al. 1998: 88–89). In Korea, the most important agency during the rule of Park was the Economic Planning Board (EPB), which accumulated considerable power over other ministries in a process of centralization (Cheng et al. 1998). The importance of the EPB for the Korean developmental state is further evidenced by the fact that its head was awarded the rank of a Deputy Prime Minister, the second highest position in the government hierarchy (Minns 2001). In Taiwan, the Council for Economic Planning and Development (CEPD) and its predecessors, while less powerful than MITI in Japan, were responsible for tasks such as formulating the macroeconomic development plans and administering the substantial financial aid from the USA that the country received in the first years of its high growth (Wade 1990). In Singapore, the autonomy of the bureaucracy was enhanced by codifying its independence from politics. The commitment to keep politics out of the public service went so far that being a member of the dominant People's Action Party (PAP) reduced the likelihood of a bureaucratic appointment (Root, 1996). This strict separation distinguished Singapore even from other East Asian countries such as Taiwan, were KMT membership was rather a benefit for pursuing a career in ministries (Root, 1996).

While it is virtually undisputed that meritocracy and bureaucratic autonomy were necessary conditions for the emergence of a public service that supported a developmental state, there is considerable evidence that these conditions were not sufficient. This becomes clear through an analysis of India, which has been characterized as a "failed developmental state" (Herring 1999). The recruitment process for the Indian civil service was via nationwide examinations which were at least as competitive as in the successful East Asian developmental States (Evans 1992) and the bureaucracy was powerful enough to lead at least some scholars to the notion that it was actually running the country (Herring 1999: 315). Nevertheless, India's economic performance for most of the 20th century had been far less successful than the rapid growth experienced by Japan, the Asian Tigers or other countries such as Malaysia, Indonesia and Thailand.

One key difference between the bureaucracy in India and its counterparts in East Asia was that entry exams had a very different focus and therefore attracted different applicants to the bureaucracy: While Indian entry exams focused on general knowledge and English skills and therefore attracted humanistically oriented graduates (Evans 1992), the recruitment process in East Asia was rather oriented towards technical and specialized skills. The second key difference is the relationship between the bureaucracy and the society. Evans (1992) argued that while the autonomy of the bureaucracy was necessary to keep its decisions free from vested interests, a solely insulated bureaucracy would lack the capability of relying on decentralized private information and implementation. Therefore, it was necessary that a close connection existed between state and society that enabled the state to stimulate, complement and reinforce entrepreneurship. While states such as South Korea had close ties to parts of the society, which shared their interest in economic development, they were largely absent in India (Evans 1992).

The government-business interface

The ties between the state and society – and in the case of the East Asian developmental states in particular between the state and private businesses – served several closely related purposes. On the one hand, they enabled political authorities to guide private companies towards the national goal of economic catch-up and the chosen development path. On the other hand, they served as a mechanism for the mutual exchange of information. In this way, private businesses had the opportunity to provide feedback on the economic policy determined and implemented by governments and economic bureaucracies. Only the existence of such a feedback cycle enabled developmental states to constantly revise their economic policies and to identify further reform needs (Root 1996).

The degree of the institutionalization of the state-business interface varied even among the most evident examples of East Asian developmental states. Japan's institutions were the most widely recognized and most thorough. Deliberation councils between the government and private industry that were organized along the lines of both different industries and different general economic topics played an important role since the beginning of the postwar period (World Bank 1993). Furthermore, informal institutions existed that improved the mutual understanding between state and business actors and, thus, promoted consensus building. Probably the most apparent of these informal institutions had been the common practice that high-ranking bureaucrats commonly assumed powerful positions in private companies after their retirement (Johnson 1982).

In South Korea, a similar mechanism of deliberation councils was implemented by the Park government. Frequent and regular meetings between the government and business leaders were carried out; in particular the monthly export promotion meetings provided an important communication channel (World Bank 1993). These encounters were based on a set of publicly known rules: it was, e.g., assured that areas of disagreement could be addressed openly and that problems would be discussed in front of all relevant players. In order to assure firms that favoritism for a particular competitor would not take place, the president never held face-to-face meetings with representatives of individual companies (Root, 1996).

An important difference between the state-business relations in Japan and South Korea was the degree of state intervention in the economy. In the democratic setting of Japan, the degree of government control over the private sector varied over time and developed into what Johnson called "administrative guidance" (1982: 318), meaning that the state had a coordinating influence on private companies without exercising coercive power on their strategies. Since the Japanese economy is characterized by large business groups which are each organized around one main bank (the *keiretsu*), the bureaucracy only needed to influence a limited number of decision makers in order to have a significant impact on the economy.

In South Korea, the government was generally perceived to be "more strong handed and dictatorial" (World Bank, 1993). One mechanism that enabled the government to exercise control over the private sector was the nationalization of the banking sector, which took place shortly after Park came into power (Minns, 2001). In this way, the state was able to direct investment to the designated target industries. In Korea, the centralized structure of the political regime in combination with the prevalence of the *chaebol* (large, diversified and commonly family owned business groups) enabled the state to exercise more control over the business sector and to pursue more ambitious industrial policies than in Japan or Taiwan (Akyüz et al., 1998).

The state-business interface in Taiwan differed significantly from both Japan and Korea and is generally considered to have been weaker. Formal mechanisms for the exchange of information were almost entirely lacking (World Bank, 1993). In general, the Taiwanese government kept business in a much more subservient position than in Japan or Korea (Root, 1996). This may have been motivated by the fact that the government prior to the democratization in the late 1980s was made up by members of the KMT, who had fled from mainland China. In contrast, the business sector was dominated by native Taiwanese. The lack of personal ties and trust between these groups caused the Kuomintang government to rely more on public enterprises than was the case in either Korea or Japan (Cheng et al., 1998). As a consequence, one of the largest state-owned sectors of the non-communist world emerged (Wade, 1990; Evans, 1995). Instead of guiding the private sector through subsidies for specific target industries, new industries were generally established by state- owned companies in Taiwan (Wade, 1990). In contrast to South Korea and Japan, the private sector of the economy was not characterized by large diversified business groups but by a large number of small private companies similar to the German *Mittelstand* (Thompson, 1996). The investments of public enterprises into new industries set incentives for complimentary investments by the smaller private companies through signaling the commitment of the political decision makers to economic diversification (Wade, 1990).

Concerning public-private consultation mechanisms, Singapore shared more similarities with Japan and Korea than with Taiwan. Statutory boards that were responsible for monitoring the bureaucrats' performance as well as government advisory committees had private citizens as directors (World Bank 1993), in spite of the strictly authoritarian, single-party political system. The National Wages Council played a very important role for the economy and fulfilled several functions. While its main responsibility was to facilitate bargaining between labor and employers (Root 1996), it also furthered the government's guidance of both business and labor (World Bank 1993). This council was comprised by two secretaries of the concerned ministries as representatives for the government, trade union representatives and business representatives. Interestingly, not only Singaporean companies but also foreign investors from Japan, the USA and Germany were represented in the National Wages Council (Root 1996). This clearly shows one key difference that distinguishes the city-state of Singapore from other developmental states: While the economies of Japan, South Korea and Taiwan relied primarily on domestic companies in their catch-up process, Singapore's economy has been characterized by a significant amount of foreign direct investment of multinational companies since the beginning of its fast growth process (Shin 2005). Silverstein (2009) points to yet another noteworthy aspect by arguing that Singapore appears to prove that an authoritarian government is able to establish an effective system based on the rule of law, which essentially meets the standards of a globalized economy, but does not undermine the authorities' power. Silverstein's (2009: 83) explanation is telling:

"Lee Kuan Yew told Parliament in 1995 that when the government is taken to court by a private individual, 'the court must adjudicate upon the issues strictly on their merits and in accordance with the law. To have it otherwise is to lose (…) our standing and … our status as an investment and financial centre. The interpretation of documents, of contracts in accordance with the law is crucial. Our reputation for the rule of law has been and is a valuable economic asset, part of our capital, although an intangible one' (Singapore Parliamentary Debates, Nov. 2, 1995: col. 236). (…) Singapore therefore presents countries like China with the possibility of an alternative model: while economic reform and prosperity demand the rule of law, the rule of law does not necessarily mean that judicialization – and the expansion of individual rights – necessarily will follow."[15]

3.2.2 A new developmental state? Capitalism, Chinese-style

Chinese transition has been taking place without political democratization. But even in China, a gradual, though far-reaching change of institutions has taken place − a market-induced transformation of the Leninist state (Heilmann 1998) and hence the emergence of a post-socialist transition order. This change entailed substantial alterations of the country's governance structure.

So far, two major phases of economic transition can be distinguished: The first phase (1978– 1993) was characterized by gradual reforms which aimed to realize efficiency gains through reforms of the planned economy. The second phase started with the decision of the Third Plenum of the 14th Party Congress in September 1993 to transform China's economy into a *socialist market economy*. Since then building market institutions and creating a rule-based market economy have become key objectives of transition policymaking.[16]

Political feasibility and legitimacy

From the perspective of Chinese authorities, policy reform and institution building had to yield material benefits for large parts of the population. Even more important than in other developmental states, economic growth and modernization were conceived as the foundation of political power, that gave legitimacy for, and support of, the political monopoly of the Chinese Communist Party (CCP) and its leadership (Gilley 2008). Through the implementation of comprehensive economic reforms, "China's politicized capitalism has evolved a strategy of transition aimed at balancing the interest of reformers to safeguard the power and privileges of the political elite even while instituting reforms that both reduce the scope of state managerial controls over production and distribution and expand the role of the market as a mechanism to motivate and guide economic growth" (Nee and Opper 2006: 3).

Hussain et al. (2000) and Qian (2003) convincingly argued that unorthodox *transitional institutions* turned out to be more effective than presumably best-practice institutional arrangements in a period of economic transition. Especially in China's authoritarian regime, they made market- oriented reforms a viable policy choice, because they helped political authorities maintain power and control and, additionally, opened up ways to make political elites winners of reform. Finally, specific transitional institutions tailored to society's needs, capacities, and capabilities could be much faster developed than best-practice institutions − the latter usually need a long period of time to be crafted and enforced, and in an underdeveloped authoritarian transition

[15] But note in this context the statement by Root and May (2009: 308–309): "The institutions that give Singapore a reputation for clean business practices also enable its leaders to intimidate political opponents."

[16] See Qian (1999). This section draws from Ahrens and Jünemann (2011).

economy, there would be a lack of human capital to operate them. In China, new transitional institutions took advantage of the existing social capital and helped to preserve basic practices and codes of behavior. Evidence shows that transitional institutions served as functional equivalents to first-best institutions, e.g., with respect to creating incentives for doing business, to introduce competition, or to establish control rights over the means of production.

Competition, adaptive efficiency, and institutional innovation

During the first phase of economic transition, reform-minded political authorities developed and maintained their capacity to foster policy and institutional measures promoting market exchange despite increasing corruption and cleavages within the CCP. In the course of time, the central government managed to credibly limit its own power through decentralization, anonymous banking, and increasing openness vis-à-vis other economies. In this context, the incentive compatibility of policymakers at the national and the subnational levels had been of particular importance.

In the absence of the rule of law and private property rights, economic growth could be propelled via increasing competition and distinct *transitional institutions* which proved viable in this particular environment. These institutions were not influenced by theoretical models, but relied rather on innovation and experimentation resulting from and reinforcing the adaptive efficiency of the country's institutional matrix (Qian 1999).

An important step in the early phase of transition was the gradual reform of the agricultural sector through the introduction of the household responsibility system (i.e., a shift from collective to individual production and ownership) and a partial liberalization of certain goods markets. This helped to restore economic incentives, to yield quickly substantial productivity gains, and to develop a nascent, but increasingly flourishing independent private sector at a time when a restructuring of the state sector was off limits especially for ideological reasons. It also increased confidence in market forces and strengthened the support of further reforms at later stages (Lee 1997). Regarding industrial restructuring, China adopted a dual-track approach which allowed to maintain parts of the planned economy for a transition period, until a possibly emerging private sector would have gained sufficient economic strength so that it can absorb surplus labor from heavy industry (Qian 2003). This approach helped to enhance economic efficiency of state-owned enterprises (SOEs), to minimize opposition to economic reforms *ex ante* (due to temporarily protected status-quo rents) and to increase the opposition to reform reversal *ex post* (due to an increasing number of people benefiting from reforms) (Lau et al. 2000). This approach was clearly compatible with a prevailing, potentially market-skeptical political ideology, and it was consistent with a gradual strategy of opening up vis-à-vis the rest of the world.

The household responsibility system and the dual-track approach to industry shifted the focus away from distributional activities and provided incentives for myriads of Chinese to engage in productive activities. As a response, numerous small economic actors emerged as independent dynamic economic entrepreneurs who (in concert) could exert effective influence on market- oriented institution building.

Decentralization, hard budget constraints, and competition

Competition on domestic markets was further strengthened and the power of the central government limited through decentralization and the emergence of a so-called system of market-preserving federalism (MPF), Chinese-style (Montinola et al. 1995). This system provided regional and local governments with relatively hard budget constraints, but also with incentives and means to conduct, largely independently of the central government, their own economic policies and to claim the residuals of so-called Township-Village Enterprises (TVEs), while the central government sought to hinder subnational governments to erect trade barriers and to preserve the common market.

Moreover, decision-making over market entry had been decentralized. This gave a considerableimpetus to sub-central governments to foster the emergence of new collectively-owned and rural companies, the transactions of which were market-based, with output planning fading away. Jurisdictional autonomy in a system of MPF made territorial governments behave as entrepreneurs searching investment opportunities, taking risks, and providing capital at a time when risk markets had been largely underdeveloped (Hussain et al. 2000).

In the 1990s, when genuine private companies still played an insignificant role, TVEs contributed substantially to economic growth. Local governments were capable of protecting TVEs against ideologically motivated anti-private-property programs[17], and it was easier for TVEs to receive bank credits.[18] As TVEs were publicly owned, managers could be monitored and sanctioned by the local government, thus reducing principal-agent problems. But a major precondition for the emergence and success of TVEs was decentralization leading to market-preserving federalism.

This system established a high degree of independence from the central government because it provided local governments with authority over local economic development and gave them the right to retain most of the local tax revenues.[19] But as the ideology against private property rights became less restrictive over time, the advantages of local government ownership were reduced. Consequently, local governments transformed more and more TVEs into individual shareholdings (Che 2002).

Decentralization provided incentives and opportunities for experimentation and economic change without triggering major dislocation (Hussain et al. 2000). Thus, decentralized decision- making units facilitated the quest for development enhancing institutions and solutions to problems of transition and underdevelopment (which differed across regions). To some degree, MPF in combination with TVEs served as functional equivalent to (weak) private property rights and the missing privatization of SOEs. Competition among TVEs, between them and other companies, and between differ-

[17] Che and Qian (1998a and b) argue that local governments were less likely to be expropriated than private owners as the local government used TVE rents for improving the provision of local goods. Thus, the interests between central and local governments were better aligned than the interests between the central government and private owners.

[18] First, banks were exposed to less risk when lending to TVEs as the local government could bear some of the banks' risk due to cross-subsidization among its various TVEs. In addition, the fact that local governments protected the TVE's property reduced default risk. Second, local governments capitalized on their personal relationships to state- owned bank managers; see Qian (1999).

[19] Qian (1999) argues that the local government founded their own business rather than taxed private businesses as it was cheaper to extract rents from the own business. Following the same argument, the central government faced difficulties to take away proceeds from TVEs; in addition, Krug and Hendrischke (2004) argue that a high amount of social capital might have facilitated the emergence of entrepreneurship in China in the absence of secure property rights.

ent jurisdictions fostered the emergence of market-oriented business practices, facilitated market exchange, and yielded efficiency gains in different branches of industry.

External opening up and competition

Another key characteristic of the Chinese transition process has been the gradual opening up of the economy. This did not only relate to foreign trade flows, but also to the attraction of foreign direct investment (FDI) in special economic zones (SEZs), which were considered as a core component of the overall approach to economic reform already in the late 1970s (Nee and Opper 2006). SEZs represented a transitional institution in the sense that a free-trade area or a customs union with third countries may have appeared to be more efficient from a theoretical viewpoint. Since, however, these options were politically not feasible, SEZs served as a feasible way to open up the economy and, in addition, signal the government's commitment to market-oriented reform. This was reinforced, e.g., through public infrastructure investment, low tax rates, and liberal institutions and market rules governing SEZs (Khan 2002). Eventually, SEZs proved to be an appropriate institutional innovation which allowed for economic and institutional experimentation, yet helped authorities to maintain control over the economy and provided them with feedback on the efficacy of public policy measures.

Finally, the gradual opening up of the Chinese economy, increasing its exposure to foreign competition and membership in international organizations helped to incrementally and credibly enhance reform commitment. Particularly WTO accession confirmed the government's commitment to gradually invigorate the rule of law as an additional limiting factor to its power. Moving closer to a rule-based economy, economic institutions have been more consistently enforced during the second period of transition (particularly through the privatization of SOEs and the restructuring of the financial sector). This helped to enhance authorities' credibility and reliability from the viewpoint of economic actors including foreign investors, governments, and international organizations (Ahrens and Mengeringhaus 2006).

Stock-market development

China had performed better than most other transition countries when standard measures for stock market performance are analyzed, even though the country has only slowly developed a legal framework for stock markets and showed a weak law enforcement record (Pistor and Xu 2005). Given this seeming contradiction, there must have been other governance institutions that served as a substitute for the lack of formal law (enforcement) and that were thus complementary to the wider institutional transition context in which the stock market had been embedded. Initially, China had primarily relied on an administrative governance system built around a quota system that relied on the decentralized structure of the Chinese administration (Qian and Xu 1993). This system served two important functions: It helped mitigate serious information problems that investors and regulators faced in China, and it helped local bureaucrats to select viable companies at the IPO stage. Quotas had been the basic feature of economic management and regulation in China before and during the transition period. The system was designed to allocate critical resources across regions, such as credits or energy (Pistor and Xu 2005). The annual quota for a region, i.e. the amount of shares firms were allowed to issue to the public, was set in an intense bargaining process between central and regional authorities. The primary purpose of the central government to adaptthe quota system to the stock market was to gain and maintain control over its size and stability. In practical application, however, it went far beyond that: Due to regional competition, it fostered a selection and information collection process that facilitated market development during the start-up period, because the quotas were set by the central authority drawing on the quality of the companiesselected and handed in for assessment by regional governments. Regions, which performed well, were rewarded by the China Securities Regulatory Commission (CSRC) and those whose companies failed or underperformed were punished. Regions thus had an incentive to collect and reveal critical information about the real quality of companies in their area. Based on their assessment, the CSRC pre-selected companies that were allowed to enter the formal approval process. The quota system has significantly raised disclosure levels and transparency – critical factors for a functioning stock market. Of course, the system with its inherent institutions has not been built for the long-run, but must be seen as a transitional institution. Today, China has already started to abandon the system and to "grow out of" the quota system.[20] China is now strengthening its legal infrastructure and enforcement mechanisms (Lu and Yao 2003).

Towards a rule of law for elites?

While judicial institutions had been almost fully undermined and rendered ineffective under Mao Zedong, authorities in post-Mao China have sought to enhance the status of the legal system in order to strengthen the central government's legitimacy (Moustafa and Ginsburg 2009). In fact, it appears as if judicial institutions can actually enjoy some real independence from political influence. The incremental shift towards an elementary rule-based form of governance may help the political leaders to distance themselves from failures and excesses in the past, but also to more effectively institutionalize government's rule and to establish commonly agreed mechanisms ofconflict resolution at relatively low transaction costs. As Landry (2009: 234) explains:

"The party facilitates the diffusion of legal knowledge among its members, as well as access to the courts. Party membership and to a lesser extent Youth League membership have a direct and positive impact on the likelihood of going to court in civil and economic cases. To the extent that one of the key goals of Chinese legal reformers is to shift the transitional burden of dispute adjudication away from the party and government agencies to more autonomous courts, party and CYL members seem to be a positive force for change. (…) the CCP enhances access to legal institutions among its members. (…) if party members receive selective benefits from these institutions, they are more likely to support them in the long run."

4. Conclusion

Developmental states constitute a distinct subgroup of emerging markets or in the terminology of North, Wallis, and Weingast (2009), of mature limited access orders (LAOs). Subject to path- dependent institutional developments, confronted with coun-

[20] See Naughton (1996), who describes China's economic reform process as an approach of "growing out of the plan". The quota system serves as one example for the pattern of Chinese reform in general. It was put in place in 1993 and officially abandoned in 2000.

try-specific exogenous constraints, and based on particular formal and informal institutional underpinnings, their political elites have faced strong incentives to credibly pursue long-term and broad based economic growth and development strategies. In this context, (relatively) independent organizations as well as competition in the public as well as in the private sphere have often played subtle, but essential roles for formulating and implementing policies. The institutional setup and the incentives for business and political leaders have helped to mutually balance interests and thereby contributed to avoid both business capture by the state and state capture by big business.[21] Developmental states have been relatively close to the threshold to become an open access order (OAO). But this transition will not automatically occur. South Korea and Taiwan are examples for a successful transition. Singapore appears to be a case which shows that open access in many business areas may go hand in hand with persistent limited access in political realms without allowing for excessive rent creation at the expense of society.

Relatively independent economic and administrative organizations in combination with various forms and degrees of competition plus government guidance implied a country-specific nexus of transitional institutions which fulfilled functional equivalents in order to accomplish political legitimacy, to establish strong but limited states and to enhance political leaderships credible commitment to economic growth and development.

The relative autonomy of administrative organizations and private businesses in East Asia in general, and of provincial governments in China, allowed the emergence of competitive processes within the public sector for alternative policy solutions and within the private sector for innovative business solutions. Thus, decentralized searches for new or revised policies and business practices occurred, which allowed an effective exchange of information between the public and the private sector and thus yielded relatively fast feedback mechanisms on specific policy measures. This supported governments' pragmatic flexibility in policymaking and enhanced policy adaptability.

This paper argued that relatively independent institutions and organizations may exist in authoritarian regimes, because their existence serves the interests of the ruling elites. In non- democratic *developmental states*, relatively independent organizations also exist for the same reason, but they fulfil yet another function: they effectively contribute to craft relatively secure institutional foundation for long-term and broad-based economic growth and development.

[21] See Zweynert (2010) for a discussion of state and business capture in Russia, which illustrates that Russia currently does not show the preconditions to become a developmental state.

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