CHAPTER 1

REALISING MILLENNIUM DEVELOPMENT GOALS: A CASE OF MAKING THE STATE LOOK GLOBALLY POWERFUL

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Part I: Theoretical Background

Before we begin our discussions on the relevance of maintaining the global perception of economic, political and military power of the state being the facilitator of the state's ability to attain millennium development (MD) goals, we make some comments on what the developmental state stands for and what those requirements are for a state to be accepted as a developmental state, because it is the developmental state which can mostly attain those MD goals.

The term "Developmental State" also known as "Hard State" tends to refer to the politically powerful state which guided macro and micro-economic planning for economic development in East Asia particularly in Taiwan and Korea since 1954–1955. In this model of state-developed capitalism, the state appears to assume more independent autonomous political power as well as more control over the economy. Here, the term "autonomous political power" relates to the political power of autocratic states in which the certificate of legitimacy to govern is issued by the citizenry on the

basis of the extent to which their leader and his other team members have been able to enhance the wealth and prosperity of citizenry, not on the basis of muscle power of thugs affiliated to the leader and the leading political party of the governance regime as has been found to be the case in Bengal and possibly in a few other provinces of democratically governed India.

In making a decision on the issue of what kind of a developmental state model even democratically governed countries should choose, we need to find the answer in the essential traits of Evans's (1992, 1995) and Max Weber's (1978) state model which is based on the Taiwanese and Korean developmental state models which extend the role of the state beyond the limit prescribed by the neo-classical state model in that the presence of virtuous relationship between the state overlord, bureaucracy and the market (private sector), the corruption-free selection and presence of highly efficient bureaucrats in the administration, of freedom of bureaucrats to bring the market represented by heads of private sector corporations to the table on deliberations of economic development issues are only to be found in these genuinely developmental state models.

This type of developmental state structure cannot be found in excessively democratic governance regimes in India in particular as well as in not so democratic governance regimes in Brazil and Indonesia. The bureaucracy and the leader of the state in these democratically governed countries do not and cannot possess the same quality of MITI (Ministry of International Trade and Industry) as in Japan, because limitless number of political parties are involved in the governance of democratic India where the official number of political parties stands at over 1,200 and where the role of such political parties is to corrupt the bureaucracy. Consequently, even if the leader of the country is visionary and desires to take bold action, his actions cannot be put into practice because the spiderweb-like bureaucratic structure will engulf the leader whose independence will be lost. Accordingly, such a leader is likely to be incapable of taking action to attain MD goals.

The United Nations (UN) laid out seven major human development and economic cooperation goals for developing countries including those emerging as well as highly populous countries to reach during a 15-year period from 2000 to 2015.

Now it is time for economists and other social scientists to examine the progress made by those emerging countries in their efforts to realise those seven MD goals.

One can expect that countries with activist governance, altruistic heads as well with virtuous policy-implementation regime will achieve far better results than those with passive governance and egocentric heads in their efforts to realise the MD goals of (i) the eradication of extreme poverty, (ii) the achievement of universal primary education, (iii) the promotion of gender equality and empowerment of women, (iv) the reduction in child mortality, (v) the improvement in maternal health, (vi) promotion of environmental sustainability and finally of (vii) the establishment of the mechanism for the global partnership in development to become a reality (World Bank 2015).

Within each of these goals, there are a number of subordinate goals (World Bank 2015), among which several are stated as follows:

Under the broader goal of the eradication of extreme poverty and hunger, specific mention has been made of the need to achieve a 50 percent reduction between 1990 and 2015 in the proportion of people living below the international poverty line of US\$1.00 per day. Also, a similar reduction in the proportion of people suffering from hunger has been envisaged for each country during the same 1990 and 2015 period.

Similarly, under the broader goal of achievement of universal primary education for children in each country between 2000 and 2015, specific mention has been made of the need for each government to ensure that each boy and girl in the country completes a full course of primary schooling.

Under the broad category of promotion of gender equality and empowerment of women, specific mention has been made of the need for the elimination of gender disparity in primary and secondary education by 2015.

In a similar vein, specific mention has been made of the need for a 66 percent reduction in under-five mortality rates by 2015 in each country. Specific mention has also been made of the need for a 66 percent reduction in maternal mortality ratio in each country between 1990 and 2015. Under the broad category of attainment of environmental sustainability, the reversal of the loss of environmental resources, the reduction in the loss of biodiversity and a 50 percent reduction in the proportion of people without safe drinking water and without sanitation have been required to be achieved by 2015. Under the broad category of the promotion of global partnership for development, the promotion and development of an open, rule-based and predictable non-discriminatory trading and financial system has been recommended for all countries by 2015.

We have chosen for discussion several prominent issues such as the GDP, the size of the population, the size of surface area and the size of the population density in each of the following nine countries: China, Japan, India, Brazil, Korea, Indonesia, Thailand, Malaysia and Singapore.

Difficulties in the Attainment of MD Goals

While no country in the world has been able to attain all these seven goals, the gaps between the *ex ante* expectations and *ex post* realisation of these goals have consistently been wider in developing countries than in developed countries.

Within the broader gamut of developing countries, the performance in the attainment of MD goals of those countries which are under democratic governance, has been poorer than those which are under autocratic or semi-autocratic governance. Again among all those which are under democratic governance, the performance of those countries which are characterised by multi-party-led federal and provincial governments is poorer than the performance of other countries where there is only one democratically elected government, one election and where only a very limited number of political parties take part in election.

The only country which is ruled by multi-political party-led multi-provincial governance regimes and is characterised by innumerable elections each year is India, where monumental governance failure at the provincial level has pushed down India's score in each of the seven MD goals, to a level well below anyone's expectation.

Why MD Goals Cannot be Fully Implemented?

The UN: A Feeble Entity

Emphasis on Social Development

The UN does not possess political and economic power to force member countries to ensure the corruption-free implementation of programmes to make robust progress in the attainment of MD goals.

The UN itself spends billions of US dollars which it receives from member countries on such frivolous activities such as actions to transform to a cult figure — a Pakistani girl named Malala, whose foundation is now worth multi-million US dollars and who comes from Pakistan's most restive region where hundreds of school girls like Malala get killed but draw no sympathy from these international organisations.

Furthermore, embedded nepotism has enabled small developing countries in South Asia which uses the "poverty card" to draw millions of US dollars in the form of donations and gifts and may have been able to be over-represented in the UN, although the financial contribution of these countries to the UN is extremely low.

In this situation, large numbers of educated people who have been born in those particular small South Asian countries and who have been employed in all UN organisations have continued to extract from these organisations undue benefits for their country of birth, which indeed was an integral part of a giant country of a sub-continental size. The UN thus can no longer be considered to be an impartial organisation.

No Clear Emphasis on Economic Goals

Those UN organisations which finance social development programmes in many of these countries which have allowed their current and former citizens to enter formally and informally these organisations to derive significant economic benefits for their countries while these countries with larger populations with high and low per capita income continue to contribute a substantial proportion of their national income to the UN to keep it alive, do tend to be under-represented and receive extremely low level of financial support to projects which can produce favourable economic externality.

On the basis of this argument one can say that, if the US decides to cut down its annual contribution to the UN by 50 percent that can be accepted as a justifiable course of action.

If the US does undertake such a course of action, then other countries, such as India, will follow suit. The UN will not be able to function properly without such financial support from the US and its allies.

Hence, it was necessary for the UN to place a strong emphasis on the attainment of a certain minimum rate of economic growth for each country.

Financial Globalisation and the Demise of Human Values

Under the financial globalisation, a large increase in the flow of portfolio capital to large developing countries has increased significantly the borrowing capacity of commercial banks in these countries thereby raising consequently the lust for borrowed money of these leaders of governments of unitary states and of multiple leaders of provincial governments of federal states, only to be spent on social sector projects designed primarily to promote the transformation of the leader to a cult figure, without realising that the money borrowed will have to be paid by the government with interest and that only by spending that money on economic projects, the required amount for amortisation payment can be secured. For example, in the 2016 provincial budget of Bengal, the government directed the overwhelming proportion of total budget to social sector projects on women, social entertainment and uncalled-for subsidies to encourage the millions unemployed in the urban and rural sectors to stay happy with the money that the leader directs to them. Almost total disdain of the raptorial provincial leader for investment in economic projects and industrialisation has destroyed Bengal's economy, but has enabled all categories of people with links to the leader's political party to extract rent money from honest citizens to grant the permission to these citizens to allow them to undertake their legitimate formal economic transaction.

With so much money in pockets of political party-linked citizens, these members of mafia groups encouraged the promotion of culture of stealing, bribery, adoption of falsehood, wanton killing of human beings, disappearance of formal rule of law, the near total disappearance of human values and of the transformation of the leader of the political party in power to a ruthless and rapacious dictator.

This culture of violence, which was created in Bengal during the rule of rapacious communists since 1977–1978 gained strength again in 2011 during the regime of the current leader of Bengal. Consequently in Bengal, Bihar and in several other Eastern Indian provinces, these MD

goals have been realised only very marginally. Since India exists only in provinces, the overall results for India have been extremely poor. Similar results can also be found in Indonesia and Brazil both of which are democratically governed as India.

In Table 1.1, we present the following important features of nine countries:

- (i) Surface area;
- (ii) Population density;
- (iii) Gross Domestic Product (GDP);
- (iv) Per capita GDP;
- (v) Gap in primary completion rate;
- (vi) Gap in under-five mortality rate;
- (vii) Gap in access to improved water source;
- (viii) The gap in the reversal of deforestation.

Analysis of Table

It can be seen from Table 1.1 that in surface area, China with 9,563 square km and Brazil with 8,515.8 square km of land appear to be the two of the holders of three largest territories among the 10 countries. But the present size of India's surface area is far shorter than the original size of India's territory which extended from the border of Afghanistan to the Burmese land, which endowed the country with the title of the Majestic Indian sub-continent. The current size of India accounts for 34.4 percent and 38.6 percent of the territories of China and Brazil. But India was under British rule for nearly 200 years. Hence, in keeping with British tradition of divide and rule, the British Raj, in collaboration with sycophant Indian leaders headed by Nehru cut up India into three pieces and created two and later three countries, split up Burma from India before the rapacious Raj left the truncated India. China and Brazil were not under British rule. Hence, the territorial integrity of these countries has been preserved.

In Row 2, we can see that in 2013, the population density at 7,713 person per square km for Singapore appears to be the highest of such population densities in other nine countries. The countries with the second and third highest population densities (516.0, 421.0) in 2013 appear to be

Table 1.1: Differences between the *Ex ante* Expectations and *Ex post* Attainment of MD Goals

	China	Japan	Brazil	India	Korea	Indonesia	Thailand	Malaysia	Singapore
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1. Surface area (thousand square km)	9562.9	378.0	8515.8	3287.3	100.2	1910.9	513.1	330.8	0.7
2. Population density (people per square km) and population (millions)	145 1357.4	349 127.3	24.0 200.4	421.0 1252.1	516.0 50.2	138.0 249.9	131.0 67.0	90.0 129.7	7713.0 5.4
3. GDP (US\$ billions) 2013 Average per capita growth 2012–2013	8905.3 7.1	5900.0 1.8	2342.6 1.6	1962.0 5.6	1301.6 2.5	895.0 4.5	357.7 1.4	309.9 3.1	291.8 2.2
4. Per capita GDP (US\$) 2013	6560.0	46330.0	11690.0	1570.0	25920.0	3580.0	5340.0	10430.0	54.090
5. Gap in primary completion rate (%) (a) 2013 Boys	NA	+2.0	NA	−6.0	+4.0	−1.0	NA	NA	NA
Girls	NA	+2.0	NA	−1.0	+3.0	+2.0	NA	NA	NA
6. Gap in under-five mortality rate (%) (per 1,000 live births) 2013	1.3	0.3	1.4	5.2	0.4	2.9	1.3	2.9	0.3
7. Gap in access to improved water source (%) 2015	4	0	2	6	2	13	2	2	0
8. Gap in access to improved sanitation facilities (%) 2015	23	0	17	60	0	39	7	4	0
9. The size of gap in the reversal of deforestation (%) 2000–2010	98.43	99.95	−0.5 (b)	99.54	99.89	−0.51 (b)	−0.02	−0.54 (b)	(c)

Notes: “a” refers to the gap in primary completion rate which is measured by the gross intake ratio to the last grade of primary education. The minus sign indicates the size of the gap, while the plus sign indicates the size of excess completion rate over 100 percent.

“b” refers to the increase in the size of deforestation.

“c” refers to no change.

Source: World Bank (2015), *World Development Indicators*, Washington D.C.: World Bank.

Korea and India. But in per capita income growth, the score of China and India at 7.1 percent and 5.6 percent in 2013 appear to be higher than those of the other countries.

In Rows 5–9, we have presented the differences that exist between *ex ante* expectations and *ex post* attainment of some of the MD goals.

In primary completion rate, in India, the gap in primary completion rate for boys at 6 percent in 2013 appears to be very high. In Indonesia, this gap was only 1 percent. The gap in primary completion rate for girls was only 1 percent. For Japan and Korea, the primary completion rate reached more than 100 percent in 2013.

In 2013, the gap in under-five mortality rate at 5.2 percent of 1,000 live births in India was higher than in other nine countries.

In 2015, the gap in access to improved water source reached 6 percent for India, 4 percent for China, 2 percent for Brazil and 13 percent for Indonesia.

In improved sanitation facilities, in 2015, the gap reached 60 percent for India, 39 percent for Indonesia, 17 percent for Brazil and 23 percent for China.

While the gap in the reversal of deforestation, between 2000 and 2010, was only 1.6 percent for China, 0.5 percent for Japan, 0.46 percent for India and 0.11 percent for Korea, indicating the high level of success in the reversal of deforestation, Brazil, Indonesia, Thailand and Malaysia recorded increases in deforestation.

Overall, the record of India's performance in all indicators has been poorer than the record of other countries, with the exception of India's record in the reversal of deforestation.

Relatively Poorer Performance in the Attainment of MD Goals

Among all the 10 countries, the countries which have performed poorly in comparison with the other countries are India, Brazil and Indonesia.

Among these three in the attainment of several MD goals, Indonesia's performance is better than that of the other two. Between Brazil and India, India's performance appears to be worse than the performance of Brazil.

Hence, the following questions have been raised:

- (a) Why is the performance of the three countries inferior to those of other countries?
- (b) Why is India's performance in the attainment of several social and economic goals inferior to the performance of Brazil and Indonesia?

Answers

(a) The answer is that these three countries have adopted democratic political governance in which the leader and members of his or her vested interest group are elected to the office by popular vote in national elections which are inevitably rigged. Hence, leaders who are Huntington's barbarians (1968) and are devoid of any basic moral values, as well as of any real-life work experience in any private sector enterprise get elected by promising the electorate good income even without the requirement for the electorate to secure income-earning employment, if elected to the office.

Hence, the democratically elected governance regime in provincial India is forced to adopt the policy of appeasement to make the leading political party-linked mafia who incapacitates the basic institutions of the rule of law, of the property rights of individuals and private sector companies, the institution of the freedom of free enterprise, stay happy and contented.

Since only in democratically governed countries, the rule of "might is right" can reign supreme and in the judiciary which is corruption tainted, most transactions are performed in cash which increases the size of the informal economy but prevents the rise in the size of the overground economy, the political and the concomitant economic power of the state are globally perceived to be very weak in these three countries.

(b) Among these three countries, within India, the absence of the three fundamental institutions of good governance is supremely present in the whole of Eastern India and more particularly in Bengal where the predatory leader of the governance regime is totally devoid of moral values and the party-affiliated mafia has enforced the informal law of "might is right".

In the Bihar province, similar situation was also present, but in recent years the situation similar to that in Bengal appears to be present only marginally. In India, the level of corruption in political governance has assumed more serious proportions than in the other two countries because the total number of provinces has increased phenomenally from 14 in 1954 to 30 in 2014.

The provincial ruler in Bengal has destroyed Bengal's industrialisation and runs the administration by borrowing money and spending it on social activities which increases the wealth of the party-affiliated warlords, big business leaders and the rural unemployed in rural areas.

Hence, particularly due to the presence and promotion of mafia rule, total absence of private citizens and business enterprise's property rights, absence of a human being's right to remain alive and due to the absence of freedom of free enterprise in Bengal, Bihar as well as in other Eastern Indian provinces, India is globally perceived to be a politically and economically weak state which has failed to make good progress in the attainment of many MD goals.

Part II: From Hobbesian and Smithian State to Weberian East Asian Developmental State

The primary role of the Hobbes's (1651) state which was to guarantee the income (private property) of the tribe, to protect human lives and to defend the territorial integrity of the tribe, and was more refined in the Smithian state (1937), changed considerably in the early 1950s to include the direct involvement of the state in domestic economic and social activities to provide the state's growing population with employment, food, shelter, clothing, education, health care, adequate supply of water, sanitation facilities, roads, railways and other types of communication facilities and so on by promoting high level of economic growth, by continuously raising the share of investment in the total national expenditure. In most other economies except those in East Asia, the share of investment of public sector in GDP continued to increase while that of investment of private sector in total investment continued to decline up to the mid-1980s after which the involvement of the private sector in economic development began to increase.

The global financial crisis of 2008–2009, brought the importance of the role of the activist state in economic development at the forefront of the debate on how to better manage the global economy. The state's role today is neither that of a “minimalist” nor that of an “omnipotent” state.

Asymmetric information makes it difficult for private sector organisations to make optimal decisions on all economic development matters. Although information flow today has assumed a global character, it is still not a pure public good. Hence, the state needs to ensure that suppliers and buyers in any transaction are fully informed of the true quality of any product or service that is being transacted. Without perfect information, even the amount of good quality products such as good quality cars would be purchased less by buyers (Kreps 1990).

Because of lack of accurate information made available by Asian countries on the quality of projects to investors, foreign funds put into risky investment projects were withdrawn immediately from East Asia thereby contributing to East Asian crisis in 1997. Also, with the availability of symmetric information on good investment projects, more foreign funds would have been channelled to robust investment projects thereby minimising the adverse impact of the financial crisis on East Asian economies and enhancing their economic growth rates.

Since in autarky or even in a semi-open economy, the state's vested interest groups such as bureaucracy, political parties and leaders, trade unions and labour force prevent the dissemination of correct information and the implementation of free-market rules, the primary role of the state therefore becomes one of destroying the power structure of these institutions. Only a politically powerful developmental state can do that (Clark and Roy 1997). This role of the state also coincides with the role of the Smithian state which we will outline in subsequent paragraphs.

The Rise of the State

In early stages of the evolution of human civilisation, people living in small communities needed the power and authority of a person to protect themselves from aggression of other communities (Hobbes 1651; Locke 1714; North 1987), but economic and social transactions in these small

communities were governed by common ideologies and a common set of rules and traditions. Exchange was mostly personal because individuals dealing with each other repeatedly had a great deal of knowledge about each other and about the products being transacted. But when the same community grew very large, exchanges between individuals in one region with those in the other region within the same community became more impersonal and complex as such transactions mostly became one time occurrences.

The transactions between individuals in one community with those in another community located at a vast distance from each other became more complex as the likelihood of dishonouring an agreement between two parties in two communities was quite high. Hence, there arose the need for a power, a third party, to enforce the contract on the recalcitrant party. That third party is the state.

Economic theory states that for all economic activities, the goal of reaching “Pareto Optimality” at which it is impossible to make anyone better off without making anyone else worse off depends on the fulfilment of the following conditions:

- (i) All firms are operating at perfectly competitive product market;
- (ii) At the equilibrium output level, the price that consumers pay for each unit of the product purchased is equal to the marginal cost of the employment of factors for the last unit of output produced at equilibrium ($P = MC$ rule);
- (iii) For $P = MC$ condition to be fulfilled, there is also the need for perfect competition to prevail in the market for factor inputs.

But the failure of the market to allocate resources efficiently due to the presence of externalities and the need for the provision of public goods for people necessitates the state’s direct involvement in the resource allocation and overall operation of the free-market economy.

Adam Smith (1776, 1976), however, felt that state also has a duty, apart from the two aforementioned functions, to protect the society from foreign aggression (national defence) and to protect each member of the society from injustice and oppression meted out by other members of the

society. But to provide support to markets that facilitate the exchanges required for specialisation, the state also has to ensure that the sanctity of the institution of private property is preserved, the effectiveness in the society of law and order is preserved, limitations are placed on government's power to interfere in people's activities and that the presence in the country of a fair and equitable legal system is maintained.

Bur even to correct the market failure, which is one of its principal functions, the state has to minimise the adverse effects of imperfect capital market on the economy by ensuring that investments that could be internationally competitive at optimum scales are undertaken.

Furthermore, the state also has to undertake considerable investment in infrastructure to encourage private sector companies to invest in new projects in relatively underdeveloped areas at considerable distance away from urban and industrial centres of the country.

Also, in its pursuit of securing the transfer of foreign technology for its use in the domestic production structure, the state needs to take part in strategic negotiations with foreign countries and foreign companies to obtain a better bargaining outcome for the domestic companies which can appropriate for the domestic market, a larger amount of surplus associated with the transfer of technology that would otherwise have not been possible.

When pecuniary external economies arising from the increase in the size of the competitive industry make the long-run supply curve of a product embodying Marshallian Real Externalities fall, the state has to intervene in the operation of the free market to ensure that the gains in productivity attributable to economies of scope available in the use of specialised equipment and in greater specialisation of individual skills become large. But since the source of beneficial externality may also be internal inputs and knowledge and since the possibility of these being passed on to other producers in the private sector is present, the state may have to adopt the strategic trade policy as Japan did in contravention of free trade policy to provide protection to infant industries to help them gain experience needed to lower costs and become viable.

While all these different important functions can justify the existence of the state, its activities extend beyond the performance of these aforementioned tasks to many areas of economic and social sectors of the

country. Overall, the fundamental role of the state is to manage the development process by facilitating the engagement of people in productive activities that add to the total output to increase national welfare rather than transfer activities that merely redistribute the current output which makes some members of the society richer while making other members poorer. This process of management of development may sometimes require the state itself to be directly engaged in the production and supply of goods to reduce the shortage of supply of certain products in the market and to provide competition to private sector industries engaged in the production of similar goods. But a strong centripetal force has been drawing each sovereign state towards the global state in such a way since the early 1990s that it is becoming more and more dependent on the global state for fulfilling its developmental objectives.

The help and support of the global state to its confederate partner depend on its perception of how politically powerful and capable the sovereign state is to utilise properly the help that it receives from the global state. The creation and management of that perception require the state to dismantle all anti-growth and anti-development institutional barriers which prevent the implementation of economic and social development programmes by the state and the private sector organisations. If the state can achieve this objective, then it would be able to implement free-market rules in product and factor markets and in distribution of goods and services.

Maintaining the Perception of a Formidable State

If a country of the 21st century could adopt the economic system of the society of prehistoric hunters and gatherers, then its growing population somehow could eke out a living for themselves only for a limited period. Since in today's world, each country needs help from and cooperation with other countries for maintaining a robust rate of economic growth to provide a decent standard of living to its growing population, it has to convince other countries that it is strong enough to utilise the help that is rendered to it and to extend similar help and cooperation to others by fulfilling institutional requirements for the help and cooperation to be forthcoming.

The Keynesian theory suggests that since the GDP is a function of consumption expenditure (C), investment expenditure (I), government expenditure (G), export income (X) and less import payment (M), an increase in consumption expenditure without any trade and accompanied by unchanged I and G can increase the country's GDP.

However, financing any expenditure requires income which is derived from employment which is created by the growth of investment in agriculture, export-oriented industry and in the technology-embedded high value-added service sector. Although a developing country can have substantial amount of domestic savings, it needs foreign exchange to buy machinery, equipment, technology, management knowledge and so on. All these are available to a developing country via export and net foreign trade surplus. But a country's export trade which is promoted by Foreign Direct Investment (FDI) and foreign finance cannot expand unless it can produce exportable product at a cost which should be lower than the international prices of similar products and be of a high quality. These can only be made possible if the state can completely deregulate factory hours, labour market and labour wages, destroy trade unions' stronghold on labour force and on companies' management personnel, can stop frequent and random stoppage of production engineered by trade unions and political parties, guarantee the security of private property, grant land to foreign companies to start manufacturing activities, build adequate infrastructure where and when needed, maintain law and order, dismantle bureaucratic red tape and can destroy any terror network which destroys human lives and causes enormous loss to the country's national income.

A developing country which can fulfil these conditions can convince its partners in the global confederate that it is a powerful country and a developmental state. Consequently, foreign investors will develop many export-oriented manufacturing industries, agro-based industries, create enormous backward linkages to spread throughout the country via the establishment of many ancillary industries and the consequent rise in employment of millions of unemployed people.

Thus, a state which has been able to fulfil these above-noted conditions only in some regions will not be able to maintain the global perception of it being a truly formidable developmental state and consequently would receive less global assistance in its development than the other state

which has been able to completely decimate the anti-growth and anti-development institutional externalities within the country. Thus, by successfully maintaining its global perception as a politically powerful state, the state is also discharging the following two primary functions of a Smithian state:

- (i) Provision of public goods, and
- (ii) Elimination of adverse institutional externalities which prevent the operation of free market within the economy.

What Kind of State Can Achieve This Goal?

A sovereign state can acquire formidable power but to what extent it would be able to achieve its developmental goals would depend greatly on what kind of political governance regime (Roy, Blomqvist and Clark 2008) is created by the state to discharge all its functions. The governance regime in its turn creates its own institutions to complete those tasks assigned to it by the state. If the power, capability and sanctity of these institutions are maintained by the members of the governance regime, then the state's developmental goals can be achieved successfully.

But one major problem which may weaken the power of growth-and development-promoting institutions is that inevitably in every society a conflict emerges between individual welfare and overall welfare of all members of the society (Van den Berg 2001). Individuals have a choice of either (1) producing goods and services to satisfy their consumption needs and thereby to enhance their welfare or (2) stealing other people's monetary and non-monetary savings.

As rational human beings those who are politically strong by receiving the support of the governance regime will choose the easier alternative and take away the goods produced by the politically weaker individuals. Such actions have been termed by Bhagwati (1982) as Directly Unproductive, Profit-seeking (DUP) activities. The consequence of such action is that the politically weak individuals will considerably curtail their productive economic activities which would contribute to a decline in national output and welfare. If this process goes on, the society may self-destruct itself. Olson (1996) argues that the mass starvation in

Somalia was created by the abandonment of food production by politically weak Somalian farmers due to the failure of the governance institutions to protect these farmers from violence and theft by politically strong rent seekers.

While the rise in impersonal rules and contracts in economic transactions within the country and between countries necessitated the rise of the state, it also gave rise to an unequal distribution of coercive power (North 1987). As a result, politically powerful individuals (the leaders and informal agents, i.e. mafia groups) of the governance regime with superior coercive power enforce formal rules to their advantage regardless of their effect on efficiency. Since these rules will be devised and enforced to further the rent-seeking interests of the politically advantaged group, the total transaction costs will not necessarily fall (North 1987). Our argument is that costs will rise for most economic transactions as the state's governance regime may maintain the structure of the incapacitated formal institutions and allow its informal agents to run parallel customary para-formal institutions to formalise an economic transaction. So the transacting parties have to pay fees for completing formal transaction as well as customary fees to get the transaction completed. This is how the transaction cost will rise. The possibility of such a situation occurring in most developing countries became a serious concern for North (1981, 1987, 1990), Olson (1982, 1986), Buchanan (1980, 1993), Lal (1995), Krueger (1974, 1990) and Bardhan (1997).

Roy, Blomqvist and Clark (2008) argue that there are several reasons as to why the state's governance regime may not be interested in promoting growth and development-promoting efficient institutions.

Firstly, the members of the governance regime and privileged groups who rely on the government to fill up their pockets with rents may be able to increase the amount of the rent or at least be able to maintain the flow of rent by restricting transactions undermining property rights or focusing on income of certain people or activities that are easy to exploit.

Secondly, institutions that minimise transaction costs and accelerate the country's economic growth and development outcomes which benefit the entire population of the country are not likely to be of benefit to the Northian (1987) state's vested interest groups because the state's governance regime relies on the members of these groups including informal

agents (mafia group) to keep it in power and the members of these groups rely on the regime to run their para-formal institutions and DUP activities.

Thirdly, if the higher economic growth enhances the economic and social well-being of the entire population of the country, then the majority of the population is likely to challenge the authority of the governance regime and may weaken its hold on state power.

Such a situation prevails in all communist countries (present and former) as well as in some parts of other countries where governments are run by communists (Roy and Sidenko 2007a). This is why Olson (1982, 1996) argues that due to bargaining costs and the problem of free riders, individuals are unlikely to organise their collective interests unless they are in small groups or can impose selective sanctions on group members. The reason for such action by the agents of the government is that by working to raise the efficiency of institutions and the national income, they may undermine their chances of capturing for themselves the full benefit stemming from higher growth and higher income. Buchanan (1980), like Olson, also commented that profit-seeking activities of such coalitions of vested interest groups will undermine competition and efficiency, will promote monopoly power and create deadweight loss in the production and consumption in the society. Moreover, the total losses resulting from the distortion of public policies are greater than that captured by the famous “twin triangles” of comparative statics.

Appropriate Governance Regime of a Formidable State

The foregoing analysis of the vulnerability of the state to the risk of its power being captured by its vested interest groups makes very discouraging reading. But not all states are weak and ineffective. The formidability of a state is dependent on a virtuous nexus between the state and its political governance institution. Rent seeking and other para-legal activities including intimidation and use of physical force to command citizens' obedience to their rule are present in most developing countries. Even then, if the governance regime implements with single-minded attention, policies and programmes to accelerate economic growth and socio-economic development in the country, which will improve the well-being

of all citizens, not just the well-being of its agents, then the state can acquire its “legitimacy and formidability”.

Economic and social oppression of the people by the governance regime preserve and strengthen within the community the forces of old social customs, conservatism, narrow mindedness and Boeke’s (1953) fatalism and prevent the spirit of entrepreneurial dynamism, free competition, interaction with the outside world for trade, investment and culture from being unleashed. The consequence is low growth and low development outcome. Olson’s (1982) prophetic comments that the rise of a nation can be attributed to the breakdown of institutional barriers and the fall of a nation can be attributed to the presence of institutional rigidities are still valid today.

Economic and cultural openness to the outside world greatly changes the domestic culture which facilitates social and economic development (Roy and Sideras 2006). But a country’s history and religious order exercise strong influence on how the governance regime will design its economic and social institutions to achieve the state’s developmental goals as discussed critically by Roy, Blomqvist and Clark (2012).

For example, if a country has maintained economic and cultural openness with the outside world for hundreds of years, then any new government which has captured state power will not likely destroy that economic freedom which has brought economic and cultural prosperity to the population, which includes also the members of the regime and the para-formal agents of the regime. Although such economic prosperity may in fact facilitate the growth of more rent-seeking activities, the population at large despite being politically oppressed will accept the legitimacy of the governance regime. But even without any past history, an activist regime can create economic and cultural openness, i.e. provide economic and cultural freedom to the entire community while still maintaining its curb on political freedom. Such actions will generate high growth and development outcomes for the whole country and the government’s hold on state power will be strengthened. This is the first policy option for the government.

The second option is closing off the economy to the outside world, suppression of economic and cultural freedom, abandonment of free-market principles in product and labour market, dominance of para-formal government agents in all economic, social and political transactions as

well as provision of some political freedom such as limited freedom of speech and freedom of movement of the population.

In this case, the government engages in transfer activities which increase the wealth and well-being of its members and agents at the expense of the rest of the population.

The third option is complete suppression of economic, social and political freedom by the government which stays in power by subjugating the population.

Out of these three options, the first option is undoubtedly the best because it benefits both citizens and the government and will make the state formidable.

The State and Government Nexus

The structure of the state influences the structure of the government. Generally, we can classify the state structure under the following models:

- (1) Unitary state with many provinces.
- (2) Federal state with many provinces.

The unitary state can have the following types of government:

- (i) Benevolent autocracy with only one centre of power.
- (ii) Ruthless autocracy or military dictatorship.

The federal state can have the following types of government:

- (i) Parliamentary democracy only at the federal level with only two political parties contesting the election to capture the state power. Hence, provincial administration will be headed by the governor appointed by the federal parliament.
- (ii) Parliamentary democracy with more than one province and many political parties contesting the election to capture power at the federal and provincial levels.
- (iii) Multi-party parliamentary democracy, at federal, provincial and village levels.

Out of all these combinations, the virtuous nexus between the state and government can only exist only in the following three preferred models:

- (a) Federal state, but two party-led parliamentary democracy only at the federal level.
- (b) Unitary state, but benevolent autocracy with only one centre of power.
- (c) Federal state, but two party-led parliamentary democracy both at the federal and provincial levels.

Out of these three models, the first one should be the most preferred model for developing countries because it can preserve political economic and cultural freedom if the state wishes to achieve a more harmonious society by sacrificing the goal of achieving high growth.

The second one can deliver to the community high growth and robust development at the expense of political and cultural freedom.

The third model is likely to deliver to the community lesser growth and development outcomes than the first and second models.

The least preferred model for a developing country appears to be the highly decentralised parliamentary democracy with many political parties contesting the election to capture the political power at the federal, provincial and village levels. Under this model, the country will be in the election mode throughout the year. The federal government will not be able to implement its pro-growth and development policies throughout the country and in different provinces different political parties will hold power. Decentralisation of the centre of power right down to the village level will also spread corruption and rent-seeking activities throughout the country. Some provinces which adopt economic and cultural openness will prosper while other provinces will suffer from deep-seated poverty, large unemployment, conservatism, stunted economy and Boeke's (1953) fatalism. The economic growth of the country will always remain sub-optimal. The gap between the potential and actual growth instead of narrowing may even increase in the long run. We have not commented on ruthless autocracy and military dictatorship because they are of little relevance to the developmental state model.

East Asian and Indian States

Roy and Sidenko (2007a, 2007b) have discussed in considerable detail relative merits and demerits of the Indian parliamentary democracy, the Chinese benevolent autocracy and Russia's dysfunctional democratic oligarchy.

In East Asia's growth centres such as Singapore, South Korea, Taiwan and even in Thailand, strong governments mostly under unitary states curbed some political freedom, but unleashed the spirit of free market and entrepreneurial dynamism to generate high growth and development outcomes. In China, the same model was adopted and it delivered high growth continuously for more than two decades to the Chinese society. The repression of political freedom was accepted by the Chinese people in exchange for economic freedom and economic growth. Consequently, the state earned its legitimacy and status as a formidable state.

Indian leaders under Nehru's guidance adopted the least preferred "State and Government Nexus" model. A multi-party parliamentary democracy at the federal, provincial and village levels has divided the sovereign powers of the state between the federal and provincial governments. Consequently, the political power and authority of the central government have greatly weakened. The divisive spirit of regionalism has weakened the spirit of nationalism. Economic oppression and poverty have strengthened the rigidities of conservatism and other social prejudices in Eastern India.

On the other hand, in Southern and Western India, economic openness has weakened and broken down the old institutional barriers to growth and development. Economic prosperity has benefited both governments and their para-formal agents.

Again, under Nehru's guidance the Indian constitution was written extensively to make it impossible for future governments to amend it in accordance with the needs of the future generation of Indians that it has acted as a bulwark against any attempt to amend even some of its clauses to cope with the needs of changing economic, cultural and political scenarios. Hence, the Indian state is a weak state relative to the developmental states of East Asia and China and it fails to achieve the status of a formidable state.

Concluding Remarks

Professor Roubini (*The Australian* 2009) who predicted the outbreak of the current global financial crisis has commented that the economically and politically impoverished North Korea can liberalise its economy while still maintaining its political system if it follows the path taken by China and Vietnam, the two other autocratic states ruled by communist party-led governments. Both China and Vietnam have aggressively opened their economies to foreign investment resulting in rapid growth and improved living standards while their communist regimes continue to stay in power. The Chinese model provides a lesson for all other developing countries as to how a formerly centrally planned economy can liberalise the economic system without major political changes, and how economic openness cannot be a threat to government's authority and its hold on political power. The main objective of the state is to achieve a robust developmental outcome by creating jobs and raising income as well as expanding education and health care opportunities for the population. If that goal is achieved then the regime can stay in power for a long time. The perception that democracy releases political freedom, human energy and entrepreneurial drive to generate robust growth and development is a myth. Economists advocating democracy over benevolent autocracy refer only to political democracy to the exclusion of economic democracy.

But economic freedom should precede political freedom as has been the case in all successful development states of East Asia and China. If one plots China's and India's potential and actual growth rates, the gap between the potential and actual growth rates in economically more open China has become significantly narrower than the gap between the two growth rates in politically democratic India. Hence, the Indian state's capability to achieve consistently robust growth and development outcomes for its citizens is considerably circumscribed by the inability of the state to promote openness of the economy and to provide adequate economic freedom to its citizens. Consequently, the Indian state is not perceived by the global community to be a powerful developmental state. Accordingly, one has to conclude that these corruption-embedded Indian provincial governance regimes are incapable of attaining even 60 percent of MD Goals.

Hence, the primary reason for the extremely poor performance of democratically governed multi-party-led federal Indian state in the attainment of MD goals is that the global perception of India is that of a weak state. It is this perception that has prevented India from receiving the export-oriented FDI, technology, knowledge, managerial skill and global finance capital to the same extent as China did receive. In the attainment of MD goals, the performances of democratically governed Indonesia and Brazil are better than that of India but worse than those of other non-democratically governed countries because these two states are also globally perceived to be weak states.

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