

The Direction of Governance: The Second Pillar of Poverty Reduction Strategy

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Abstract

Today, we face the international consensus that Good Governance is the most important factor for poverty reduction and development. The definition of governance is “how the government steer the economy and society and how to reach collective goals” (Jon Pierre & B. Guy Peters). Building a democratic system with civil society engagement is one thing, but building economic supporting system and realizing steady economic growth is another important task of the government. The determinant of “democratic consolidation” is to realize the attainment of people’s wellbeing through the proliferation of peace and order, public services, and economic support policy. For doing that, building a stable and able bureaucracy is decisively necessary. And these are the essence of governance. The core of the process for building “democratic developmental state” is institutionalization: that is to build an institutionalized cooperation among institutionalized and workable government, institutionalized and workable business (by putting together the public requests from the various services of business like widening roads, government loan and tax incentive etc.) and institutionalized and workable civil society (by putting together advocacies from responsible NGOs.)

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1. The biggest factor for poverty reduction is economic growth: Building the infrastructure for economic growth is the role of governance

Kofi Annan, former UN Secretary-General (1997–2006), has underscored that “good governance is perhaps the single most important factor in eradicating poverty and promoting development.”¹ Dr. Nishimizu Mieko, the Vice-President of the World Bank for South Asia (1997–2003), summarized her experience as follows: “The most important lesson I learnt in the World Bank is that without good governance, we can’t promote healthy nation building.” “The bottom reason of the poverty in South Asia is bad governance in public policy and institution.”² In the context of nation building, economic development is included. There are opinions that governance is an issue of administration management different with economic development. But all the country central governments and local governments prioritize economic development as the most important issue. The most important element of good government or governance is to upgrade the people’s living conditions through economic development. If the government fails to upgrade the people’s living conditions, by pursuing a growing economy which provides for the well being of the people, the people won’t believe in the government even though it is democratically elected. A democratic government which can’t promote economic growth can’t be trusted by the people.

Moreover, facing the rapid increase of ethnic conflicts in the post-cold war age, a predominant international understanding has been formed. The international threat derives from the collapsed developing countries. “It has come to be widely argued that the ‘drivers’ of state failure were ‘weak governance, poverty and violent conflict’.”³ Stuart Eizenstat, who was a high ranking staff for long years under Democratic Presidents Carter and Clinton, writes “Of the world’s more than 70 low-income nations, about 50 of them are weak in a way that threatens U.S. and international security. The weakness of these states can be measured according to lapses in three critical functions that the governments of all strong, stable states perform: security, the provision of basic services, and protection of essential civil freedoms.” “The best way to avoid state failure is to prevent it, and the best way to prevent it is to support broad-based economic growth.”⁴

The new dimension for the understanding of governance was delayed because:

- (1) International society has had the “principle of non-interference.” Intervening something to a country from outside couldn’t become a pillar of development strategy among international organizations (Especially so in Japanese diplomacy).
- (2) Economic success stories among East Asian countries were state-led type and have been promoted by undemocratic and authoritarian states. The basic of Japan’s development was promoted by the authoritarian state before the WW2. It was difficult for the country to become the model under the age of democracy after the cold war. Moreover, the experience in Africa clearly showed the state failure and development specialists in Africa regarded strengthening

the state as stupid.⁵

- (3) Under the small government ideology promoted and proliferated by the US and the UK made it weak to build the strategy for strengthening the role of the state.

Andrew Shepherd, of the Graduate School of Public Policy in Birmingham University, wrote as follows in his evaluation article on World Bank, *World Development Report 2000/2001: Attacking Poverty*, “Constraints of poverty reduction—among which resources, politics and conflicts—are not really confronted.” “Development cannot continue to be treated as a non-political matter. Political development is a key to development in general. The strengthening focus on ‘governance’ provides a set of more or less technical metaphors to begin to address political development, but is not quite there yet.”⁶

But things have changed since 2000. Now we have the consensus that “Governance matters.” The basic of development can’t be formed or any efforts will be in vain without the function of the state. UN Millennium Declaration in 2000 stipulated in Article 3 (Development and Poverty Eradication) item 13: “Success in meeting these objectives (MDGs: Millennium Development Goals) depends, *inter alia*, on good governance within each country. It also depends on good governance at the international level and on transparency in the financial, monetary and trading systems.”⁷ UNDP stipulates in its homepage, “Democratic governance is central to the achievement of the MDGs, as it provides the ‘enabling environment’ for the realization of the MDGs and, in particular, the elimination of poverty.”⁸

EU made clear the importance of governance in its ODA strategy as follows: “**Poverty reduction requires more than aid money**: developing countries need to radically improve their governance systems to be able to use the funds efficiently, in a transparent and fair manner, and to build credible institutions. The EU Strategy for Africa (half of EU-ODA is used) therefore identifies good and effective governance as a prerequisite for development. Also the European Consensus on Development, adopted by the Commission, EU Member States and the European Parliament in December 2005, reaffirms good governance, democracy and respect for human rights as key pillars of EU development cooperation.”⁹

The World Bank, in its *Global Monitoring Report 2006*, declares its understanding as follows: “One key element is improving governance, both in developing countries and globally, to strengthen accountability for resource use and for development outcomes. Measuring and monitoring governance, in support of greater accountability and better MDG outcomes, is the primary focus of this report.”

The author, in the Discussion Paper of GSID entitled *Building Interdisciplinary Development Studies through Poverty Reduction Case* (2007), reaffirmed that the most important measure for poverty reduction is economic growth. And the most important measure for economic growth is the role of government or governance.¹⁰

There is an argument that education or (the) human resource development is the key. Surely, education is the most prioritized policy to be pursued in social development which is the number 2 pillar of government basic strategies. It however, becomes a question whether the economy can grow, or whether the poor people can be decreased structurally if only education is well pursued by the government. Sri Lanka and Kerala state in India, which were much appreciated by Amartya Sen and the UNDP, attained more than 90% literacy rate among adults for long years, but this fact didn't result to economic growth and poverty reduction. The economic growth rate of Sri Lanka has stagnated, consistent with other South Asian countries. Poverty rate was 26% in 1990 and 23% in 2002.¹¹ Kerala state has been characterized as having a "high rate of human development, low rate of economic development" although the poverty reduction of the state was far better than India in general (from 60% in 1973 to 13% in 2000 in comparison with 55% to 26% of India in general).¹² The pulling power of economic development is FDI (Foreign Direct Investment). Bangalore of Karnataka state in India is the typical example of that (FDI in Kerala state has stagnated 1.26% of the total India during 1999 to 2005).¹³ Sri Lanka also stagnated in its FDI because of its nationalism and long years' civil war. Human resources seem not well allocated seeing graduates of the prestigious Colombo University massively work as social welfare staffs for the poor at the village level.

2. Diversity of definition and the common elements of Governance

A useful way to start defining governance is to base from the arguments of Jon Pierre & B. Guy Peters *Governance, Politics and the State*. They have the precondition of contemporary debate on governance where the bureaucratic welfare state model symbolized by the word "from the cradle to the graveyard, it is the government who takes care of the people" is changing to governance model where the government is the coordinator among government, civil society and business; the debate of governance can't be non-political and can't be limited to administration management; and the present debate on governance in international organizations.

Governance has four dimensions: Good governance is the same with (2)+(3). The argument in this paper treats governance and good governance as the same thing.

- (1) Global governance (In reality, International Governance)
- (2) National level governance
- (3) Local governance
- (4) Corporate (company's) governance (This is most frequently used)

Jon Pierre & B. Guy Peters define governance as: "how to steer the economy and society and how to reach collective goals" and categorize (domestic) governance into three elements while saying it has a complicated usage and therefore should be regarded as an umbrella concept.¹⁴

- (1) NPM: New Public Management = to improve the management of the government = adminis-

tration management= basic understanding of the World Bank and the US \longleftrightarrow UNDP and EU have included democratization or the change of government into governance

- (2) coordination of sectors of the economy, public-private relationships
- (3) “good governance”

Kjær, a political scientist from Denmark, insists in her book (Governance 2004) that even though the definition of governance is diverse, the common items can be identified. These are legitimacy, efficiency, democracy, and accountability at the core of the concept and eventually it is a wider concept than government. Kjær includes economic growth policy as a part of governance (chapter 6).¹⁵

3. The basic of governance understanding is to recognize the difference between the US/World Bank and EU/UNDP

In the understanding of governance, there is a basic difference between the US/World Bank and EU/UNDP. Without understanding this difference, one’s concept of governance becomes misled from the basic. It can be noted, however, that the US/World Bank has approached nearer to the understanding of the latter in recent years. Eventually, the difference between them became vague.

If you visit the homepage of the “Center for Democracy and Governance”¹⁶ in USAID, the Center explained “The Center works closely with the State Department and the National Security Council on how democracy programming can contribute significantly to the achievement of US foreign policy objectives in these and other countries.” The Center, by putting “and” places democracy side by side with governance:

- (1) Rule of Law
- (2) Elections (realizing democratic election process)
- (3) Civil Society
- (4) Governance

Governance is one of the four pillars. Governance itself consists of 5 areas:

- (a) Democratic decentralization
- (b) Legislative strengthening
- (c) Government integrity: including the overcoming corruption
- (d) Policy implementation
- (e) Civil-military Relations: civilian control

On the other hand, for EU and UNDP, all four pillars are included in governance. The key concepts of governance are Transparency (institutionalization and information disclosure) and Accountability.¹⁷ The essence of institutionalization is setting the rules and the actual implementation of such rules.

At the background of understanding, the governance concept includes the change of the 20th century state model to the 21st century state model. Summarizing the argument of Jon Pierre & B. Guy Peters, firstly, in the bureaucratic sphere, “the Weberian model of the public service characterized most of the advanced western democracies for more than a century.” “This was essentially governance by law. The state was distinctly separated from the rest of society but governed the society by imposition of the law and other forms of regulation. The present western society is becoming increasingly horizontal=network.” In the network models, the government is conceptualized as components of the complex pattern of interaction.” “The state now seeks to play coordinating role, bringing together public and private resources at little direct cost to the public budget. The (financial) crisis has had a profound effect on the design of the public service: there is now much more emphasis on consumer choice and diversification.”¹⁸ What is generally said is the role of the government, especially the local government under the “principle of subsidiarity” (bottom up style democracy) to play as coordinator to connect government and business/ civil society organizations in implementing public services.

But still, Jon Pierre & B. Guy Peters emphasize “The new governance strategies which we see emerging are not alternative but complementary strategies to the previous models of governance.” “The state was at the self-evident center of the governance network.” “Another key feature of state strength is its capacity to act. Since action is derived from the state’s capacity to establish priorities and coordinate action among key social actors in the pursuit of its goals.” “In many developing countries where civil society is weak and systems of political and social representation are still poorly developed, the state, despite frequent problems with patronage and rent-seeking behavior, remains the only structure in society with some degree of continuity and insulation from sectoral or corporate interests.”¹⁹

Here we need two reservations. First, the state is not always monolithic. The state has a vertical cleavage: “What is there is not the state but departments. What is there is not the departments but sections (省あって国なし。局あって省なし),” and different understandings among departments. The second question is “the role of governance and the countervailing powers of civil society in governing.” “The extent of the governability of the society is as important as the governing capacity of government itself in producing governance.” “Society is expected to perform complementary and occasionally competitive functions in the process of governance.”²⁰

4. How to gauge the level of Governance: the debate on the key concepts in governance

The book of Douglas North, *Institutions, Institutional Change and Economic Performance* (1990), which got the Nobel Prize in the field of economics, provided a profound influence in the recognition of

governance. North emphasizes the level of transaction cost (like banking, insurance, finance, wholesale, retail trade, lawyers, accountant etc. which accounts more than 45% of the national income in the US economy).²¹ “Low cost enforcement of contracts is the most important source of both historical stagnation and contemporary underdevelopment in the Third world.” “Enforcement in the Third World economies is uncertain not only because of ambiguity of legal doctrine (a measurement cost), but because of uncertainty with respect to behavior of the agent.” “Formal rules, in even the most developed economy, make up a small part of the sum of constraints that shape choices.” “It should be stressed that creating an institutional environment that induces credible commitment entails the complex institutional framework of formal rules, informal constraints, and enforcement that together make possible low-cost transaction.”²² From these assertions, it can be gleaned that the key of economic development in developing countries is to build institutionalization in the economy, society and politics.

Daniel Kaufmann has been the major actor in the World Bank to promote the policy of governance. He has pursued to systematize the indicators of governance starting from 1996, which was called KKZ indicators (Kaufmann-Kraay-Zoibo-Lobaton Indicators). Kaufmann and his group constructed six aggregate governance indicators (the indicators are detailed and the total 45 items in 1997 increased to 116 items in 2002 and 190 items in 2005.²³ These are:

- (1) the process by which governments are selected
 - (a) Voice and Accountability: aspects of the political process, civil liberties and political rights, independence of the media
 - (b) Political Stability and Absence of Violence
 - (c) Government Effectiveness: quality of public service provision, the quality of the bureaucracy, etc.
 - (d) Regulatory Quality: price controls, inadequate bank supervision, excessive regulation in areas such as foreign trade and business development.
- (2) respect of citizens and the state for the institutions which govern their interactions
 - (e) Rule of Law: perceptions of the incidence of crime, the effectiveness and predictability of the judiciary, and the enforceability of contracts
 - (f) Control of Corruption

There are criticisms against the argument above whether the calculation of the indicators can be comparable in the same standard, and on the transparency of information sources. There are arguments that it will be almost impossible to set the level of indicators considering the bias for deciding the level. Although these indicators might improve governance, it will be unconceivable to expect a perfect set of indicators²⁴.

Merilee Grindle (political scientist of International Development Center, Harvard University) and her group insists to start the governance strategy from the more limited notion of “good enough

governance,” instead of a comprehensive development of hundreds of governance indicators to (the) collapsed states. They argued, “There is little guidance about what’s essential, what should come first, what can be achieved in the short term and what can only be achieved over the longer term, what is feasible and what is not.” “It is all too clear that when governments perform poorly, the consequences are wasted resources.” “Ha-Joon Chang found that many factors currently considered preconditions for development were actually consequences of it.” “The consolidation of good governance can take a great deal of time.” All the elements of governance are not always the precondition of economic growth and poverty reduction. From yet another perspective, what governance imperfections were tolerated—or were even instrumental—in the growth of East Asian countries. Nicaragua and Bolivia, gained increased capacity to hold local teachers when they had decision-making power over resources. Such a simple and direct measure might be more important than a thoroughgoing (textbook like) decentralization initiative. Strengthening the role of Pakistan’s parliament, long held up as a stronghold of “feudal interests” in the country, could not be expected to redound to the benefit of the poor majority in that country. One way to begin to reduce the good governance agenda is to assess more carefully and empirically the payoff of particular kinds of reforms for poverty reduction in a particular country. Some countries like Afghanistan and Liberia are in need of basic institutions to ensure a modicum of political stability, basic physical protection of citizens; Other countries like Nicaragua, Tanzania and Ghana can be assumed to have enough institutional coherence that they can begin to think more about expanding public services and setting up systems for better management of public resources; other countries like India, Botswana, Brazil and Mexico are in position to under take more difficult governance reforms such as putting in place transparent budgeting and accounting processes.” “The task of setting priorities is inherently political. Conflicts about priorities are inevitable. Such conflicts should be publicly aired and debated.” “Producing tangible benefits in the short term might be a wise first step for many governments, particularly those suffering from reform fatigue or weak legitimacy.”²⁵

The insistence of Grindle concurs with that of Shimizu Koichi who insists on the 80/20 rule in his book. According to him, when you have a lot of problems, focus on the 20% or the 2–3 major factors to tackle. If you can respond to the core 20% of problems, you can solve 80% of problems.²⁶

Paolo Mauro insists that an effective government is associated with economic growth by showing indices and taking notice of the importance of the bureaucracy and political stability. “The judiciary system, red tape and corruption indices represent bureaucratic efficiency. The simple average of institutional change, social change, opposition take over, stability of labor, relation with neighboring countries, and terrorism indices maybe a reasonable proxy for political stability.” “One of the most striking features of data set is the strong association between bureaucratic efficiency and political stability.”²⁷

The author agrees with the argument of Mauro. The basic jobs that the state should do, like peace

and order, irrigation, economy supporting policies, education and health, are in the hands of the bureaucrats. Democracy without having effective bureaucracy can't set the economic development, can't get people's trust, and eventually can't work. In Cambodia's peace building process starting from 1992, democratic election to select the government party was prioritized. It was wrong. The priority should have been the establishment of peace and order, public service and economy supporting policies. After the general election, the government organization of Cambodia became the theater of political nomination including appointments of university teaching staffs by the government party. It directly resulted to bureaucratic weakness, instability and inefficiency. David Held, the author of *Models of Democracy*, says, "For democracy to flourish today, it has to be reconceived as a double-sided phenomenon: concerned with the reform of state power and with the restructuring of civil society. The principle of autonomy can only be enacted by recognizing the indispensability of a process of double democratization: the interdependent transformation of both state and civil society."²⁸ The center of governance should not be the electoral process.

Also, the center of democratization should not be simplified to election. Other than elections, the necessary processes include the military withdrawal (Alfred Stepan analyzed the level and sphere of withdrawal²⁹) mechanism of arrangement among different ethnic groups and social groups, bureaucratic modernization which fits (for) the age of democracy, building civil society, change of political parties from (rent-seeking) factions to public party.³⁰

If the first pillar of governance is democratization, the second pillar is (to) building a developmental state. To achieve democratic consolidation, certain level of economic growth where the people can eat everyday is indispensable. The third pillar is local governance. To achieve state building, it is necessary to unify the local areas into a state by supporting local desires with subsidy and economic development coordination with the center and other areas which are dispersed into multi-ethnic social divisions, etc. Democratization is necessary not only at the central level but also at the local level. The local level also needs democratization, building an efficient bureaucracy and building a developmental regime. Now, we are moving to the second pillar, building a developmental state.

5. Connecting Governance with Developmental State

From 1964 to 1985, supporting the authoritarian developmental state became a trend under the US cold war strategy pursuing an alternative to communist developing countries. However, since mid-1980s, democratization in developing countries proceeded, Huntington's new book, *The Third Wave: democratization in the late twentieth century*, became a boom.³¹ The democratic states increased from 39 in 1974 (27% of the world) to 123 among 192 (64%) in 2006. Still, the Freedom House which publishes annual reports on the freedom of the world disclosed that the free countries constitute

90(47%), the partially free countries are 58(30%) and the not free countries constitute 45(23%). That means there are still many non-democratic countries and even the names are democratic countries, there are many non-free countries.³² There are many countries which practice nominal elections so as to evade criticism from developed countries and international organizations. In that sense, Zakaria's article, "The Rise of Illiberal Democracy," which appeared in the famous journal *Foreign Affairs* in 1998 was recognized among the intellectual world.³³ Illiberal democracy is sometimes called nominal democracy or low intensity democracy. Among them, there are questionable "democratic country" Malaysia and non-democratic authoritarian country Cambodia even though they repeatedly conduct "democratic" elections.³⁴

Larry Diamond, a famous political scientist in the field of democratization in developing countries, distinguishes between "democratic transformation" and "democratic consolidation." According to him, there are three levels and three tasks for democratic consolidation.³⁵

(1) Three levels mean elite, intermediate and the mass level. Democratic consolidation is necessary in all three levels:

- (a) Elites are more likely to have elaborate systems of political beliefs; elites also play a crucial role in shaping the political culture.
- (b) At the intermediate level, parties, organizations and movements have their own beliefs, norms and patterns of behavior (local cadre of Maurice Duverger)+Democracy can be consolidated only when no significant collective actors challenge the legitimacy of democratic institutions or regularly violate its constitutional norms, procedures and laws.
- (c) At the level of the mass public, 2/3 support is a minimum threshold and 70 – 75% support is a more compelling indicator of support for democracy

(2) Three tasks

- (a) political institutionalization

Democratic consolidation must address the challenge of strengthening three types of political institutions: the state administrative apparatus (bureaucracy); the institutions of democratic representation and governance (political parties, legislatures, electoral system) and the structures that ensure horizontal accountability, constitutionalism, and the rule of law.³⁶

- (b) regime performance

"Historically, the more successful a regime is in providing what the people want, the greater and more deeply rooted its legitimacy tends to be. Economic development tends to generate more democratic values and norms." In Pakistan, lawlessness and corruption are two of the top three reasons why people think their country is not a democracy.³⁷

- (c) democratic deepening

Greater executive (and military) accountability to the law, to other branches of the government and to the public; a reduction to the barriers to political participation;

decentralization.³⁸

Essentially, the people's support to democracy can be realized only when the economy grows and the people can eat and can feel that their living condition is getting better. The biggest political issue is economic growth side by side with peace and order. When you visit the central and local governments in developing countries, they have the obsession for economic development. Discussing governance disregarding economic development is the denial of the actual governments.

After more than 40 years of development effort which started from 1961, a big gap of economic growth among developing countries emerged. What are the causes that created such a big gap? There is a growing tendency among studies to point to the state and politics as the direct causes. According to Anne Mette Kjær in her book, "What they do have in common are fairly strong states with the ability to direct development initiatives, and particular kind of state-society relationship that is conducive to economic development." "The debate quickly came to circle around which type of state-society interaction would best promote economic development and which type of institutions would most encourage innovation and investment."³⁹ "State capacity is the ability to formulate and implement policies. Capacity requires an efficient bureaucratic institution." "An efficient bureaucracy, according to Max Weber, could not be dominated by private interests where the state is ruled (by) as if it is the ruler's private domain." In East Asia, the studies documented that synergetic interaction between the state and economic agents had led to economic growth." "Why such large degrees of state economic management didn't lead to corruption in East Asia? The answer is in the Weberian principle of bureaucracy as a very prestigious place to be employed which attracts top graduates from top universities. The existence of numerous informal networks like ties among classmates from elite universities reinforces Weberianism in a way that increases overall efficiency." These are the essence of a developmental state summarized by Kjær integrating the arguments of Peter Evans, Chalmers Johnson and Linda Weiss. She also emphasized that some factors are crucial to create state ability and growth in four points: (1) *leadership* committed to bringing state capacity and promoting development; (2) *consultation with non-governmental agents and involvement of society* to be an elemental part of economic decision-making; (3) *social coalition for growth*; (4) *decentralization* to improve public services, to increase participation and therefore, enabling new development initiatives. Many weak states have been too centralized.⁴⁰

Kjær's argument has a similar direction with Linda Weiss. Weiss argues that the widening gap of economic growth came from the transformative capacity of the state. The factor that strengthens and weakens state capacity is the constellation of "governed interdependence" between the state and economic actors. "Adjustment to economic crisis is likely to mobilize and reinvigorate core state capacities." "State capacity has usually been discussed with reference to general capabilities. But states are not uniformly capable in all policy areas. The idea of a generalized state capacity is

meaningless. The prowess of the US in pursuing foreign economic policy has long been offset by its weakness in governing domestic industrial adjustment." "I am concerned not with capacity per se: the ability of the state to pursue its goals whatever they may be. Instead, my focus is "transformative capacity": the ability to coordinate industrial change to meet the changing context of international competition." States having "distributive" capacity is northern Europe, while states having "transformative capacity" or "development oriented" states are East Asian states, Germany, Austria and postwar France. The distinction between advanced states and developing states is the level of institutionalization. Institutional depth and institutional breadth (density of the links) bring a measure constituting all modern states. Why did South Korea face the crisis of 1997? First, returning US-trained economists have preached state retreat from economic affairs; second, there was the dismantling of the Economic Planning Board. The Korean crisis was not due to a strongly instructive state, but due to a weakened capacity for governing the economy. State denial remained a fundamentally Anglo-American institution.⁴¹

Concerning state-society relations, especially remarkable is that of Peter Evans. According to Evans, "As political survival and internal peace are more often defined in economic terms, states have become responsible for economic transformation. Now the state's economic role is a source of legitimacy in itself." "My strategy was to start by contrasting two historically grounded ideal types: predatory and developmental states." Predatory states are symbolized by Sub-Saharan countries and characterized by a dearth of bureaucracy. Developmental states are symbolized by East Asian countries. India and Brazil are between the two. Evans compares three types of states. The state is seen as a historically rooted institution. Institutional frameworks are the theoretical key to the relative success of economies (Douglas North). "State ability to support market and capitalist accumulation depends on the bureaucracy being a corporately coherent entity. Corporate coherence requires to some degree insulated from the demands of the surrounding society. Meritocratic recruitment and the provision of opportunities for long term career rewards are also central to the bureaucracy's effectiveness."⁴² The term developmental state is coined by Chalmers Johnson which means the third model different from the capitalist and communist models. At the same time, Sussex University economist Wade used the developmental state to South Korea and Taiwan.⁴³ In Wade's analysis, the decisive factor for industrialization is the state loan policy to domestic industry. In Evans, the key word for industrialization is "embedded autonomy." Embeddedness implies a concrete set of connections that link the state intimately and aggressively to particular social groups with whom the state shares a joint project of transformation. Autonomy is the key for making the connection different with collusion, cartel and robbery of state resources. "The secret of the developmental state lies in the amalgamation of embeddedness and autonomy. In Latin America, the big scale of political nomination in the bureaucracy made it unstable."⁴⁴

The scientists from Africa start from the inability of the state and it is natural for them to deny

the strengthening of the role of the state in development. But there is no alternative but to strengthen the desirable role of the state for development. Without building the state infrastructure, Africa remains to be stagnated even under the massive penetration of aid flow.

Evans evaluates Joel Migdal's arguments. Migdal starts from zero-sum viewpoint and found strong state and weak society in East Asia regarding little of its industrialization. On the other hand, Amsden and Wade found a symbiotic relation between the state and nascent industrial groups.⁴⁵ At the present stage, any state theory disregarding the relation between the state and the economy is not a plausible state theory.

Adrian Leftwich tried a comprehensive definition of developmental state as follows:⁴⁶

- (1) Transitional form of modern state which has emerged in late developing societies, from 19th century to the present.
- (2) Typically driven by an urgent economic growth and industrialization in order to catch up to world standards. And commonly been associated with a high degree of both economic and political nationalism.
- (3) Most developmental states have been those that have thrived in mixed capitalist economies cooperating with domestic private sector and supervise mutually acceptable deals with foreign interests.
- (4) Constituted by particular political forces and processes, which are not found, nor can they be easily replicated or created, in all developing societies. These politics have given rise to two broad types of developmental states: non-democratic and democratic ones. A group of political scientists centered in the Institute of Development Studies, Sussex University, including Leftwich, have the common orientation that it was the developmental state which realized economic growth in developing countries. But it was practiced in the authoritarian state which is not suitable to the present age of democracy. The issue is how to build a democratic developmental state model.⁴⁷
- (5) Developmental states are not static, and the transitional forms of the modern state and its economic growth often had the effect of creating interests and organizations in a complex economy and civil society.

The notion of developmental state was further developed by Cumings ed., *Developmental State* which includes a chapter by Chalmers Johnson, the founder of the developmental state concept. Chalmers Johnson denies the connection between authoritarianism and developmental state.⁴⁸ The understanding of Cumings group is that even though they agree that the developmental state is the result of theorizing of East Asian economies, they still pursue its generalization by integrating the continental European late capitalist countries which are not governed by the Anglo-Saxon model. Eventually, the concept becomes closely parallel to the "New Industrial State" developed by Galbraith in 1980.⁴⁹ For Cumings group, the typical example of a bureaucracy-led state is France.⁵⁰ In Chapter 7

of their book, they tried to find out the common ground among Austria, Finland, South Korea and Taiwan which includes: bureaucratic tradition, embeddedness to development orientation, external circumstances of cold war, and state intervention mechanism.⁵¹

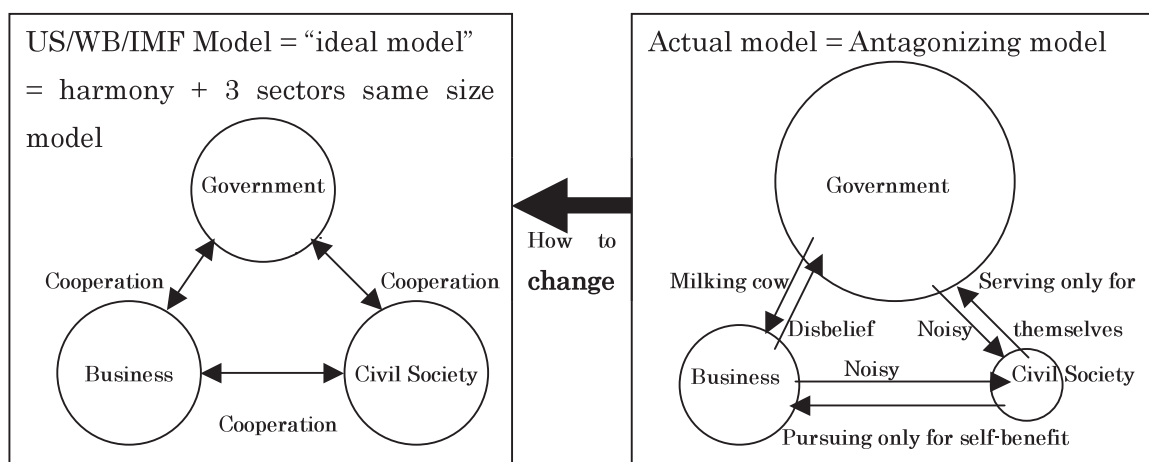
Why Latin American countries can't develop well? In Brazil and Mexico, they increased the state officials dramatically and continued political nomination (about 50 thousand staffs in every change of administration) which invited instability of the bureaucracy. Moreover, the state dominated about 40% of the total investment of the nation and the relation with the private sector has been dominated by "political capitalism" connecting government regulations and ad-hocism, Patron-Client (P-C) relationship, and failed to build mutually autonomous institutional partnership.⁵²

In India, after independence, the colonial bureaucracy which had features of meritocracy faced political intervention under the democratic system (P-C and faction politics in Indian democracy), and faced independent minded states under the federal system. Eventually, the bureaucracy faced less autonomous power, less salary, more embedded particularism under too many regulations and planned economy which set the irrational "iron framework" for business activities, and eventually, more corruption. Indian business dispersed family-based continental wide development, unassociated, despised by bureaucrats and faced the lack of institutionalization of coordination between government and business which made India a failed developmental state.⁵³

For building a democratic developmental state, the necessary things to achieve are: (1) the institutionalization of government organizations eliminating corruption; (2) the institutionalization of business where business associations gather their formal requests to government while eliminating individual collusions for promoting political capitalism; (3) institutional participation of Civil Society Organizations (CSOs) promoting Product Liability, environmental protection and CSR (Corporate Social Responsibility); and (4) the institutionalization of public-private sector coordination. It is necessary to build such kind of developmental state not only at the national level but also at the local level.

6. Renaissance of civil society

The world wide Renaissance of civil society occurred after entering into the 1990s. Civil society itself became the term in the 19th century for the bourgeois. It became the trend once again after the East European revolution of 1989, however with a different connotation that was why it was called Renaissance. Until then, the basic standard of democracy was the existence of plural party system. But authoritarian regimes organized nominal opposition parties for democratic appearance and the pluralism became nominal. Now the democratic standard moved to the freedom of Civil Society Organizations (especially NGO and media). Moreover, the trilateral coordination among government, business and civil society became the model of democratic governance.



(1) The trilateral relation can be shown below:

The governance model of international organizations starts from the left. But it is the "ideal model" or harmony model where the three factors are drawn in equal scale and they are supposed to cooperate. This is, however, far from the actual model. In the actual model, at the right side, the government is drawn in a very large scale and the civil society is very small. The three factors disbelieve each other. The business sector regards the government as inefficient and corrupt and doesn't practice supporting policy of economy while demanding tax and donation (government-business coordination system is weak). The meaningful coordination can't be realized if you start from the ideal model disregarding the reality.

In Japan, the mutual-disbelief model was common in the 1970s, typically on environmental issues, but since government works and private companies invest to environmental facilities, coordination model increased. The basic is to build the institutionalized cooperation among strong and institutionalized government, strong and institutionalized business, and strong and institutionalized civil society.

(2) Civil society arguments fit more to the principle of participatory democracy than middle class argument where it is the middle class who take the initiative to change the society. But the middle class constitutes 15–20% of the population. Under the middle class argument, for the ordinary people, democracy (demos and cracie: people's rule) is given from above by the middle class. Still, the people are supposed to be the master and participate in democracy. This framework, however, is basically illogical.

(3) In developing countries, the so called civil society is dominated by traditional social organizations. Community neighborhood organizations, Chamber of Commerce and Industry, and labor unions are all parts of civil society. In Indonesia, as noted from interviews, even opposition parties are said to be parts of civil society while the governmental parties are parts of the government. In many developing

countries where the NGO type civil society is not developed, clans and tribes' heads who initiate community and social action arm of religious organizations are the center of civil society. The so called "grass-roots" NGOs are growing but still they are pervasively dependent on the support of International NGOs. There are many cases that NGOs in developing countries are visible in the media and in places where international organizations arrange. The gap between the image of NGOs and their actual activities is often times very big. Nevertheless, it can be argued that even in developing countries, the direction of democratization was already set.

(4) According to Larry Diamond, "civil society does not seek to represent the complete set of interests of a community. Rather, different groups represent different aspects of interest." It is the role of political parties to gather various interests and set policies into state strategy.⁵⁴ Political parties have the inherent system to be selected by the people but NGOs don't have. NGOs are often managed by individual leadership. A political scientist at Sussex University insisted, "A good deal of well-intentioned nonsense has been written over recent years about the allegedly positive relationship between civil society and democracy." "There is a well known 'associational slippage' whereby some groups are able to organize themselves more effectively in the political arena: For example, relatively small elite groups are able to exert far greater influence. 'Civil society' may serve to intensify inequalities of political access rather than correct them."⁵⁵ Under the very low level of civil society activities, supporting NGOs is indispensable but more important thing is dual track that is to connect it with government reform for democracy.

7. What has been practiced under the slogan of Governance Supporting Aid

The most enthusiastic organization for governance support has been UNDP. UNDP summarized the fields of governance support in its report, *Governance and Human Development* published in 1997 as follows:⁵⁶

- (1) Strengthening institutions: rule of law (legislature and judiciary), elections
- (2) Strengthening the management of public and private institutions: Supporting Capacity Development
- (3) Decentralization: Supporting Capacity Development of local governments
- (4) Strengthening CSOs (Civil society Organizations like NGOs, Human Right organizations and the media)

In democracy supporting aid, three fields are focused: election support and election watch, support to political party formation, support to CSOs (cost of staffs, publications, etc.)⁵⁷ In recent years, UNDP insists that half of the budget is now used for governance support. Policies are more comprehensive nowadays like accountability (horizontal and vertical inside the organization other than to outside), coordination of aid, capacity building, supporting CSOs, efficiency, empowerment, rule of

law, etc.⁵⁸ But still, the basic is the same if you read its *Annual Report 2007*.⁵⁹

There is, however, the impression that the actual support is focused on the “failed states” or “some countries like Afghanistan and Liberia in need of basic institutions to ensure a modicum of political stability, basic physical protection of citizens” as described by Grindle. Grindle’s second and third stage countries facing different and higher governance issues⁶⁰ are not well focused.

Election watch is the star project of governance (like Cambodia in 1993, Nicaragua in 1991, Mozambique in 1994) for rebuilding failed states. But it is costly and it is doubtful whether it can be sustained to the next elections. It can’t respond to the proliferation of illiberal democracy. But still, there is a study insisting that election is the most effective for government self-restraint more than international pressure and criticism from NGOs and the media.⁶¹

Under the NGO (or CSO) support policy, many NGOs have been founded and the basic pattern is to start organizing some activists from above. Eventually, “grass-roots” NGOs are often times rooted to the sky or to the international society. Some predict that if foreign aid is halted, about 40% of NGOs will disappear and other NGOs will reduce their activity levels.⁶² NGOs in developing countries have a different image in comparison to developed countries. The so called “grass-roots” NGOs are just a tiny part and isolated in local area and the traditional type social organizations like clan based, religion based, neighborhood community based, and business based organizations are predominant. Local elite network represented by a mayor or so is really grass-rooted.

The basic to understand the US diplomacy is to understand its double standard, or the gap between “declared policy” and “actually executed policy.” Under the boom of democracy and governance supporting aid, did the US increase the aid item before 2001? The answer is no. The US aid to authoritarian states did not decrease and aid to newly democratized countries did not increase.⁶³ After 2001, the US increased its ODA dramatically but only as a tiny part of the massive increase in military budget against international terrorism.

At the background, there was an unsystematic and dispersed response to the very big structure of governance under the “principle of non-intervention.” For improving governance, the necessary measures were the basic change of state character starting from the rule of law, elimination of corruption to the change of 20th century state model to 21st state model (from the welfare state where the state does services to the state of participatory democracy). From the point of view of “regime performance (Larry Diamond)” to promote public services, strengthening well functioned bureaucracy with democratic face is utmost importance and that is the major weak point of the US theory on governance.

8. Summary: Issues Deriving from Governance Supporting Aid

(1) Attention to governance from 1990 resulted in the world understanding that “good governance is

perhaps the single most important factor in eradicating poverty and promoting development.” The understanding of peacebuilding is also the same. The ‘drivers’ of state failure were ‘weak governance, poverty and violent conflict’. Although governance is not well systematized in the ODA strategy under the “principle of non-interference,” the direction is the intervention model of UN “trusteeship” as seen in PRSP (Poverty Reduction Strategy Paper demanded by the World Bank to be practiced to foreign debt-strapped countries in exchange for writing off debt loan).

- (2) The definition of governance is “how to steer the economy and society and how to reach collective goals.” It covers a wide range of areas including the economy and the change of 20th century state or welfare state model.
- (3) Democratization became the world trend but still many developing countries are under non-democratic or nominal democratic systems. The present issue is not the nominal transformation to democracy but democratic consolidation. For that purpose, what is necessary is to set the economic growth which is the basic prescription for poverty reduction and people’s well being. Without economic growth, the government can’t implement public services and democracy can’t be viable.
- (4) One of the key concepts of governance is the coordination and partnership among government, business and civil society. But even though it works, the government remains to be the center of coordination and policy implementation. Especially in developing countries, the government continued to be the center and asymmetric to the small size of business and civil society which is the basic difference for understanding tripartite partnership. That’s why built in democratic system in the government or bureaucracy is more important than strengthening civil society elements.
- (5) The key policy for promoting governance is symbolized by transparency and accountability. And these two key words can be pursued by institutionalization. (The) Institutionalization is the key word distinguishing developed and developing countries. For realizing institutionalization, you need formal rules, informal rules and the accumulation of practice for generations. Realizing good governance needs generations.
- (6) Although Kaufmann group in the World Bank piled hundreds of governance elements, Grindle in Harvard University insists to practice “good enough governance.” Governance practice should be leveled from primary peace and order and basic government services to the second level and third level more comprehensive governance.
- (7) Government services like peace and order, road and irrigation, finance, education and health are practiced by the bureaucracy. Democracy without having efficient bureaucracy can’t function. Democratization must be recognized to be the double track procedure: building civil society and building democratic state structure.
- (8) The necessary step for the democratic consolidation is regime performance. Economic development is the key for reducing poverty and for promoting the people’s well being. So, the prioritized

target for governance is to set the economic supporting system in government. The system is symbolized by the “transformative capacity of the state” and local government by capacity development. And the system depends upon stable and able bureaucracy and institutionalized coordination mechanism between government and business excluding collusion and rent-seeking relations. Another dimension of institutionalization is building institutionalization in business organizing various associations, accumulating requests from various parts of business for economic development and reflecting to government economic supporting policies. The thrust is to build a developmental state excluding the formation of a predatory state.

- (9) Government infrastructure consists from efficient central government and efficient local governments. But it has been very inefficient in building local autonomous body by the system of decentralization pursued until now. The key word for understanding the present situation is “decentralization within the framework of centralization (Kimura).” On the other hand, “local kingdoms” frequently came out. Decentralization must pursue participatory democracy devolving powers to the community or people. This is called dual decentralization: decentralization from the central government to local government and from local government to community (Sometimes, this is regarded as the starting point of the “principle of subsidiarity.”) Another important aspect is central government-local government continuum which symbolizes the coordination mechanism between the central and local governments. Pursuing the proper role of central government departments fit for the age of decentralization is a very important issue. This part on local governance will be elaborated in another article.
- (10) Another aspect of governance is building civil society. The role of government to promote the role of NGOs is very important and Peter Evans made a key word “NGO-GO Synergy.” At present, the relation between government and NGOs in developing countries is far from good and one of the keys for governance is how to set the coordination and partnership mechanism between the two. The answer is in the effective implementation of government public policy which is the basic of mutual trust. The ideal target of governance is the institutionalized coordination mechanism among institutionalized and strong government, institutionalized and strong business and institutionalized and strong civil society.

Notes

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 - 6 Andrew Shepherd. 2001. “Consolidating the Lessons of 50 Years of Development.” *Journal of International Development*. 13. pp. 318–19.
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 - 8 Governance and the Millennium Development Goals (visited in Sept. 2007).
<http://www.undp.org/governance/mdgs.htm>
 - 9 http://ec.europa.eu/development/Geographical/europe-cares/africa/governance_en.html
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 - 11 UNCTAD. 2003. *Investment Policy Review: Sri Lanka*; World Bank. 2007. *Sri Lanka: Poverty Assessment*. Executive Summary;
 - 12 Kerala. Wikipedia.
 - 13 “Kelara’s growth rate remains below national average” Hindu Business. 26 Mar. 07.
 - 14 Jon Pierre & B. Guy Peters. 2000. *Governance, Politics and the State*. pp. 1, 14.
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 - 19 John Pierre & B. Guy Peters. *Governance, Politics and the State*. pp. 79, 112, 164.
 - 20 John Pierre & B. Guy Peters. *Governance, Politics and the State*. pp. 28, 32.
 - 21 Douglas North. *Institutions, Institutional Change and Economic Performance*. pp. 27–28.
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- can't get the majority in this village, the government subsidy will be cut and you have problems." Villagers have clear trauma after experiencing long years of civil war where more than 1 million people were massacred. (Caroline Hughes, "Surveillance and Resistance in the Cambodian Elections: Prisoners' Dilemma." CSIS. *Southeast Asian Affairs* 1999; Kea Kiri Renol. 2005. *NGOs and Political Process in Cambodia: A Contribution to Improve a Fledgling Democracy*. Ph.D. Dissertation. GSID. Nagoya University.)
- 35 Larry Diamond, 1999, *Developing Democracy*. Chapter 3.
 - 36 Larry Diamond, 1999, *Developing Democracy*. p. 93.
 - 37 Larry Diamond, 1999, *Developing Democracy*. pp. 77, 92.
 - 38 Larry Diamond, 1999, *Developing Democracy*. p. 75.
 - 39 Anne Mette Kjær. 2004. *Governance*. pp. 123, 133, 135, -24.
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 - 51 Juhanna Vartiainen. "The Economics of Successful State Intervention in Industrial Transformation." in Meredith Woo-Cumings ed. 1999. *The Developmental State*.
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 - 53 Ronald Herring. "Embeddded Particularism: India's Failed Developmental State." in Meredith Woo-Cumings ed. 1999. *The Developmental State*.
 - 54 Larry Diamond, *Developing Democracy*, p. 223.
 - 55 Gordon White in Mark Robinson ed., 1998. *The Democratic Developmental State*, Chap. 1. pp. 39-40.
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