DBSA Development Bank of Southern Africa

Development Planning Division
Working Paper Series No. 9

Delivering the democratic developmental state in South Africa

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2009

Suggested citation

Gumede, W. 2009. *Delivering the democratic developmental state in South Africa.* Development Planning Division. Working Paper Series No.9, DBSA: Midrand.

Published by

Development Planning Division
Development Bank of Southern Africa
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South Africa

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Series Editor: Andrew Paterson
Series Publication Coordinator: Lyn Sumners

ISBN:

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Introduction

The 'developmental state' generally refers to the model many of the East Asian nations pursued after the Second World War to rapidly modernise their economies in one of the greatest industrialisation transformations of the modern era. In his ground-breaking study of Japan's extraordinary post-war modernisation, Chalmers Johnson (1982) outlined the basic framework of the East Asian developmental state as one where the state sets specific development goals and then single-mindedly mobilises society to achieve industrial modernisation. The idea of 'a centralised state interacting with the private sector from a position of pre-eminence so as to secure development objectives' (Wade, 1990) is generally called the 'developmental state' theory (Johnson, 1982; White, 1988). The authoritarian and corporatist political regimes of East Asia guided the market by 'augmenting the supply of investible resources, spreading or "socialising" the risks attached to long-term investment, and steering the allocation of investment by methods which combine government and entrepreneurial preferences' (Wade, 1990).

Common characteristics of the East Asian developmental states

Robert Wade (1990) argues that market 'guidance' in East Asia happened essentially by (a) redistributing agricultural land in the early post-war period, (b) controlling the financial system and making private financial capital subordinate to industrial capital, (c) maintaining stability in some of the main economic parameters that affected the viability of long-term investment, especially the exchange rate, the interest rate and general price levels, (d) modulating the impact of foreign competition in the domestic economy and prioritising the use of scarce foreign exchange, (e) promoting exports, (f) promoting technological acquisition from multinational companies and building a national technology system, and (g) assisting particular industries and, in the case of Japan after 1970, introducing industry-specific policies to prevent industrial decline.

In spite of the many differences in both their individual economies and their approaches to economic development, the East Asian developmental states shared *some* common approaches. The most basic element of the developmental state is that its 'major preoccupation is to ensure sustained economic growth and development on the back of high rates of accumulation, industrialisation and structural change' (UNCTAD, 2007:60). These states are 'driven by an urgent need to promote economic growth and to industrialise' (Leftwich, 1996:61) to 'catch-up' with the West or industrialised neighbours. This could either be to protect themselves from global or regional threats or to 'win legitimacy by delivering steady improvement in the material and social wellbeing of its citizens' (ibid.:61). The developmental state directly and actively influenced the direction, pace and goals of development, rather than leaving it to uncoordinated market forces or an 'invisible hand' to allocate resources in the economy (Johnson, 1982).

In successful developmental states the state 'uses' the market and coordinates investment plans in such a way that it 'crowds in' rather than 'crowds out' private investment. This ability of the state to 'govern' the market, and to rally business, labour and other social partners behind its efforts, differentiates developmental states generally from other developing states. Ha-Joon Chang (1994) has argued that in developmental states the state is an entrepreneurial agent. Importantly, in successful developmental states, 'technocratic autonomy was given primacy over political power, although it was embedded in society, as well as in private sector and industrial networks' (UNCTAD, 2007:61).

Three core characteristics of the East Asian developmental states cut across both the 'first-tier and second-tier NIEs'[1]. Policy and institutional interventions focused on a 'profit-investment nexus' (ibid.:62). Governments secured a 'pro-investment' macro-economic environment, through a combination of incentives and 'disciplinary measures' (ibid.:62). They linked the 'profit-investment nexus' to an 'export-investment nexus' (ibid.:62). A principle running through the developmental states is that of 'reciprocity', whereby the governments provide the incentives and the companies are expected to reciprocate, by meeting certain performance levels (ibid.:64). The governments would provide the support, whether subsidies or other means, say to the manufacturing industry, which then 'reciprocates by meeting a performance standard', e.g. reaching a specific export target (ibid.:61). Institutions set up to deliver economic development were in the short term put under strict regulation and performance monitoring to focus them on the tasks at hand, which ultimately strengthened them (ibid.:61), increasing their efficiency. This and the continual sharpening of policies in turn lifted economic growth (ibid.:61).

Developmental states have 'active development strategies, in particular industrial policies' (ibid.:61). A measure of flexibility was built into long-term industrial policy, in order to eliminate what does not work, tweak weaker policies and build on those that work. They 'set clear policies and goals' for the economy in terms of export promotion, investment in human capital and credit allocation via state development banks' (ibid.:61). The financial sectors were crucial in 'boosting domestic savings and in development strategies' (ibid.:60). Such industrialisation was 'driven by learning processes, borrowing of technology and an array of policies, including targeted taxation, protection, restrictions on foreigner shareholding, financial sector policies that revolve around directed lending, a skilled and educated labour force, including training in the civil service and in technology at tertiary levels, and the development of infrastructure' (ibid.:61). The East Asian developmental states[2] were 'highly selective in their liberalisation and export-orientated strategies, often ensuring the development of a competitive sector before opening it up' (ibid.:61; Wade, 2003; Akyuz et al., 1998). They 'create winners', rather than 'picking winners' (UNCTAD, 2007:60).

1 UNCTAD research shows that although there are similarities, there are also sharp differences between the paths that first-tier and second-tier East Asian developmental states pursued. The second-tier East Asian developmental states pursued more 'competitive resource-based and labour-intensive industries' (UNCTAD, 2007:60).
2 The exceptions were Hong Kong and China. See Akyuz, et al. 1998.

The developmental states also used social policies to great effect, focusing on 'non-state entities such as families and firms, with the State guaranteeing the implementation of social welfare programmes' (ibid.:64). Effective economic coordination is an absolute priority, while they strive to 'minimise bureaucratic failure' (Amsden, 2001).

Most developmental states have flourished in mixed capitalist states. In these states there are dynamic alliances in pursuit of a common goal – economic growth and development – between 'political powers and the private sector, and between banks and public and private firms', sometimes dubbed 'alliance capitalism' (UNCTAD, 2007:61). In these countries, 'economic rents', or corruption, were managed in such a way that they boosted economic development (ibid.:62)[3]. In fact, one of the outstanding differences between successful developmental states and other developing countries is the former's ability to manage corruption (before the Asian financial crisis of 1998) in such a way that it does not undermine development.

Broader, visionary and pragmatic leadership is a hallmark of the developmental states, as are competent economic bureaucracies, usually insulated from political pressure (Wade, 1990; Leftwich, 1996:405; Johnson, 1982), which have the capacity to manage 'local and foreign economic interests' effectively (Leftwich 1996:405). Yet developmental states are not 'static' entities (Leftwich, 1996:62). Often their very industrial success creates new interests and organisations, which then could 'successfully challenge the power, authority, and autonomy of the state, and hence produce further political change' (Leftwich, 1996:62).

Developmental states outside East Asia

But it is not only in East Asia that successful developmental states have brought about rapid industrial modernisation. Post-war Europe has also produced a number of successful developmental states. For example, Michael Loriaux (1999) argues that France has a striking resemblance to Japan when it comes to the basic building blocks of developmental states: 'It is a paradigmatic case of the developmental state as characterised by the preponderance of a certain kind of actor, pursuing a certain kind of ambition, and employing a certain kind of power' (Loriaux, 1999:235). Other examples include Finland and Austria, which, following the devastation of the Second World War, also successfully saw the state consciously mobilise society behind a national political project of national integration and industrialisation (Vartiainen, 1999).

Africa's record in constructing developmental states is poor. But this is not because developmental states cannot take root in Africa. Since Ghana achieved independence in 1957, Botswana, Mauritius (Carroll and Carroll, 1997; Gumede, 2004) and to some extent Cape Verde (Gumede, 2010) were able to use the state effectively to stimulate high growth rates, boost trade and slash poverty. The central

3 Akyuz et al. (1998) argue that these characteristics of reform applied more specifically to the first-tier NIEs, which includes Japan, but excludes Hong Kong.

question we must grapple with is whether a developmental state can be cobbled together in the specific political, social and economic environment of a South Africa that, at the same time, needs to deepen its democracy?

The developmental state and democracy

Most of the East Asian developmental states may have reached their developmental goals under undemocratic conditions, yet in South Africa, a constitutional democracy, the delivery of the developmental state will not only have to take place in the economic and social spheres, but must also deepen democracy. Some scholars remain deeply sceptical that the East Asian developmental-style reforms can be copied elsewhere. Many more are unconvinced that developmental states can be replicated under democratic conditions. Developmental states have mostly been authoritarian, or managed in dominant party democratic systems. The authoritarian ones usually had a 'weak and subordinated civil society', with states pursuing a 'varying balance of repression, legitimacy, and performance which appears to succeed by offering a tradeoff between such repression as may exist and the delivery of regular improvements in material circumstances' (Leftwich, 1996:405). In developmental states, capital is also disciplined by the state. The state often used a combination of persuasion, coercion and incentives. Importantly, the moral authority the developmental state required to compel capital, citizens and civil society to support a particular growth path is only possible if the state is perceived to act at all times in the widest possible public interest. Although many of the East Asian developmental states lacked democracy, the social pacts signed between the state, civil society and citizens, in which stakeholders committed to meet specific developmental objectives and in which responsibilities, targets and punishment for lack of delivery were clearly outlined, in some respects made up for formal democracy.

Admittedly, the democratic developmental state is 'a rare bird on the developmental scene' (White, 1988:44). Many argue that a developmental state is just not possible in democratic conditions. The Indian state of Kerala is usually cited as an exception to the norm. But Mauritius is an example of an African attempt at building a democratic developmental state. We must of course state very clearly at the outset that there are many states which are procedurally democratic, but lack a democratic political culture or democratic substance. Most African countries fit into this category – they are democracies in name only. Such limited democracies cannot of course stave off elite capture, whether it is within the context of one-party domination or so-called 'multiparty' politics.

Those who argue that democratic developmental states are not possible say this is because the aims of a democratic developmental state are 'potentially contradictory and difficult to achieve: autonomy and accountability; growth and redistribution; consensus and inclusiveness' (ibid). Dani Rodrik (2004, 2006), the Turkish economist, has shown that a debate focusing on development versus democracy is simply wrong. Rodrik in his groundbreaking research decisively shows that democracy is not only compatible with growth and poverty reduction, but may be crucial to both. Importantly, to create a successful developmental state involves getting the nature and relationship between different social institutions right, and managing conflicts within and between these, whether through social pacts or through national consensus.

Nevertheless, there is a growing number of researchers who argue the case for a democratic developmental state. Patrick Heller (1999) rightly indicates there is a strong case for the argument that developmental states can successfully manage the balance between economic growth and social development while building democratic institutions at the same time. Of course, Amartya Sen has made the case for both development and democracy – that the one cannot go without the other – for some time now. Sen (1999) eloquently argues that development 'is a process of expanding the real freedoms that people enjoy' and that 'development requires the removal of major sources of unfreedom: poverty as well as tyranny, poor economic opportunities as well as social deprivation, neglect of public facilities as well as intolerance or overactivity of repressive states'.

Yasheng Huang (2008) showed that economic growth in China did not rise because of authoritarianism, but either 'preceded or accompanied' periods of relative political opening. During periods of increased relative political repressiveness in China, growth fell. 'The real Chinese miracle began back in the 1980s – when Chinese politics was most liberal. Personal income growth outpaced GDP growth; the labour share of GDP was rising; and income distribution initially improved. China accomplished far more in poverty reduction in the 1980s without any of the factors (such as foreign direct investment) now viewed as essential elements of the China model. In four short years (1980–84), China lifted more of its rural population out of poverty than in the 15 years from 1990 to 2005 combined' (Huang, 2008).

Huang also makes a strong case to debunk the idea that authoritarian governments, which brush aside such things as consultation, participation and minimum labour standards, have the advantage over democratic ones when it comes to developing their economies. He says: 'The conclusion seems so obvious: China is authoritarian, and it has grown faster; India is democratic, and it has grown slowly?' (Huang, 2008). India is now growing at an average of 8% a year, after being stuck for many years at annual growth rates of 3%. Huang argues that both India and China did well and poorly at different periods for similar reasons: both economies grew robustly at greater relative openness and more sluggishly during politically prohibitive periods. He holds the view that the real culprit for India's snail-pace growth from the late 1960s to the 1980s was Indira Gandhi, who as prime minister curtailed freedoms, undermined democracy and ruled through patronage. 'Because Gandhi's political fortunes depended on patronage, she felt no compulsion to invest in real drivers of economic growth – education and health,' argues Huang (2008).

What then would be some of the key elements of a democratic developmental state? To start with, in the democratic developmental state, the political and bureaucratic elites are not only autonomous, they are also accountable; economic growth takes place at the same time as redistribution (White, 1988:44). White argues that in a true democratic developmental state 'the social basis and range of accountability of democratic politicians goes beyond a narrow band of elites to embrace broader sections of society' (White, 1988:31) He says democratic governments have to be inclusively embedded with their citizens. Although there is a consensus among political parties, civil society and citizens over the urgency of economic development and growth, the democratic developmental state is more inclusive and has greater citizen participation in decision-making, including economic decision-making. Civil society, in the case of a democratic developmental state, is not only 'vibrant', but the 'extent to which the forces of civil society can forge broad developmental coalitions to strengthen the strategic capacity of the state and tackle problems of poverty and insecurity' are crucial (White, 1988:45). Finally, there are ultimately few alternatives for developing countries in our times to building sustainable democracies while developing at the same time.

The essential conditions for a successful developmental state

Having a developmental vision

A successful developmental state requires political will, long-term vision and determination on the part of the country's political elite to drive a development and modernisation project. Most of the successful developmental states faced a terrible threat and a stark choice: either to modernise quickly or be forcefully swallowed by more powerful neighbours. In South Africa's case, it has motivation enough. If it does not develop its majority poor – those in the so-called second economy – its democracy is in peril. No doubt, part of the long-term vision will depend on the quality of the leadership. There has to be a national consensus to industrialise in the shortest possible time, not only within the ruling party itself, but among the broadest sections of society – including the opposition parties, civil society, business and organised labour.

Prior experience of development

Peter Evans (1995) argued that the construction of a developmental state depends 'on specific historical endowments and the character of the surrounding social structure' (Evans, 1995:29), which are unique to each country. The South African state has had one advantage in that it has prior experience – during the apartheid era – of managing East Asian-style economic reforms. However, the apartheid developmental state was unsustainable because it was premised on excluding the black majority, leaving the apartheid state virtually bankrupt by the late 1980s. Nevertheless, the apartheid government did leave major developmental agencies, including the Industrial Development Corporation, the Land Bank and the Southern African Development Bank. The challenge now is to use these developmental finance agencies more innovatively in fashioning a new developmental state that is democratic and non-racial and can deliver a better life to all South Africa's people.

An efficient bureaucracy

At the core of any developmental state is the state: efficient, well-coordinated and staffed with skilled employees. The state must have the administrative, technical and political capacity and competency to set national goals, make use of the market and implement these policies. It is also important that the bureaucracy is autonomous and has broad public and political legitimacy. Importantly, the state must be strong enough to resist being captured opportunistically by social forces 'that might dissuade it from the use of its capacity to design and implement policies' (UNCTAD, 2007:60) that are focused on economic and social development. The public bureaucracy invariably consists of the nation's brightest and most talented and appointments to it are based on merit, rather than politics (Johnson, 1982; Williams, 1985, 1994; Wade, 1990; White, 1988). There is an *esprit de corps* in the civil service that puts attainment of the stated developmental goals and service to the country above personal, political and tribal interest.

An efficient coordinating centre to manage development

Most successful developmental states had a central coordinating centre driving the economic transformation. This centre not only determinedly pushes the economy to reach high growth rates, but also works towards eliminating the economy's vulnerabilities, and makes it competitive, by diversifying and identifying new niche manufacturing products (Woo-Cumings, 1999). From this coordinating centre, the state directly coordinates industrial investment, actively directs macro-economic policy towards developmental goals and jealously protects and promotes the national interest as identified by the government (Schneider, 1999). It sets the national goals, make use of the market, and monitors whether policies are implemented. Yet the heart of the failure of many of the South African government's economic reforms sometimes lies in minimal coordination of disparate economic reforms. The late Peter Mokaba, former deputy environmental minister, in 2001 lamented: 'coordination of planning, budgeting and personnel still eludes us' (Mokaba, 2001).

Getting the policy mix right

From development experiences since the Second World War, it is clear that without quality in the content of policies, no number of good intentions are going to make development work. Getting the right policies in place, which includes getting the sequencing right and having the flexibility to change quickly when a strategy is not working, was crucial in the East Asian success. Robert Wade (1990) argues that almost all interpretations of the East Asian successes emphasised the importance of domestic factors, most importantly the right policies. Kwan S Kim (1991:54) argues that the lesson from South Korea's successful development was 'pragmatism and flexibility of its policies as well as effectiveness in implementation'. But Korean policymakers were also detached from the 'straitjacket' of economic ideologies and dogmas. 'Their willingness to experiment on what would work best at a given time and place seems to have been the key to Korea's success' (ibid.).

An integrated long-term development plan

Very few, if any, developing countries have progressed in terms of economic development without a long-term development plan. Successful long-term development plans integrate action for the short term (present), medium term and long term. A long-term development plan is crucial for the identification of the core priorities of a nation. Alviro Garcia, former Minister of the Economy for Chile, argues that if no pillar priorities have been defined in a long-term development plan, 'it is easy for the government to become disoriented or blinded with short-term issues' (Garcia, 2005:18). But these long-term development plans must have public and stakeholder legitimacy. Many of the development plans in Latin American countries have failed specifically because they lacked wider stakeholder legitimacy. In most of the East Asian developmental states, even if they were autocratic, the development plans had wider legitimacy among the key stakeholders in society. In Malaysia, the New Economic Policy (NEP), its long-term development plan, almost became the official 'ideology' (Milne & Mauzy, 1999).

A developmental partnership between government, business, labour and civil society

In most successful developmental states, the state and the private sector work out a constructive partnership, which involves tradeoffs both ways, but with the ultimate goal of radically transforming the economy: lifting economic growth levels, reducing unemployment and poverty and making the country competitive vis à vis its competitors in the shortest possible period of time. This partnership, or social pact for shared growth, often makes up for the lack of formal democracy. However, the repressive leash holding such pacts together is only sustainable if economic growth is equitably distributed (or at least perceived to be) and if the political, economic and social elite act at all times in the broadest public interest. A case in point is the argument supported by many that China's 'economic miracle' is now unsustainable, partly because of its 8% plus growth rates, but the benefits are spread widely enough for citizens to continue to tolerate the repressiveness of the regime. At the heart of such social pacts must be an appearance of not only the burden of suffering, but also the benefits of economic growth, being equitably distributed across society.

Furthermore, such developmental pacts run out of steam if one of the social partners breaks it or, as happened in South Korea for example, if the country has industrialised to such an extent that the original pact becomes outdated. By the late 1980s, South Korea had industrialised so successfully that the social pact had become redundant. Not surprisingly, citizens then started to call increasingly for democracy.

The international environment

The international context and timing are very important ingredients in the success of an individual developmental state. The post-war industrialisation of Japan and the other successful East Asian and European developmental states 'arose in the framework of a hegemonic international political economy that made possible the coexistence of developmental nationalism and growing openness in world trade' (Loriaux, 1999:236). Clearly this is not the case now to the same extent as it was for the East Asian economies. But the global financial crisis that plunged the world economy into crisis also offers developing countries such as South Africa more of an opportunity not only to refashion their own economies but to help recreate a new global financial system that could provide individual developing countries with the policy space to pursue developmental objectives particular to their countries. The global financial crisis has tilted the balance of global power towards emerging markets – opening up the space to shift global trade relations, which has been skewed towards developed economies, to the disadvantage of developing economies. Following the 2008 global financial crisis, and the precedent set by industrial governments that have been using public money to bail out struggling banks, without market backlashes, developing countries as a group must now insist on securing the same freedom to come up with their own economic policies.

South Africa's special historical endowments that may limit development

Peter Evans (1995:29) argued that the construction of a developmental state depends 'on specific historical endowments and the character of the surrounding social structure'. These 'historical endowments' and the 'social structure' may inhibit or help to build developmental states. What are the specific 'historical endowments' and 'social structures' that may limit the building of an effective developmental state in South Africa?

Inequality obstacle to development

South Africa is one of the most unequal societies in the world. Furthermore, inequality of income is spread mostly across racial lines, and is itself a potential source of political instability. Most of the East Asians started their industrialisation when their populations had reasonable levels of equality – or all were poor. This means that the East Asian developmental states could focus unencumbered on achieving growth, because they started off from a much more equitable base. In many developing countries, relative deprivation – rather than levels of poverty per se – is often the trigger to a popular insistence on redistributive growth and social justice.

Nation-building while developing

Like India, South Africa is also shackled by having to pursue nation-building and economic development at the same time (Khilnani, 2003). Furthermore, South Africa will, like Malaysia and unlike the majority of the East Asian developmental states, have to deliver a developmental state where the population is not racially homogenous. The East Asian countries had had much more experience as distinct nations and cultures.

Building democracy while developing

South Africa is a constitutional democracy, and the constitution provides for both a representative and a participatory democracy. This means that ordinary citizens will not only have to be consulted, but also to be involved and participate in the decisions, whether economic, political or social, that affect them. This makes the challenge of building a developmental state very different in South Africa from elsewhere: the state must deliver development in both the economic and democratic spheres.

Reconciling economic growth and democracy

In South Africa, not only will delivery have to take place in the economic and social spheres, but democracy must also be deepened. Instructive for South Africa is the question whether developmental states can reconcile equity, economic growth and democracy. There is, however, a strong case for the argument that developmental states can successfully manage the balance between economic growth and social development and build democratic institutions at the same time (Sandbrook et al., 2007).

Conclusion

South Africa's ruling ANC government has set constructing a state that is both developmental and democratic as a political ambition and a moral imperative. Measured in terms of the appropriate vision, commitment, policies pursued, institutions set up and quality of the democracy, the delivery of a democratic developmental state is at best still a work in progress. Yet, for South Africa, not attempting to build a democratic developmental state is simply not an option; the country's continued stability may ultimately depend on successfully achieving it.

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