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Inclusive Development and the Politics of Transformation: Lessons from Asia

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Acknowledgements

Executive summary

We know that institutions matter for development. In particular, the evidence consistently shows that, over the long term, states and societies with more open and inclusive institutions, both political and economic, are more peaceful and more resilient, and they tend to be better governed. What is less clear, however, is how different countries get there. This paper seeks to address this question by exploring processes of institutional transformation in Asia. It analyses how political systems, and the political settlements and rules of the game that underpin them, have evolved over time in different contexts in Asia, and what lessons emerge from these experiences about prospects for more inclusive development elsewhere.

Clearly, whether and how states and societies manage to transform themselves along more inclusive lines over time is highly contextual and contingent. This paper does not pretend to provide a comprehensive treatment of processes of change across Asia. More modestly, drawing on literature on the political economy of growth and development, and illustrations from East, Southeast and South Asia, the aim is to tease out some of the factors that have made a difference in fostering (inclusive) development. In particular, the paper attempts to identify what aspects of developmental change tend to be overlooked, either in the way that the international development community understands them or in the efforts made to nurture institutional reform and inclusive development.

Understanding trajectories of change in Asia

Asia is an extraordinarily diverse region, featuring a variety of political systems that are more or less open and more or less effective. In many ways, Asia can be considered the most successful region in the developing world in terms of both economic growth and poverty reduction. Yet, pockets of poverty persist, inequality is growing, and subnational conflict remains endemic.

Many countries in the region find themselves in the midst of complex processes of transformation that often involve multiple dimensions of change, such as transitions:

- from violent conflict towards peace;

- from exclusionary political orders to more open and inclusive ones;

- from a narrow and exclusionary sense of nation towards more inclusive nation-building;

- from personalised systems of interaction to ones that are more impersonal and grounded in the rule of law; and

- from narrow-based economies towards shared growth.

Some of these dimensions of transformation may reinforce one another. But often they do not. Even if they are undertaken simultaneously – or in fact because they are – they are likely to generate tensions, dilemmas and potential trade-offs. The question of how (and whether) more effective institutions emerge and can be fostered remains one of the leading challenges in development thinking and practice.

We still have relatively little systematic knowledge about how these kinds of transformations happen. But we know from historical experience that the 'good governance' agenda embraced by the international development community since the 1990s to promote institutional reform in the developing world is not likely to be the answer.

Asia is a particularly compelling illustration of this: evidence from the region suggests that there is almost no correlation between growth performance over the short to medium term and different governance indicators captured by the World Bank Worldwide Governance Indicators. If we learn anything from the region, it is that there are no blueprints for change, and different institutional paths to growth and (inclusive) development seem possible.

So if not the standard recipe embedded in the good governance agenda, what factors have mattered in facilitating trajectories towards more inclusive states and societies or how poor countries can move towards the next stage in their development? The discussion below captures the key findings emerging from Asia.

Key findings

Politics and power dynamics shape institutions and determine how and when development processes can become more inclusive. Policies matter, but where policies come from – and the political settlement underlying them – are even more important. This is by no means a new insight, but it deserves prominence, especially since much of the way in which the international development community continues to work towards fostering more inclusive states and societies is not grounded in such an understanding of how change happens.

How elites (economic, political, social) are linked to broader groups in society, and whether they will use their power and influence to encourage progressive change or to entrench their privileged position, will determine the boundaries of the kinds of transformations that are possible. In the Asian context, internal conflicts occurring at critical moments of state-building and 'imminent shared threats' have encouraged the formation of elite pacts that have also had developmental and redistributive elements and proved highly durable over time (e.g. Malaysia and Singapore). Where contentious politics have not been sufficiently threatening to convince elites to transfer resources to the state, commitment to inclusive development has been much more uneven (e.g. the Philippines and Thailand).

The orientation and capacity of the state is essential in determining the prospects for more inclusive growth. It is fundamentally shaped by the role of, and dynamics among, competing elites in ongoing interactions, bargaining and contestation with social forces from below. Most of the states in Asia that have been able to promote inclusive development have been authoritarian. This does not mean that authoritarianism is needed to promote development, but it does suggest that democratisation poses distinct challenges to states that, as discussed, are trying not just to establish more solid democratic institutions but also to transform themselves along different dimensions.

States have also proven they can be highly effective in some areas without being concerned for either development or inclusion. The Asian experience also suggests that **elite commitment and political leadership,** often based on a political vision anchored in a **shared sense of national purpose,** are crucial elements of what works.

Development processes are not binary. The Asian experience shows that binary distinctions between, for instance, democracy/non-democracy or the presence/absence of corruption are too stark to help understand institutional arrangements and prospects for transformation in a given country. There will always be difficult trade-offs and dilemmas between the equally compelling imperatives. For example, while elite capture of public resources in developing countries is generally condemned by the international community, rents can be an important informal institution providing stability and even redistribution in settings where formal institutions remain weak.

Political parties have played an instrumental role in driving political settlements as well as shaping government incentives to adopt policies that can foster more or less inclusion. Parties' structure, organisation and strategy, as well as the context in which they operate and the nature of political competition, are all important in determining how effective they are at promoting stability and harnessing collective action towards inclusion or exclusion, and towards greater or lesser developmental aims.

Strategic coalition-building with well-placed actors and allies is also essential. As this paper argues, the main challenges in promoting growth and more inclusive development are often not technical or even financial, but political. Unresolved processes of contestation and (failed) collaboration are some of the biggest constraints to improving development practice at all levels, from bottom to top. Thus, how the politics of coalition-building plays out has important implications for the prospects for inclusive development.

International factors are also important in facilitating or constraining prospects for progressive change, as they can influence domestic incentives and processes for or against reform. Directly or indirectly, international development organisations can make a useful, and perhaps even indispensable, contribution in helping actors in both state and society overcome institutional obstacles to transformation along different dimensions. Donors may therefore have a fundamental role to play in building trust, nudging incentives and interests and seeking to facilitate and broker spaces for collective action.

Implications

A key lesson to emerge from Asia is that promoting growth and combatting the roots of poverty and inequality is not simply about providing needed resources and strengthening virtuous institutions based on ideal models of governance. That should be encouraging, as it suggests there may be multiple paths to institutional performance and, ultimately, inclusion. There is room for flexibility in the short to medium term as countries seek to promote growth and more inclusive development, even if confronted with important institutional weaknesses. What is needed is a more strategic and pragmatic perspective on institutional reform that can help identify and prioritise which governance improvements are most crucial at different stages of growth to enable more inclusive development. Among other things, this calls for:

- **Recognising more fully that promoting open states and economies and more inclusive societies is not a linear process.** Given the complexities at play in institutional transformations, there will always be difficult dilemmas and trade-offs between equally compelling imperatives. It is unlikely that all tensions will be resolved, but if they are better understood they can, at least, be managed more adequately.

- Closely related to the above, **recognising that there are multiple paths to development and to high institutional performance**. This implies moving away from preconceived models of what works towards more incremental, strategic and targeted approaches. It calls for clearer differentiation of governance and institutional expectations so as to prioritise what governance improvements are most crucial at different stages to ignite and sustain economic growth. The focus should not be on 'best practice' but on 'best' or even 'good' fit.

- Building on the above, **focusing on realistic possibilities for reform** based on what is politically and institutionally feasible. This entails designing reforms on the basis of clear diagnostics of the barriers to the implementation of different reforms. This can then lay the foundations for further reforms and transformation, while processes of change may remain uncertain and experience setbacks.

Critical in all these institutional processes and dynamics is the balance between choice and constraint. How much scope do politicians, policymakers, civil servants, organised social groups and other stakeholders have to reshape political settlements and promote change along different governance dimensions in the domestic and international contexts in which they operate? How much are the choices before them historically conditioned and path dependent, especially in light of how power structures and relations have evolved over time? The relationships among these dimensions of change in political settlements – and the pace of changes within transitions counted as broadly successful – cannot be assumed. Their complex linkages and dynamics need to be examined empirically, by research and policy lesson-learning. This paper has sought to contribute to this ongoing challenge.

1

Introduction

Inclusion – and the question of how to foster development that is more broadly shared and political processes that are more inclusive and representative – is the new buzzword in international development. The newly adopted Sustainable Development Goals (SDGs) are perhaps the most ambitious articulation of this consensus, with Goal 16 in particular calling for building more 'effective, accountable and inclusive institutions at all levels'.

And there are good reasons for such emphasis. In an earlier paper on 'Political settlements and the politics of inclusion' (Rocha Menocal, 2015), my analysis of existing evidence suggests that inclusion – understood in terms of both *process* (e.g. how decisions are made) and *outcomes* (e.g. development that is more broadly shared) – matters in different ways. Inclusive institutions can play a crucial role in supporting peaceful, prosperous and resilient states and societies.

However, this is by no means linear or straightforward. Two findings from that paper are particularly striking in highlighting the centrality of inclusion and capturing the complexities and challenges involved.

On the one hand, available research suggests that, in the *short to medium term*, more inclusive political settlements or arrangements at the elite level are crucial to avoid the recurrence of violent conflict and to lay the foundations for more peaceful political processes. This is one of the key messages that emerges from the work of Lindemann (2008) on the postcolonial trajectories of civil war versus political stability in different states across Sub-Saharan Africa; the World Bank's 2011 World Development Report on pathways out of violent conflict and its relapse; and Call (2012) on the recurrence of civil war in Africa, Asia, the Caucasus and Latin America.

On the other hand, the evidence also shows that, *over the long term*, states and societies with more open and inclusive institutions, both political and economic, are more resilient and tend to be better governed. Here, inclusion goes beyond elites to encompass the population more broadly, and, following Hickey et al. (2014), 'inclusive development' is understood as 'a process that occurs when social and material benefits are equitably distributed across divides within societies, across income groups, genders, ethnicities, regions, religious groups, and others. These benefits necessarily comprise not only economic … gains but enhanced well-being and capabilities as well as social and political empowerment being widely experienced'. On the whole, states that are more broadly inclusive, again in terms of both process and outcomes, also tend to be more democratic, more legitimate, wealthier and less unequal. This is the argument at the heart of Acemoglu and Robinson's sweeping historical analysis (2012), as well as the work of North et al. (2009, 2013) on closed versus limited versus open access orders. This finding is very much in line with Lipset's observation in 1959 that there is a strong positive correlation between (high levels of) wealth and (established) democracy, which to this day remains one of the strongest and most enduring relationships in the social sciences.[1]

Thus, both findings clearly show how different dimensions of inclusion matter within different timeframes. However, there is a big gap between these two findings, and from the above it is not clear at all how states and societies can transform from one (narrower-based) to the other (more expansive) form of inclusion. This is precisely where the challenge lies, and it leads us to a fundamental question: how can political systems promote inclusive development and become more open and representative over time?

This paper seeks to address this question by exploring how political systems, and the political settlements and rules of the game that underpin them, have evolved over time in Asia, and what lessons emerge from the Asian experience about prospects for greater inclusion and institutional transformation to inform processes of institutional change elsewhere. Clearly, whether and how states and societies manage to transform themselves along more broadly inclusive lines over time will be highly contextual and contingent. As a caveat at the outset, it is important to note that the analysis that follows does not pretend to provide a comprehensive treatment of processes of change across the region. More modestly, its aim is to try to identify and better understand some of the variables, relationships and processes that are likely to have mattered in fostering (inclusive) development in Asia, drawing on literature on the political economy of growth and development, as well as selective and schematic experiences from East, Southeast and South Asia. From this analysis, the paper also seeks to tease out key lessons and implications from Asia that may help us better take into account a diversity of dimensions that tend to

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1   See Rocha Menocal (2015) for a more in-depth analysis of the different literature referenced here.

be overlooked in the way that the international development community both understands and seeks to nurture institutional reform and inclusive development. Asia is an extraordinarily diverse region, and this diversity helps bring into sharp relief that there is no blueprint or recipe to move from narrower to broader forms of inclusion, and that there may in fact be multiple paths to development and to high institutional performance.

The paper starts by providing a brief overview of growth and (inclusive) development in Asia, and asks whether the different elements embodied in the 'good governance' agenda that the international community has come to embrace since the 1990s help explain trajectories of change and pathways towards more inclusive development in the region (Section 2). Section 3 then looks at the political economy of inclusive growth, and focuses in particular on the centrality of political settlements in defining the boundaries of the kinds of transformation that are possible. Section 4 then focuses on some of the crucial institutional (as well as other) factors, undergirded by given political settlements, which shape patterns of development. The paper ends by highlighting some of the key lessons that emerge from the Asian experience and the implications for how the international community understands and seeks to support processes of inclusive development more effectively.

2

Understanding trajectories of change in Asia: Good governance and its discontents

2.1 Asia at a glance: Growth and (inclusive) development

Asia is an extraordinarily diverse region. Though most major states in Asia (with China as a notable exception) are considered formal democracies (Reilly, 2006), the region is home to a veritable variety of political systems. These range from established democracies, to semi-democracies and more incipient democracies that are struggling with democratic deepening, to former democracies that have reverted to military rule; and from one-party Communist states to soft-authoritarian states to fragile states (Lee, 2016).

Yet, despite this diversity, Asia can also be considered the most successful region in the developing world in terms of both economic growth and poverty reduction. Since the 1980s, some of the world's fastest growing economies – China, South Korea, India, Vietnam and Malaysia – are all to be found in Asia. Across the region, again with the exception of China, growth and development have also been achieved alongside relatively low levels of inequality. For example, as Atul Kohli (2012a) has noted, while the rich in an average Asian country are some six times richer than the poor, the rich in Latin America make nearly 15 times more than their poor. In the 1960s, populations in Southeast Asia were on average much poorer than Africans, but today they are 2.5 times richer (Booth et al., 2015). In Indonesia, for instance, 60% of the population lived below the national poverty line in 1970. By 1984, this had fallen to 22%. The figure in Malaysia dropped from 49% to 18% in the same period. More recently, between 1993 and 2008, Vietnam experienced a dramatic fall in poverty rates, from 58% to 14% (Felipe et al., 2013; Booth et al., 2015).

Overall, these trends in development and growth have led to substantial structural transformations across Asia: rising incomes with a resulting decline in absolute poverty; high, sustained inflows of capital; and burgeoning intraregional trade and investment. Cities and towns have swollen in population and area, while the middle classes have expanded tremendously (ADB, 2013). However, such processes of transformation remain uneven and the region confronts important challenges as well.

Despite the progress noted above, especially in comparative perspective, poverty in the region remains widespread, and inequality is growing. More than 600 million people in the Asia and Pacific region still live in absolute poverty, defined as less than $1 a day. Almost half of the world's absolute poor live in South Asia alone. As the Asian Development Bank (ADB) (2013) has argued, rapid economic growth is not reaching all population groups proportionately. In terms of economic benefits and access to social services, large numbers of people are being left behind or left out, and there are wide disparities within and between different countries in the region.

Despite relative high levels of development, subnational conflict also remains endemic in Asia (Parks et al., 2013). Subnational conflict is the most widespread, enduring and deadly form of conflict on the continent. Over the past three decades, there have been 26 subnational conflicts in South and Southeast Asia alone, and these have affected half of the countries in this region. These conflicts are among the world's longest running armed struggles, often lasting for multiple generations. Remarkably, the majority of conflicts take place in generally stable middle-income countries, with relatively strong governments, regular elections and capable security forces. As such, subnational conflicts are different from fragile states. Many of these conflicts have low-intensity violence, and rarely capture either national or international attention, unless there are active hostilities or peace negotiations underway. These turbulent regions of Asia are often home to minority populations who have little influence in national politics, and their small, local economies contribute little to the national economy. In most cases in Asia, subnational conflicts are a result of discriminatory or insensitive policies and practices by the state or local authorities, collusive relations between national and local elites that marginalise some minority populations and entrenched horizontal inequalities that concentrate power and resources in some ethnic groups at the expense of others.

Moreover, many countries in the region, ranging from Bangladesh, Indonesia and Thailand to Myanmar, Nepal and Timor, also find themselves in the midst of complex transitions or transformations. The central challenge is that states that are trying to become more stable, resilient and inclusive across Asia (as in much of the developing world) today, along the lines outlined in the SDGs, often need to transform themselves in fundamental ways across multiple dimensions:

- From war/violent conflict towards peace.

- From closed and exclusionary political orders to more open and inclusive ones – usually involving some kind of democratic opening.

- From a narrow and exclusionary sense of nation towards more inclusive nation-building.

- From personalised systems of interaction to ones that are more impersonal and grounded in the rule of law.

- From stagnating or narrow-based economies towards greater investment and (shared) growth.

Some of these dimensions of transformation may reinforce one another. But often they do not. Even if they are undertaken simultaneously – or in fact because they are – they are more likely to generate tensions, dilemmas and potential trade-offs. The different transitions can also experience some backsliding. The question of how (and whether) better or more effective institutions emerge and can be fostered remains one of the leading challenges in development thinking and practice. We still have relatively little systematic knowledge about how these kinds of transformations happen or about more creative and bolder approaches to promote more inclusive institutions and broad based development. We do know from historical experience, however, that these are deeply political processes of change that are likely to be unpredictable, complex, contested – and even violent. Ultimately, it is essential to start by understanding much more deeply where pressures for greater inclusion are coming from within a given country/setting, and how they interact with other factors and dynamics at work to shape the confines of the kinds of transitions/transformations that may be possible.

2.2 Has 'good governance' made a difference to development transformations?

The critical insight that 'institutions matter', combined with the empirical observation that on the whole and over time wealthier countries (with the exception of some oil-rich states) tend to have better governance across a range of dimensions than poorer ones (Fritz, 2008), are more democratic and are also less unequal, led to a new development agenda focused on 'good governance' (Carothers & de Gramont, 2011; Norris, 2011). This agenda emerged in the 1990s from a growing concern about the detrimental impact of state capture, rent-seeking and weak accountability on state capacity, government institutions and development effectiveness. The disappointing record of the Washington Consensus in reigniting growth across different countries in the developing world led to the recognition that successful reform critically hinges on the institutional environment in which policies are conducted and implemented (Naim, 2000).

The good governance agenda is ambitious, targeting a lengthy list of objectives captured by the World Bank Institute Worldwide Governance Indicators (WGIs) along their six dimensions, which are (perceptions of) the rule of law; control of corruption; voice and accountability; regulatory quality; government effectiveness; and political stability. Since the 1990s, substantial resources have been devoted to support public sector reform and the way central government works (ranging from institutions that set the rules of the game for economic and political interaction, to commissions intended to root out corruption, to organisations that manage administrative systems and deliver goods and services to citizens, to human resources that staff government bureaucracies, to the interface of officials and citizens in the political and bureaucratic arenas).

Yet, by and large, there is widespread agreement that the success of such reforms, as well as capacity-building efforts more generally, has been patchy and uneven at best, especially at the implementation level. While the intuition that problematic governance is a key cause of poor socioeconomic outcomes is a powerful one, as discussed below the empirical case that 'good governance' as understood by the international community is necessary for development progress is considerably less straightforward and settled than tends to be proclaimed (Zhuang et al., 2010; Carothers & de Gramont, 2011; Norris, 2011; Hickey et al., 2014). A big part of the problem has been that the standard package to promote institutional change is excessively normative and demanding, and focused (almost) exclusively on formal institutions. The long list of requirements also does not reflect the historical experiences of countries that can now be considered developed (Rocha Menocal, 2013). In fact, as a variety of scholars and experts have suggested (e.g. Khan, 2009; Leftwich & Sen, 2010; Levy & Fukuyama, 2010; Pritchett et al., 2010; Booth, 2012), it is extremely rare for all of the different indicators emphasised in the good governance agenda to matter or make a positive and mutually reinforcing difference to growth all at the same time.

Asia is a particularly compelling test case. An interesting paper exploring the role of good governance and institutions in supporting growth and inclusive development in a variety of developing countries across Asia helps highlight this uneven impact and relevance (Zhuang et al., 2010). In general, indicators like government effectiveness, rule of law and regulatory quality come across as more significant than either corruption or voice and accountability, or even political stability (see Box 1). This helps highlight the fact that, while over the long term there is an incontrovertible relationship between good governance and levels of development/growth (gross domestic product (GDP) per capita), even if causality has proven difficult to establish, there is no correlation between good governance and speed of development (Meisel & Ould Aoudia, 2007), and variations in growth performance over the short to medium term may be only loosely related to differences in governance (Williams et al., 2009).

Box 1: Governance indicators and growth in Asian developing countries

A study examining the linkages between each of the six governance dimensions in the WGIs and i) growth and ii) inequality across a variety of countries in Asia, both developed and developing, in 1998 and 2008 found the following:

- Dimensions of governance/institutional quality with **significant power** in explaining the cross-country differences in growth performance in developing Asia were **government effectiveness, regulatory quality, and rule of law**.
- **Voice and accountability** was not a critical driver of growth performance in these countries – and, in fact, countries with lower rankings here had much greater growth rates than those with a voice and accountability surplus (and the relationship remained even after oil-rich countries were removed from the sample).
- The same paradoxical result applied to **political stability.**
- **Corruption** did not seem to have a meaningful impact on growth, with both countries that had better and poorer control of corruption growing at very similar rates.
- In terms of **inequality**, the only governance indicator making a relatively significant difference to the Gini index is control of **corruption**, but with the direction counterintuitive to what theory predicts: the average value of the Gini indexes of the economies with control of corruption in surplus was 0.43 whereas that of the economies in deficit was 0.37.

Source: Zhuang et al. (2010).

This finding is borne out by the experience of the period 2003–2007, when virtually every country and every region in the world experienced relatively good growth under very different kinds of institutions and governance dynamics (Fukuyama, 2012). As Rodrik (World Bank, 2008) has argued, there are enough countries that are growing rapidly despite poor 'good governance' across the board, in Asia in particular (e.g. China, Vietnam, Cambodia) but also elsewhere in the developing world (Ethiopia, South Africa, Mexico, Brazil, etc.), to suggest that improved overall governance along the lines suggested by the WGIs is needed to generate growth in shorter time horizons (10–20 years).

This argument is reinforced by evidence emerging from a variety of developing countries, especially in Asia but also beyond, that have experienced sustained growth. Plotting available data from countries that have achieved sustained periods of high rates of economic growth in the post-World War II era to 2005 (by drawing on a list from the Commission on Growth and Development (2008) and others), against their performance on each of the six WGIs for the period for which data are available (1996–2010) yields the following insights.

Table 1: Significant changes (improvements or deteriorations) on WGIs in high-growth periods

	Botswana	Brazil	China	Hong Kong	Indonesia	Japan	Malaysia	Malta	Oman	Singapore	South Korea	Taiwan	Thailand	India	Vietnam
Voice and accountability	No	N/A	No	No	No	N/A	N/A	No	No	No	No	No	No	No	No
Political stability and absence of violence/terrorism	No	N/A	No	No	No	N/A	N/A	No	No	No	No	No	No	No	No
Government effectiveness	No	N/A	No	No	No	N/A	N/A	No	No	No	No	No	No	No	No
Regulatory quality	No	N/A	No	No	No	N/A	N/A	No	No	No	No	No	No	No	No
Rule of law	No	N/A	No	No	No	N/A	N/A	No	No	No	No	No	No	No	No
Control of corruption	No	N/A	No	No	No	N/A	N/A	No	No	No	No	No	No	No	No

Notes: N/A denotes lack of sufficient data to run the regression so country not used. Yes denotes a statistically significant change (either positive or negative) in the given governance indicator during the period of high growth. No denotes no such kind of statistically significant change.
Source: Rocha Menocal (2013).

As Table 1 shows, none of the countries included (on the basis of available data) showed any statistically significant change on any of the governance indicators during periods of high growth. In fact, as Table 2 suggests, there is considerable variation in how the different countries included in the sample have performed against a given governance indicator over time. This shows that both countries that have had higher rankings and countries that have had lower rankings have been able to grow at a rapid pace. This suggests that high levels of performance across all or even just a few of the governance indicators are not a necessary or sufficient condition for high growth performance. The picture that emerges is that the countries that have achieved high and sustained growth over time are sufficiently varied in both their institutional features and their respective performance on any given governance indicator to make it impossible to argue that one or more of those indicators is essential to enable growth.

Table 2: Highest and lowest percentile rank on WGIs, by year

		1996	1998	2000	2002	2003	2004	2005	2006	2007	2008	2009	2010
Voice and accountability	Max	74.5	73.1	72.6	74.5	66.8	72.6	65.9	59.6	58.7	59.6	59.2	59.2
	Min	12.0	10.1	11.5	6.3	6.7	7.2	7.2	6.3	4.8	5.8	5.2	5.2
Political stability & absence of violence/ terrorism	Max	85.6	77.9	79.8	87.5	85.1	76.0	82.2	58.7	53.8	50.0	52.6	51.4
	Min	13.5	13.9	18.3	15.9	8.7	14.4	18.8	16.8	13.5	14.4	10.4	10.8
Government effectiveness	Max	100.0	100.0	99.5	93.2	73.7	72.2	71.7	58.0	63.1	59.7	59.8	59.8
	Min	34.1	42.4	39.5	38.0	38.5	38.5	48.8	48.3	49.5	48.5	45.9	44.0
Regulatory quality	Max	100.0	100.0	99.5	100.0	75.0	70.6	70.1	48.0	50.0	51.5	46.4	45.0
	Min	28.4	24.0	22.1	22.1	29.4	30.4	27.9	29.9	32.0	30.1	31.6	31.1
Rule of law	Max	88.5	89.5	87.6	90.4	69.9	69.9	68.4	56.5	55.5	56.3	55.0	54.5
	Min	39.2	38.8	35.4	36.4	40.2	40.7	40.2	37.8	40.7	41.3	40.8	38.9
Control of corruption	Max	96.6	96.1	96.6	98.5	85.9	82.9	83.4	48.3	40.8	43.2	45.5	35.9
	Min	30.7	39.5	31.7	33.7	36.1	22.9	24.9	25.4	33.0	29.6	36.8	32.5

Notes: Max denotes the country in the given sample with the highest percentile ranking for each of the governance indicators. Min denotes the country with the lowest percentile ranking for the given indicator
Source: Rocha Menocal (2013).

In short, while the relationship between growth flows and income levels holds for the very long term, it does not account for short- to medium-term evolutions, and it is precisely on this scale that the economic take-offs of the past 60 years have taken place, with very rapid growth accompanied by low levels of income and relatively poor governance (Meisel & Ould Aoudia, 2007).

3

The political economy of inclusive development

As the experience of different countries in Asia (and elsewhere) suggests, states do not move from closed or limited to more open systems, or from exclusionary to more inclusive political and socioeconomic institutions and power structures, along a linear path. The analysis above highlights that different institutional paths to growth and (relatively equitable) development seem possible over the short to medium term. Yet a key remaining challenge is how to achieve not just growth but also more inclusive development. Inclusive development is understood here as 'provi[ing] basic physical security for the population, achiev[ing] the elimination of poverty, … mitigate[ing] the deprivations that prevent citizens from participating fully in society[,] … provid[ing] equality of access to good quality services, particularly education, for all groups, and generat[ing] decent livelihoods (reasonably stable and secure incomes) for all' (Teichman, 2016). It also enhances social and political empowerment among those who have previously been excluded (Sen, 2012). The discussion below explores what kinds of factors seem to matter and why, drawing in particular on experiences in the Asian context.

3.1 Policy choices

Policy content and choices are very important in this respect. As Booth et al. (2015) have argued, policy differences – especially different priorities with respect to agriculture and rural development – lie behind the strikingly different development outcomes in Southeast Asia (and beyond) and Sub-Saharan Africa over the past 6+ decades. Comparing the developmental trajectories of four countries in Southeast Asia (Cambodia, Indonesia, Malaysia and Vietnam) with those of four countries in Africa (Kenya, Nigeria, Tanzania and Uganda), Booth et al. (2015) find that three policy preconditions need to be in place before key developmental turning points to enable sustained growth and poverty reduction.

- Sound macroeconomic management that promotes macroeconomic stability, including the combatting of inflation.

- Economic freedom for peasants and small entrepreneurs. In most cases, there has been little or no growth in the countries with development strategies based on accumulation by the state or economies that are state-dominated. Smallholders need to be able to select their own crops and reap the profits.

- Pro-poor, pro-rural public policies directed at agriculture and rural development, and intended to benefit smallholder rather than large landowners. This has included, for example, public investment in irrigation, transport infrastructure and state-subsidised technological improvement.

In addition to these policies, and often preceding them, across a variety of countries in Asia, land reform has been an essential element in levelling the playing field and ensuring more even patterns of growth and development. Land-redistributing agricultural reforms at the beginning of the various periods fostered patterns of income distribution that were relatively equal, especially when compared with other regions like Latin America (Boltho & Weber, 2009). Among other things, land reform was a significant part of an environment that provided the essential economic freedoms to small-scale entrepreneurs and peasant farmers, as noted above, which were vital to the socioeconomic transformations in South Asia (Routley, 2014; Booth et al., 2015). South Korea, Japan and Taiwan also all carried out extensive land reforms early on in their developmental trajectory, as did China and Vietnam. One crucial objective in all cases was to substantially weaken agricultural elites, which tended to limit the reach of the state into the countryside and might have opposed change (Kohli, 2012a). As Evans (1995) has argued in the case of India, the developmentalist orientation of the state has often struggled as a result of the significant influence of large landed rural elites in the political system. In other countries, like the Philippines and Pakistan, the landed oligarchy has remained far stronger, and developmental progress more uneven (Kohli, 2012a).

On the other hand, there are concerns that structural transformation in Asia has been uneven. While a handful of countries in the region (including India and China) have made enormous progress on this front, there is a need for many of the more agrarian, lower-income economies to become more productive and 'industrialised' (e.g. they need to develop agribusiness and adopt modern methods). Developing or nurturing a diversified manufacturing base will remain important for economic development, so that labour does not simply move from low-productivity agriculture into low-productivity services. According to Felipe et al. (2013), countries in the region will need to develop and implement policies that can facilitate desirable structural transformation. But whether this is possible and how to do this is not purely a technical matter,
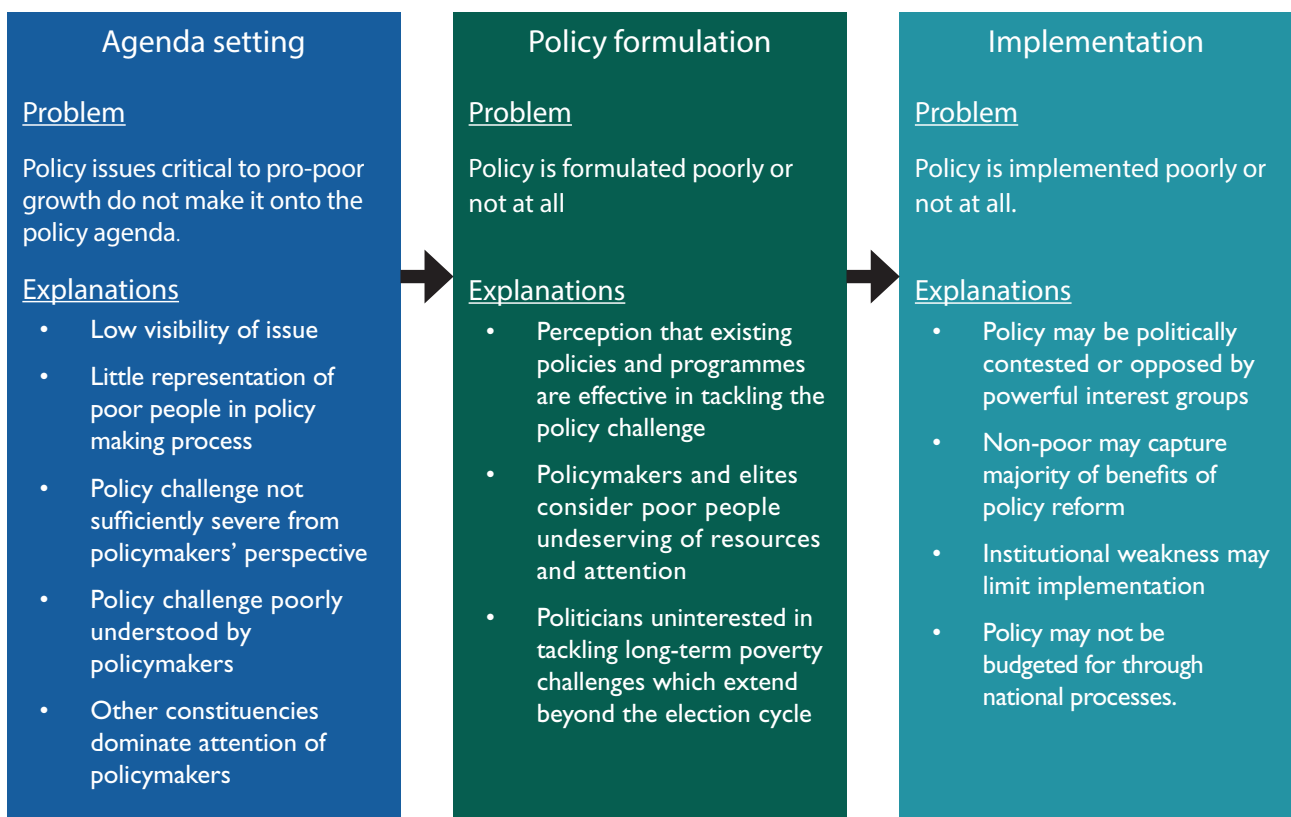
and, as discussed below, the 'politics of policies' (IADB, 2006) are crucial in understanding and assessing the kinds of policies and transformations that are feasible.

3.2 Political settlements

Clearly, as outlined above, policies matter – and certain policy choices have proven to a critical difference in the divergent developmental trajectories in Asia and Africa over time. But where policies come from in the first place is perhaps even more important. Development is not simply about getting the policies right, but also, even more critically, about the politics. As Hickey et al. (2014) have put it, '[p]olitics is … a significant force at each stage of the development process, from shaping processes of exclusion and inequality to raising awareness and recognition of these as problems of (in)justice'.

Thus, achieving effective public policies that foster shared and broad-based development is not always straightforward, and efforts to promote reforms that benefit the poor often encounter considerable difficulties. In the three key stages of public policy-making – agenda setting, policy formulation and implementation – there are a range of reasons why the interests of those that have been marginalised or excluded may be overlooked or ignored (see Figure 1).

Figure 1: Barriers to pro-poor public policy

Agenda setting	Policy formulation	Implementation
Problem	**Problem**	**Problem**
Policy issues critical to pro-poor growth do not make it onto the policy agenda.	Policy is formulated poorly or not at all	Policy is implemented poorly or not at all.
Explanations	**Explanations**	**Explanations**
• Low visibility of issue • Little representation of poor people in policy making process • Policy challenge not sufficiently severe from policymakers' perspective • Policy challenge poorly understood by policymakers • Other constituencies dominate attention of policymakers	• Perception that existing policies and programmes are effective in tackling the policy challenge • Policymakers and elites consider poor people undeserving of resources and attention • Politicians uninterested in tackling long-term poverty challenges which extend beyond the election cycle	• Policy may be politically contested or opposed by powerful interest groups • Non-poor may capture majority of benefits of policy reform • Institutional weakness may limit implementation • Policy may not be budgeted for through national processes.

Source: Adapted from Bird (2008).

Problems blocking the development of policies for inclusive development go deeper than weak technical capacity and lack of political will (Bird, 2008). Governance and political economy factors often play a significant role in shaping policy processes and generating and/or exacerbating constraints to broad-based development.

Political settlements, which Box 2 defines in greater detail, lie at the core of this. Reforms to promote (inclusive) development may require changes in existing power structures and in the nature of the understandings and arrangements linking state and society. As recent scholarship has highlighted, institutions reflect power dynamics, and it is the fundamental power distribution in the political system and society and the underlying rules of the game, both formal and informal, that shape how institutions work and how inclusive, effective and representative they prove to be (North et al., 2009; Khan, 2010; Putzel & Di John, 2012; Hickey et al., 2014; Rocha Menocal, 2015).

> ## Box 2: Understanding 'political settlements'
>
> At their core, political settlements are about taming politics so they stop being a 'deadly, warlike affair', and about providing (a modicum of) stability and predictability to the political process that is needed for basic functionality. Political settlements constitute a common understanding or agreement on the balance and distribution of power, resources and wealth. This includes both formal institutions and, crucially, informal ones. It is precisely this interplay between how formal and informal institutions interact that helps explain why settings that share similar formal institutional compositions (as well as endowments) can have different developmental trajectories and outcomes. Political settlements thus define who has power and, critically, who does not. They outline the parameters of inclusion and exclusion in a given political system, be it in terms of process (such as who is included in decision-making) or outcomes (e.g. how wealth is distributed) or both.
>
> But, far from being static, political settlements are ongoing political processes that involve the negotiation, bargaining and contestation of the power relationships between key elite figures and groups, as well as between elites and the wider array of interests in society. Political settlements are 'two-level games' that involve both horizontal dynamics and interactions between elites but also vertical linkages between elites and segments of the broader population. Political settlements evolve over time as elites and different groups in state and society continue to redefine the nature of their relationship through a combination of horizontal and vertical interactions.
>
> Sources: Higley & Burton 1998; Kelsall et al. (2010); Laws (2012); Putzel & Di John (2012) Jones et al. (2014); Hickey et al. (2014); Rocha Menocal (2015).

Where elites perceive a zero-sum game in which change to promote more inclusive growth results in a relative loss of wealth and privilege or a challenge to established power relations, there will be strong incentives to divert or block even the most well-intentioned policies (see Figure 2).

Figure 2: The impact of the political settlement on economic outcomes
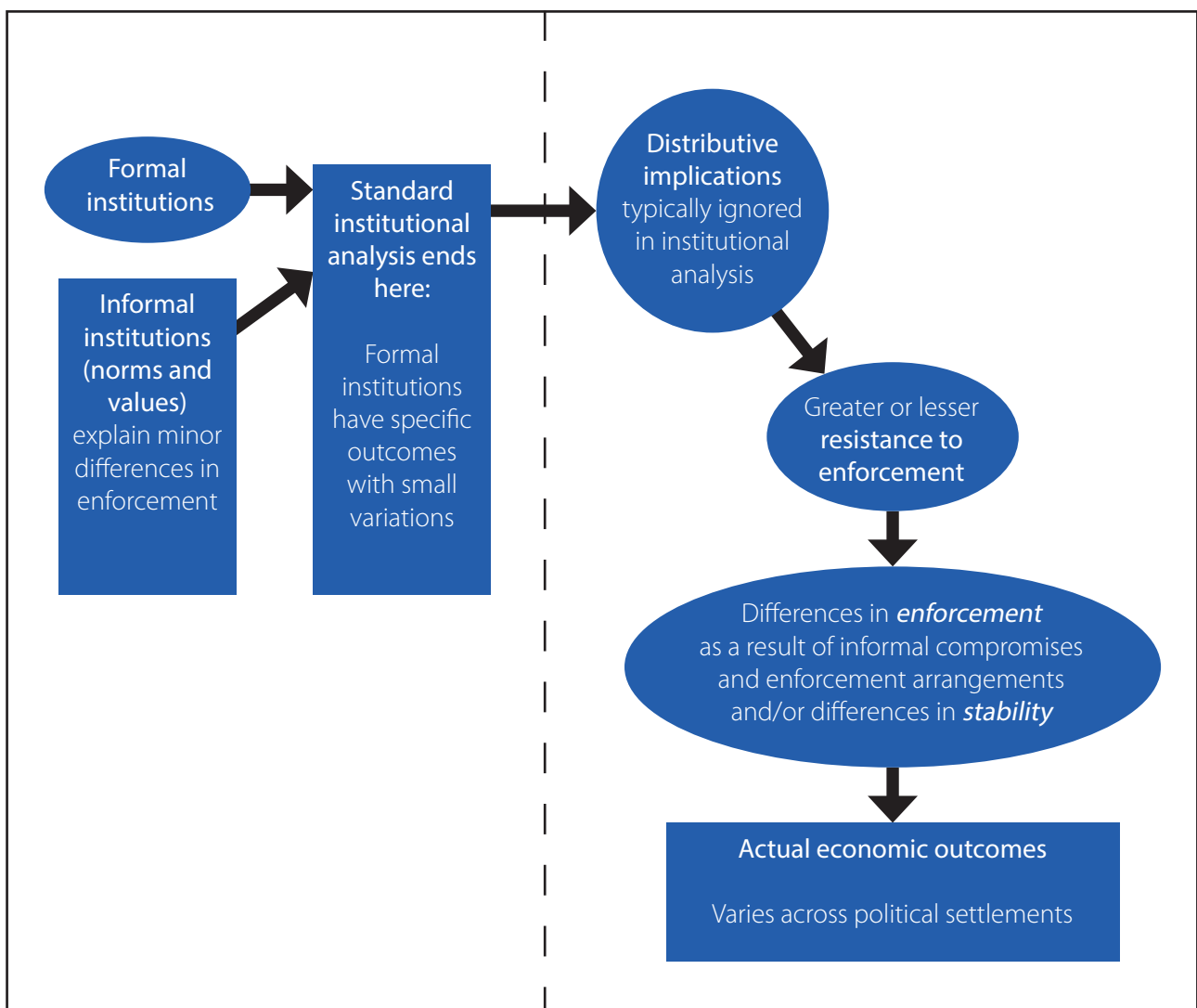
Thus, how elites (economic, political, social) are linked to broader groups in society, and whether they will use their power and influence to encourage progressive change, or to entrench their privileged position, will determine the boundaries of the kinds of transformations that are possible (Khan, 2012; Pritchett & Werker, 2012). This applies to both the maintenance of peace and the quality of the feasible policy-making for development (Booth et al., 2015). Or as Judith Teichman (2016) has put it, 'the achievement of inclusive development is, more than anything else, a political feat, and one that requires a societal agreement on the goal of inclusive development'.

Adverse institutional dynamics will generate perverse incentives that make a country less able or willing to promote more broad-based and inclusive development, and less flexible and adaptable in the face of external shocks or internal challenges (Khan, 2010 and 2012; Bluhm & Szirmai, 2012). Where the political settlement is defined by strongly asymmetrical distributions of power, wealth, access and knowledge that are rooted in systematic exclusion on the basis of group-based identities (or what Frances Stewart (2008) refers to as 'horizontal inequalities'), contestation and bargaining become even more one-sided. The exclusion of groups based on identity (be it regional, ethnic, gender-based, etc.) can present a number of barriers to the provision of the enabling environment necessary for more inclusive and broadly shared development. This is much of the reality characterising many of the subnational conflict dynamics across Asia highlighted above. And, as Parks et al. (2013) have argued, ending or reducing these practices requires a shift in the political balance that has kept them in place for so long.

The central question thus becomes: What drives power-holders to act in ways that promote shared prosperity and inclusive development (Williams et al., 2009; Pritchett & Werker, 2012)?

In the Asian context, certain political settlements have emerged/evolved over time that have supported fundamental processes of development along more inclusive lines.

In his historical analysis of state formation processes in a variety of countries in Southeast Asia, Dan Slater (2010), for example, argues that internal conflicts occurring at critical moments of state-building have encouraged the formation of elite pacts that have also had developmental and redistributive elements and proved highly durable over time. His central argument is that endemic contentious politics – which occurs when large-scale 'class conflict afflicts urban areas and exacerbates communal tensions' – fosters the elite collective action necessary to create a powerful and highly centralised state apparatus. Slater highlights the ways in which endemic and unmanageable conflicts have compelled economic elites to hand over key fiscal powers to the state. The resulting 'protection pacts', seen, for instance, in Malaysia and Singapore, have extracted considerable compliance and resources from state officials, the middle classes and economic and communal elites. By contrast, episodic and manageable conflicts make it harder for authoritarian leaders to garner strong support from economic and other elites. In such cases, contentious politics is not sufficiently threatening to convince elites to transfer resources to the state. The result is a much weaker provision pact, exemplified by the Philippines and Thailand, that survives mostly through patronage and spending.

This may be the case of India as well. According to Kohli (2012b), the main model of development in India has been a close alliance between state and indigenous capitalism, but the latter have remained extremely powerful actors in this relationship. The Indian state has carefully calibrated external opening of the economy, ensuring that indigenous capital does not bear the brunt of such a move. The state–capital alliance has thus facilitated rapid growth and some reduction in poverty, but growing inequalities are also retarding the poverty-alleviating impact of growth (see also discussion above on land reform).

Thus, according to Slater (2010), 'imminent shared threats' are a far more reliable source of elite cohesion than the more uncertain prospect of shared material gain. In a variety of countries in Asia, this kind of systemic threat has compelled otherwise fragmented elites to unite behind a regime/system (often authoritarian/military) to protect their own interests. As Kelsall et al. (2010) have argued, political stability and order is critical not only for institutions to function but also for elites to be able to engage in the type of long-term thinking and planning required for growth and development. This is very much one of the underlying drivers of the developmental state in the original 'East Asian tigers' (Hong Kong ; Singapore; South Korea, Taiwan,): they all faced, or perceived they faced, existential external threats to their very survival in the first place (Leftwich, 2005). And, as Booth et al. (2015) have argued in the case of Southeast Asia, systemic threats have also encouraged (if not forced) elites to consider the interests of society/the masses more broadly and to adopt pro-poor policies. As Booth et al. note, in their origins, the most successful developmental regimes of Southeast Asia were either counterrevolutionary states that had faced a serious communist threat (Indonesia, Malaysia, Thailand) or post-revolutionary states needing to appease their mass support base (Vietnam):

> In Indonesia, Suharto's New Order emerged from the violent destruction of the Indonesian Communist Party in 1965, and its pro-rural, pro-poor development strategy aimed to prevent a resurgence of agrarian radicalism. In Malaysia, the fight against rural poverty was seen by national leaders as a direct continuation of the anti-communist struggle known as the Malayan Emergency (1948-1960). In 1959 the government vowed, in its pursuit of poverty reduction, 'to marshal all available resources, and to deploy them with such determination and energy as were used to free the country from the menace of Communist terrorism'. In Thailand, the communist challenge was part of the rationale for rural development efforts in the 1960s. As one deputy prime minister stated in 1966: 'If stomachs are full people do not turn to communism'. In Vietnam, communist governments have felt obliged to deliver some of the benefits they had promised the poor, even if this meant abandoning much of their original anti-capitalist ideology (Booth et al., 2015).

4

Political settlements and institutions: How they matter in shaping prospects for inclusive development

4.1 The orientation of the state and the nature of the political system

As discussed above, the role of and dynamics between competing elites, in ongoing interactions, bargaining and contestation with social forces from below, are fundamental in shaping the orientation and capacity of the state (Thorp et al., 2012; Hickey et al., 2014). Thus, the state is a 'relational phenomenon', as Hickey et al. (2014) have put it. Seeing the state as a political settlement (Khan, 2010) or a 'political order' (North et al., 2009) that embodies a set of power relations and establishes the rules of the game and access to political and economic resources is important to understand the possibilities of progressive institutional change and policy reform (Putzel & Di John, 2012).

The state – and its capacity to apply and implement policy choices within its territory (vom Hau, 2012) – is the single most important institution in achieving pro-poor development. Inclusive development is not only about growth *per se* but also about redistribution, and the state has a central role to play in this (vom Hau, 2012; Hickey et al., 2014). The relational dimension of state capacity shapes the politics of basic service provision, investment in public goods, the design and implementation of social welfare policies and the generation of an enabling environment for private sector investment (see Evans, 1995; OECD, 2006; Bird, 2008; Hickey et al., 2014, among others).

The nature of the state and the political system, the extent of political competition, the kinds of relationships and dynamics between different actors in both state and society and the ways in which politicians and public officials gain and hold on to power are all important in affecting political calculations and incentives and shaping the prospects for more inclusive growth.

Some of the leading features that have come to define the Asian model of development, as captured perhaps most fully by the East Asian tigers, but also more or less evenly by other countries, from China and Vietnam to India and Indonesia, include (Evans, 1995; Fritz & Rocha Menocal, 2007; Boltho & Weber, 2009; Kohli, 2012a; Sen, 2012; Hickey et al., 2014; Booth et al., 2015):

- A high degree of internal coherence.
- Capable, autonomous bureaucracy that is also embedded in society – that is, relatively independent of special interests while it remains well linked with non-state actors who contribute to policy formation that is also embedded in society.
- Political leadership with a long-term vision committed to developmental goals.
- A close, narrow but vital, mutually beneficial relationship between state and crucial economic elites.
- Successful policy interventions for growth.

A key feature of many of the states in Asia that have been able to promote inclusive development (more or less evenly of course) is that, with the notable exception of India, these states have been authoritarian in nature. Thus, as much of the Asian experience suggests, what matters most for growth, and also for shared development/reduced inequality, is not whether a political system is a democracy or not. Instead, what seems to matter is how effective a state is: how it is organised and what kind of leadership it has in place – and whether the state is developmental in its orientation. This has not been entirely unproblematic. As different scholars have noted (Haggard, 1990; Kohli, 2004; Thompson, 2010), many of these Asian developmental states, ranging from South Korea to China to Indonesia, have been quite repressive. 'Progressive' leaders have been quite pragmatic, and the self-proclaimed 'enlightened' segment of the elite has undertaken modernisation while marginalising backward elites and supressing organised labour in order for the country to 'catch up' with the rest of the world economically and politically.

In effect, in much of the Asian context, legitimacy has not necessarily been derived from democratic accountability and open, inclusive and participatory decision-making processes. Other sources of legitimacy have ranged from nationalism and concerns about order, if not survival altogether, to charismatic leaders and cultural values and ideas (Gainsborough, 2012). However, state performance and what states actually do – including the fostering of economic growth, public service delivery, law and order enforcement and the state's overall responsiveness to the people's needs – has perhaps been the most fundamental (Chang et al., 2013).

This does not mean that authoritarianism is needed to promote development, but it does suggest that democratisation poses distinct challenges to states that are trying not just to establish more solid democratic institutions but also to transform themselves along different dimensions, including in terms of building a more effective and capable state and promoting broad-based, inclusive development (Rocha Menocal, 2011). Most of today's East Asian democracies, for instance, are the successors of growth-friendly, market-conforming, authoritarian regimes (Chu et al., 2008). Data emerging from 11 countries in Southeast Asia also suggests that liberal democracy and effective governance do not go hand in hand – though critically they are not inimical (Indonesia is an interesting example – see Emmerson, 2012). Countries that are the most democratic are not always the best governed, and the reverse is also true. In Singapore and Malaysia, for instance, the quality of governance exceeds the quality of democracy. Timor-Leste, on the other hand, scores much higher on the democracy front, but it is also the poorest performing country in the set. As Francis Fukuyama (2012) has put it,

> The core states of East Asia – China (both the People's Republic of China and Taiwan), Japan, and Korea – developed relatively high-quality, centralized bureaucratic states early in their histories and consolidated relatively uniform national identities on the part of ethnically homogeneous populations centuries before any of them developed countervailing institutions of law and accountability that would check and balance state power. Unlike many new democracies in other parts of the world, where states were weak and lacking in capacity when they established rule of law and accountability institutions, East Asian democracies could presuppose the existence of a strong and coherent state.

But the challenge for many states in Asia that have recently made a transition to democracy, or that have been democracies for some time but remain weak (as in the Pacific, see Barbara, 2016), is that expectations for them to deliver remain extremely high. As Chang et al. (2013) have noted for a variety of countries in Southeast Asia, citizens assess the legitimacy of the state on their overall responsiveness to citizen demands and their capacity to address the problems that people care about most. Corruption in particular has emerged as an issue that people are concerned about and very much colours their perceptions of state actors and institutions. From the corruption charges levied against Thailand's former premier Thaksin Shinawatra and former Filipino president Gloria Macapagal-Arroyo, to the cries of cronyism in Malaysia and Indonesia, corruption has been a focal point for popular discontent across (Southeast) Asia – and it is also a concern that has widespread resonance well beyond the region, including in both the developing and the developed world (Bergh et al., 2014).

On the other hand, Chang et al. (2013) also find that indicators like freedom, electoral accountability and perceived democratic progress over the past decade are not significant in explaining the level of regime support across the region. This is a sobering observation for emerging democracies in Asia and beyond. It suggests that, all else being equal, putting in place the basics of representative democracy will not bring a political system any kind of advantage in terms of popular support if it doesn't delivery on expected goods. Beyond Asia, in countries like Democratic Republic of Congo, Tanzania and Zambia, for example, formal institutional reforms have included the adoption of a new constitution, the holding of elections and policies to combat corruption and promote transparency. However, so far these reforms have not put these countries in a trajectory of sustained growth, and in all those countries democratic institutions remain fragile. In Rwanda and Ethiopia, on the other hand, institutional arrangements that limit democratic competition have nonetheless encouraged significant growth with a degree of poverty reduction (Putzel & Di John, 2012). This once again helps highlight that governance trajectories and processes of transformation to foster more inclusive development are not linear, and often involve difficult dilemmas and trade-offs.

A key challenge for many incipient democracies in Asia and beyond is how to harness collective action among elites and between elites and broader social groups to promote inclusive development. Where power is more diffuse/less centralised, the cards tend to be stacked against equity-enhancing policy change. Given that efforts at redistribution are likely to face strong opposition from established elites, a broad coalition of support in society and/or determined, coherent state action are often necessary for success (Grindle, 2002; Haggard & Kaufman, 2004). But in settings where formal institutions are weak and ineffective, co-exist uneasily with informal ones and as a result are often infiltrated by personalised interests, this can be very difficult to achieve. The proliferation of interests, often exacerbated by clientelistic politics, encourages fragmentation within both the state and society and militates against the emergence of a united front of potential beneficiaries of progressive reform. Patronage also undermines the internal unity and coherence of the state, which, as a result, cannot impose reforms benefiting wider sections of the population against elite opposition.

Proponents of reforms to promote more inclusive development face a hard task: for policies to be formulated and implemented, reformers need to sway all relevant decision-making institutions and players who have the power to derail such efforts. In contrast, those who oppose more redistributive reforms need to gain support only from a limited number of these institutions and players to block change (Weyland, 1996; Keefer, 2011). Persistent failure to address the problems associated with a highly unequal distribution of land in Guatemala that goes back almost two centuries and was a major root cause of the country's 30-year internal conflict offers a powerful example of how these different interests can thwart reform. Nepal is another compelling illustration of these dynamics at work. Here, the prospect of progressive reform has also been thwarted by elites who feel threatened when the poor begin using their larger numbers to seek equal rights and redistributive policies. As Lawoti (2014) has argued, 'the experience of Nepal over the last decade … suggests that a country can see broad mobilization by marginalized groups, complete with reforms that empower wider sections of society, yet still have to cope with entrenched groups that remain influential and resist change by subverting democratic processes'.

4.2 Rents and neo-patrimonial states

The allocations of rents and patronage often play a central role in buying off groups that can threaten the system. International development circles condemn the capture of public resources by public and private elites in developing countries, and, as the good governance agenda suggest, place considerable emphasis on the need to reduce corruption as a (pre-)condition for growth and development more broadly. Yet, as the review of the evidence above has suggested, causal linkages between corruption and (lack of) development remain far from well established – even if, as has also been highlighted, corruption is an issue that citizens in particular seem to care a great deal about, especially in assessing the legitimacy of the state.

In fact, rents need not always be detrimental to growth and development. In settings where formal institutions remain weak, rents can be an important informal institution of credible commitment (Sen, 2012). If rents are invested productively in dynamic sectors of the economy, they can also be a source of growth and/or help limit violence and promote stability and even more inclusive development (Khan, 2006; North et al., 2009; Hickey et al., 2014). The experiences of the East Asian tigers, and China and Vietnam more recently, based on very close ties between state organisations and business groups, provide an example of this. The Africa Power and Politics Programme echoes similar insights emerging from comparative research undertaken in seven African countries. As these studies suggest, neo-patrimonialism need not always be detrimental to growth. In some instances (Indonesia and the Philippines, for example), the regime in power can also be 'developmental' – it can be committed to long-term growth and development, carry out needed strategic coordination and exercise central control about the collection and distribution of rents, which can engender economic growth (Booth, 2012; vom Hau, 2012; and echoes of Meisel & Ould Aoudia, 2007).

Yet it is also important to note that the evidence on rents and development is not solid enough to support or refute different claims (Williams et al., 2009). 'Developmental patrimonial states' have not proven that sustainable over time and remain rather rare (Booth, 2012). As Khan (2004) suggests, one possible reason for this is the political *modus operandi* of developmental patrimonialism and the lack of structural transformation it entails (i.e. developmental patrimonialism can maintain elite commitments to a small growth coalition but cannot engender the expansion of the productive economy, the systematic formation of human capital or the creation of new social forces through redistributive measures). This raises the issue of the extent to which claims about the developmental capacities of patrimonial states are based on a select number of rather exceptional and short-lived cases (vom Hau, 2012). Moreover, recent scholarship leaves important questions unanswered in terms of the relationship between organisational competence and patrimonialism. If the centralised monitoring of rents is a crucial aspect of 'developmental' patrimonialism, this may presuppose a minimum of hierarchic organisation and impersonal decision-making that is usually associated with effective bureaucracies.

As Williams et al. (2009) have noted, the main challenge remains to understand the conditions under which rent-seeking is particularly damaging, and whether and how it may be possible to promote growth despite pervasive corruption. While the benefits of the insider system are concentrated in just a few hands (the gains are 'privatised'), the risks and the losses are spread throughout society (the costs are 'socialised'). This type of system tends to deepen inequality – and, as has been noted, there is a real danger of corruption further alienating citizens from the state.

4.3 Political parties

Political parties are prime institutions linking state and society, and they are instrumental vehicles for collective action and organisation (Carothers, 2006). They have also played an instrumental role in driving political settlements as well as shaping government incentives to adopt policies that can foster more or less inclusion (Putzel & Di John, 2012). It is therefore essential to understand the kinds of incentives and interests that drive political parties and the contexts within which they operate, to better appreciate why they function in the way they do. Their structure, organisation and strategy will be important in determining how effective they are at promoting stability and harnessing collective action towards inclusion or exclusion, and towards greater or lesser developmental aims. In Tanzania and Zambia, for example, well-established political parties were able to mediate the bargaining process and incorporate factions and individuals into security forces in a regulated manner, and this was one of the most important factors behind establishing a more resilient state (Lindemann, 2008). Putzel and Di John (2012) also find that, in almost all cases of state resilience in poor countries, national political parties have organised forms of centralised patronage and the management of rents. On the other hand, they argue, where the basic parameters of the state remain contested – for example as to who is a citizen and who is not, or the basic authority to allocate property rights – the establishment of multiple political parties may allow rival elites and their social constituents to challenge the existence of the state itself, leading to exacerbated conflict.

Research carried out by Keefer (2011) suggests states are more likely to pursue and implement policies that promote more inclusive development over the long term where there are institutionalised political parties in place. As Keefer defines, institutionalised parties are organisations that can convey a programmatic policy stance, discipline party leaders and members and facilitate collective action by citizens. For instance, the Communist Party in Kerala, India, built its strategy on a concerted attack on rural poverty. With its roots in social movements, the *Partido dos Trabalhadores* in Brazil was until very recently an extremely coherent, well-organised and institutionalised vehicle for collective action. It played an instrumental role in shaping government incentives to adopt policies that can foster more inclusive development. The same may be said of ruling political parties in China and Vietnam, as well as that in Ethiopia. Curiously, as Keefer notes, often, non-democratic systems are likely to exhibit more

institutionalised ruling parties than democratic ones, especially at higher levels of development, as in (South)East Asia.

According to Keefer (2009), the kind of clientelism present in many newly democratised states leads to inferior provision of public goods, greater corruption and reduced growth. It is worth noting, however, that the evidence surrounding the assumption that programmatic parties deliver better and more inclusive outcomes remains inconclusive. For example, research conducted by Kitschelt et al. for International IDEA (2012) suggests that, while strong clientelism is associated with a slight reduction in economic growth, there is no marked association between programmatic politics and higher growth. Similarly, Kitschelt et al. (2012) find that clientelism does not seem to have been associated with a reduction in human development indicators, and it may actually improve some – for instance, life expectancy, literacy and subjective well-being. And the 'programmatic' versus 'clientelistic' party categories are rarely as mutually exclusive as such labelling might suggest. Parties are likely to combine targeted clientelistic appeals with universal provision pledges and vice versa (ibid.).

Moreover, strong programmatic parties can be damaging for a polity if this leads to ideological polarisation that reduces the potential for compromise between political actors (the nature of political debate in the US today is a strong illustration of this). This can lead to deadlock over legislation or rapid alterations in government policies, both of which are destabilising for society and the economy (Galston, 2010). More clientelist appeals may therefore be necessary to defuse social tensions and provide continuity of policies in certain circumstances.

These different research findings once again point to the fact that the relationship between party form, motivation, inclusion and development remains far from simple or linear, and context, the maturity of the political system and the nature of political competition all matter. Across much of the developing world, and especially in fragile settings, the necessity of winning elections for political survival, or what Carothers (2006) has characterised as 'relentless electoralism', means that political parties are preoccupied with winning power and elections. Their concern for the public good is at best secondary (vom Hau, 2012).

In addition, public financing of political parties across the developing world remains rare – and, with low levels of trust in and performance of parties, public opinion is often not in favour of its introduction. This makes the sustainability of parties quite challenging in the long run. In effect, it may in fact help strengthen the relationship between economic and political elites even further, as only they can afford to maintain parties and are therefore dominant in the party system.

All of these different factors are likely to have impacts on the developmental or more personalistic approach of political parties and the role they can play in shaping political settlements that are more or less inclusive.

4.4 Collective action and coalition-building

The ability of stakeholders to influence developmental patterns depends not only on what they seek to achieve but also on their relative power and the institutional context in which decisions are made. As has been discussed, the politics of inclusive development and inclusive institutions are processes of contestation, bargaining and cooperation within and between the state and society over the use, production and distribution of rights and resources (Williams et al., 2009; Rocha Menocal, 2011; Hickey et al., 2014), and are therefore central in shaping political action and determining policy outcomes (Haggard & Kaufman, 2004). When it is not possible to achieve the right constellation of institutions, interest groups and incentives, economically and politically powerful groups that may feel threatened by reforms can block developmental policies and outcomes intended to favour the poor.

Significantly, collective action can be negative for development where it leads to extractive rent-seeking by small elite groups, but it may be positive where it evolves into a process of bargaining around issues of broader public interest and where there are opportunities for a wide range of non-state organisations to participate (but it is also worth noting that the strength of collective action will itself depend on the incentives and interests of the groups concerned) (Williams et al., 2009). For instance, groups that have traditionally been excluded or been marginal in policy-making processes (e.g. the rural and urban poor) may gain salience to the extent that they are allied with better-off groups that have more leverage (Kosack, 2012; Nelson, 1992). The discussion in the previous section highlighted how fragmented social interests may thwart efforts to foster shared development. Nevertheless, many of the poor have ethnic, clan, patronage or other ties to more vocal and organised groups, which may in turn exercise considerable influence on local politics. In addition, the wealthy can be persuaded to support policies and programmers to make growth more inclusive if they see such changes as being essential to achieve or protect more fundamental interests (Pritchett & Werker, 2012). This may happen, for example, if a link is identified between poverty and crime, social unrest or poor economic performance; or by demonstrating the political gain to be made from measures to enhance equity (Bird, 2008).

Political responses, and thus the viability of reforms to promote shared development, are also likely to be affected by the design of programmes themselves. For instance, pro-poor policies tend to be much more difficult to the extent that they transfer, or are perceived as transferring, resources directly or indirectly from more to less privileged groups. However, there are some features of programme design that can provide political leaders and policymakers with some leeway in shaping political responses to measures to foster more inclusive development. The difficulty of implementing redistributive programmes increases to the extent that resource transfers are obvious, long-term and large. Transfers of assets (like land) tend to be more difficult than transfers of income.

Target group also matters. Transfers narrowly targeted to the deserving or appealing poor (like conditional cash transfers aimed at the very poorest) are difficult to oppose. Broadly targeted programmes have a large clientele. Programmes falling

between these categories may need to rely on 'upward leakage' – that is, permitting benefits to flow to people technically not poor enough to qualify – in order to survive politically. Finally, measures that require considerable institutional change or that remove control over patronage sources are more difficult than those that do not have those qualities (Nelson, 1992).

On the other hand, as discussed earlier, bottom-up pressures can also help harness more substantive transformation towards greater inclusion. As many of the experiences of evolving political settlements in different countries in the region show, the political influence of the poor/marginalised is considerably heightened if/when the state and/or elites fear that they will be attracted by dissident or radical groups, that there is a real danger that protests or mass mobilisation will threaten order and paralyse the economy or that national integrity and the minimal legitimacy to maintain existing order will be compromised. As Dan Slater (2010) has argued in the case of Southeast Asia, there are important social contract dimensions inherent in elite coalition politics. The hardest yet also the most essential task for any leader is solving the collective action problem among them. But the spectre of communism or genocidal ethnic conflict from below has proved essential in enabling coalitions that can mitigate those threats while addressing the critical needs of the population. At least relevant pockets of a country's middle classes need to be persuaded that they, too, will stand to lose if they do not cooperate with state elites in extending the benefits of growth and development. For example, Indonesian middle class memories of fearing for their lives from communists long held the New Order together. But, once their concerns had receded into the background, the need for a coalition with the state also evaporated, and the New Order collapsed a generation after its inception.

It is crucial to keep in mind that 'elites' are not homogeneous – and conflicts and fractures across types of elites (e.g. political versus economic), within elites (e.g. across ethnicity or region or ideology) and in the dynamics of elite formation (e.g. the rise of new domains with new elites) are likely to emerge (Pritchett & Werker 2012). The same can be said of the 'private sector', both national and international (ibid.). Such differences in interests, incentives, social and political alignments, ideas and affinities cannot be ignored, because the promotion of more inclusive growth is likely to require some realignments of political power through the construction of (new) coalitions or the political weakening of specific distributive coalitions that are opposed to such change (Khan, 2009). Collective action and coalition-building can thus be important in applying pressure on state actors and political leaders to pursue shared interests.

4.5 International (f)actors

Importantly, international drivers/actors can also play an important role in influencing the incentives and dynamics of domestic actors, both positively and less so. For instance, the political economy of inclusive development is intimately tied to the formal and informal relationships of domestic elites with international economic opportunities and the sources of foreign exchange (Pritchett & Werker, 2012). These linkages can have an important impact on state capacity and commitment to developmental objectives (Hickey et al., 2014). The availability of 'unearned' income, from natural resources or aid, for example, can lessen the interest of governments in promoting inclusive development, or in delivering a range of public goods and services in exchange for tax revenues (Unsworth & CRU, 2007). This is because such sources of income do not require the support, or at least the acquiescence, of the population to finance the state.

Foreign intervention during the Cold War also proved important in supporting the kinds of authoritarian regimes that emerged in Asia. As different analysts have argued, Western powers intervened mightily in post-war Southeast Asia, in support of state elites. Slater (2010) notes that, in particular, when social mobilisation/contentious politics from below took on especially threatening and unmanageable forms, Western actors joined Southeast Asian leaders in pursuing state-building efforts. The Tet Offensive in Vietnam is another powerful illustration of how international forces can exert considerable influence in reshaping elite calculations and coalitions.

China, for its part, exerts significant influence across Asia on account of its size, its power and the extraordinary developmental transformation it has brought about. Among other things, China's robust economic success, replicated in Vietnam, has served to reinforce the appeal of an authoritarian Asian model based on one-party rule – and this is especially powerful or compelling as emerging democracies are seen to be struggling or experiencing democratic backsliding. The experience of China has helped leaders in such states keep pressures towards more open and inclusive institutions at bay.

China casts a particularly long shadow in its immediate surroundings. Proximity to China has profoundly shaped the nature and evolution of neighbouring states. As Benjamin Reilly (2013) has argued,

> Throughout their changing history as traditional kingdoms, colonial fiefdoms, or modern single-party autocracies, the states along China's southern border have never been democracies. Today, Laos and Vietnam remain standout examples of the 'China model' of closed and nominally communist political systems with open and mostly competitive market economies. Cambodia practices a different but analogous model of partly competitive elections under what is effectively single-party rule.

In many ways, the process of political opening that Myanmar is currently undergoing has been a conscious decision by the Myanmar leadership to reduce dependence on China and its sphere of influence. The process of liberalisation in the country, partly intended to reorient the country's foreign policy and court the West, threatens to undermine China's core strategic interest in retaining like-minded regimes around it, and this has generated considerable tensions (Bünte, 2014).

5

Concluding reflections: Lessons from Asia on institutional transformation and inclusive development

As discussed at the outset of this paper, there is an incontrovertible relationship between more open states, prosperous economies and inclusive development over the long term. Effective institutions can be found woven through most successful and developed countries today. What is a lot less clear, however, is how countries across the developing world can get to this point. Understanding how the different institutional transformations that are needed can be achieved, and whether they are essential (pre-)conditions or, rather, outcomes of change, remains the fundamental challenge of contemporary development.

Asia offers important insights in this respect. The region is home to a wide variety of political systems that span the spectrum from authoritarianism to democracy and hybrids in between. Asia is also considered the most successful region across the developing world in terms of both economic growth and poverty reduction, while on the whole it remains less unequal. But deep pockets of poverty and inequality remain, and subnational conflict is widespread. Different countries in Asia have embarked on multiple trajectories of change across the dimensions highlighted in this paper. These experiences are very helpful in crystallising what kinds of factors, relationships and dynamics have made a difference in fostering (inclusive) development, and in capturing potential implications for processes of transformation in other regions.

Perhaps the most significant emerging lesson is that institutions, and the underlying politics and power dynamics that give them shape and substance in specific contexts (in short, political settlements), lie at the core of the puzzle of when and how development can become more inclusive. This is by no means a new insight, but rather reinforces much of the thinking and research on development policy and practice over the past two decades. Nevertheless, the fundamental importance of this point cannot be emphasised enough, especially since much of the way in which the international development community continues to work towards fostering more inclusive states and societies is not grounded in such an understanding of how change happens.

While the good governance agenda tends to assume too easily that 'all good things go together', the Asian experience vividly illustrates how problematic this assumption is. This is not to suggest that the scope and ambition of this agenda, or those of the new framework for transformation embodied in the SDGs, are not laudable or inspiring. These are without a doubt worthy normative aspirations over the long term not only for the developing world but also for countries that today can be considered prosperous and broadly inclusive. However, despite good intentions, discussions on good governance and 'legitimate' and 'inclusive' institutions tend to become prescriptive, without addressing the critical question of *how* states and societies can transform themselves in ways that are more inclusionary, open and representative. What we know from Asia – as well as other regions more broadly – is that the process is complex, and that there will always be difficult dilemmas and trade-offs between equally compelling imperatives. It is unlikely that all tensions will be resolved at once, but if they are better understood they can, at least, be better managed.

On the other hand, these same dilemmas and tensions also help highlight that there is no single blueprint or model of change; rather, there are multiple paths to development and to high institutional performance. It has become clear that promoting growth and combatting the roots of poverty and inequality is not simply about providing needed resources and strengthening virtuous institutions based on ideal models of governance. China, for instance, has made quantum leaps in promoting economic growth, but has done so also in an environment where corruption has thrived, individual rights and freedoms have been curtailed, formal property rights have not been in place and inequality has become more pronounced. India offers a counter-example: political and economic transformations here have been more mutually reinforcing – but here too corruption has been rife, and state effectiveness has suffered.

As this paper has sought to highlight, the good governance agenda has considerable limitations. The variety of experiences in Asia also suggest that it is necessary to understand the institutional arrangements in place in a particular country beyond binary distinctions (e.g. democracy/non-democracy; presence/absence of corruption; etc.). Based on these insights, over the past several years there has been a growing emphasis in academic and policy work on the need to disaggregate the concept of governance and differentiate more clearly what governance improvements may be most crucial at different stages to ignite and sustain economic growth and broad-based development.

That should be encouraging, as it suggests there is room for flexibility in the short to medium term as countries seek to promote growth and more inclusive development, even if confronted with important institutional weaknesses. What is needed is a more strategic and pragmatic perspective to institutional reform that can help us identify and prioritise which governance improvements are most crucial at different stages of growth to enable more inclusive development. These concerns about differentiation and prioritisation have led to growing calls, including from within the international policy-making community, to shift from a focus on 'best practice' towards 'best', or even 'good' fit (World Bank, 2008; Booth, 2012). Merilee Grindle (2002) has conceptualised this as striving for 'good enough governance' rather than sweeping governance reforms. Kahn (2009) has stressed the need to focus on 'growth-enhancing' as opposed to 'market-enhancing' governance (see Box 3). Arguing that, while there may be one economics, there is no single recipe for economic growth and development, Rodrik (2007) has stressed the need to identify 'binding constraints' – policy interventions, he argues, should seek to tackle such constraints, which are deeply contextual, rather than follow a pre-packaged list of reforms in all countries.

Box 3: Market-enhancing versus growth-enhancing governance

Market-enhancing governance focuses on reducing transaction costs to make markets more efficient. The key governance goals are:

- Achieving and maintaining stable property rights.
- Maintaining rule of law and effective contract enforcement.
- Minimising expropriation risk.
- Minimising rent-seeking and corruption.
- Achieving the transparent and accountable provision of public goods in line with democratically expressed preferences.

Growth-enhancing governance focuses on enabling developing countries to catch up in a context of high transaction cost developing country markets. In particular, it focuses on the effectiveness of institutions for accelerating the transfer of assets and resources to more productive sectors, and accelerating the absorption and learning of potentially high-productivity technologies. The key governance goals are:

- Achieving market and non-market transfers of assets and resources to more productive sectors.
- Managing incentives and compulsions for achieving rapid technology acquisition and productivity enhancement.
- Maintaining political stability in a context of rapid social transformation.

Source: Khan (2009).

So if the good governance agenda does not provide the answer for how states and societies can become more broadly inclusive over time, what institutional factors, processes and dynamics matter - when, where and why - in getting very poor countries to the next stage in their development? The response to this must of course be country-specific, but from the literature and this paper's analysis, a few insights emerge that reinforce ongoing research on the politics of development:

- Processes of elite bargaining within and outside the state, often in dynamic interaction with pressures from below, play an instrumental role in shaping the nature of the state and its capacity and effectiveness.

- While it has become fashionable in certain circles to downplay the significance of the state, the Asian experience shows that the state remains a leading factor in promoting and securing inclusive developmental outcomes. Effective states have been a hallmark of all post-World War II examples of long-term inclusive development, in Asia and beyond (Hickey et al., 2014). The state itself has been the leading entity with the mandate, capacity and legitimacy to redistribute wealth and resources (Leftwich, 2008).

- Basic state capacity has also proven elemental to make other transformations possible (e.g. democracy). In countries where such basic state capacity exists, processes to de-concentrate power and create more open and inclusive political systems have borne fruit (e.g. South Korea).

- Yet states have also proven they can be highly effective in some areas without being concerned for either development or inclusion. This suggests that elite commitment and political leadership, often based on a political vision anchored in a shared sense of national purpose, are also crucial elements of what works.

- Political parties that can mobilise around such a project and foster collective action have also been significant in the struggle for more inclusive polities and political processes.

- Strategic coalition-building with well-placed actors and allies is also essential. As this paper has argued, the main challenges in promoting growth and more inclusive development are not technical or even financial, but political. Thus, how the politics of coalition-building plays out has important implications for the prospects for inclusive development (Hickey et al., 2014).

- International factors, players and dynamics are also important in facilitating or constraining prospects for progressive change, as they can influence domestic incentives and processes for or against reform. Directly or indirectly, international development organisations can make a useful, and perhaps even indispensable, contribution in helping actors in both state and society overcome institutional obstacles to transformation along different dimensions. As has been discussed, unresolved processes of contestation and (failed) collaboration are some of the biggest constraints to improving development practice at all levels, from bottom to top. Donors may therefore have a fundamental role to play in building trust, nudging incentives and interests and seeking to facilitate and broker spaces for collective action.

Critical in all these institutional processes and dynamics is the balance between choice and constraint. How much scope do politicians, policymakers, civil servants, organised social groups and other stakeholders have to reshape political settlements and promote change along different governance dimensions in the domestic and international contexts in which they operate? How much are the choices before them historically conditioned and path dependent, especially in light of how power structures and relations have evolved over time? Based on the experiences and lessons emerging from Asia, the analysis provided in this paper is intended to invite further dialogue on how more inclusive political settlements might emerge, and how the international community might more effectively and substantively support such transformations in the underlying rules of the game. Among other things, this will involve recognising that the variety of transition processes involved in reshaping political settlements may not be mutually reinforcing. There may be multiple paths to development, institutional performance and, ultimately, inclusion. The relationships among these dimensions of change in political settlements – and the pace of changes within transitions counted as broadly successful – cannot be assumed. Their complex linkages and dynamics need to be examined empirically, by research and policy lesson-learning. This paper has sought to contribute to this ongoing challenge.

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