

# **Comparative Analysis of Governance: Relationship Between Bureaucracy and Policy Co-ordination Capacity with Particular Reference to Bangladesh**

**September 2005**

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Institute for International Cooperation  
**Japan International Cooperation Agency**

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# **Comparative Analysis of Governance: Relationship Between Bureaucracy and Policy Co-ordination Capacity with Particular Reference to Bangladesh**

**KONDOH Hisahiro (Ph.D.)**

(近藤 久洋)

**Assistant Professor**

**School of International Relations, Tokyo International University**

**September 2005**

Institute for International Cooperation

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**Japan International Cooperation Agency**

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Japan International Cooperation Agency (JICA)

10-5, Ichigaya Honmura-cho,

Shinjuku-ku, Tokyo 162-8433 Japan

FAX: +81-3-3269-2185

E-mail: [iictae@jica.go.jp](mailto:iictae@jica.go.jp)

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## Abbreviations

ADPs	Annual Development Programmes
BNP	Bangladesh Nationalist Party
BUET	Bangladesh University of Engineering and Technology
CDF	Comprehensive Development Framework
CEPD	Council for Economic Planning and Development
CIECD	Council for International Economic Co-operation and Development
CNAIC	Chinese National Association of Industry and Commerce
CNFI	Chinese National Federation of Industries
COE	centre of excellence
DPP	Democratic Progressive Party
ECNCID	Executive Committee of the National Council for Industrial Development
ECNEC	Executive Committee of the National Economic Council
EOI	export-oriented industrialisation
FKI	Federation of Korean Industries
FKTU	Federation of Korean Trade Unions
EPB	Economic Planning Board
EPSC	Export Promotion Subcommittee
EPU	Economic Planning Unit
EPZs	export processing zones
FBCCI	Federation of Bangladesh Chambers of Commerce and Industry
FDI	foreign direct investment
GDP	gross domestic product
GTCs	General Trading Companies
HCI	heavy chemical industrialisation
HICOM	Heavy Industries Corporation of Malaysia
IDAC	Industrial Development Advisory Council
IDB	Industrial Development Bureau
IMED	Implementation, Monitoring and Evaluation Department
ISI	import-substitution industrialisation
JICA	Japan International Cooperation Agency
KMT	Kuomintang
LGED	Local Government Engineering Department
NCID	National Council for Industrial Development
MCI	Ministry of Commerce and Industry
MITI	Ministry of International Trade and Industry
MOEA	Ministry of Economic Affairs
NEC	National Economic Council

NGO	non-governmental organisation
NIEs	Newly Industrialising Economies
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
PARC	Public Administration Reform Committee
PFI	private finance initiative
QC	quality control
R&D	research and development
RHD	Road and Highway Development
SMEs	small and medium-sized enterprises
SOEs	state-owned enterprises
TIER	Taiwan Institute of Economic Research
TOR	terms of reference
WTO	World Trade Organisation



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## Abstract (Japanese)

和文要約

本研究は、国家レベルの経済政策の調整について、制度とガバナンスの観点から比較分析したものである。対象として、主事例のバングラデシュを、日本・韓国・台湾・マレーシアの各事例と比較している。

1990年代以降台頭したガバナンス論は開発援助の分野にも大きな影響を及ぼし、「グッド・ガバナンス」(good governance)の重要性がドナー機関の間で重視され、「法の支配」・「予測可能性」・「透明性」・「説明責任」といった各要素の確立・強化が図られてきた。また近年、グッド・ガバナンス論は上述の要素に加え、「ステークホルダーとのネットワーク的なパートナーシップ」を重視するようになってきている。その考えによれば、政府とステークホルダーがネットワーク構造を構築し、ネットワーク構成員間で「信頼」(trust)と「互恵性」(reciprocity)を形成することで、人と人との相互作用(interpersonal transactions)がよりよく統治される(govern)と考えられている。

しかし、本研究は「戦略的ガバナンスモデル」(strategic governance model)の構築を提案した。戦略的ガバナンスモデルとは、「政府と重要経済主体が関与する開発政策ネットワークのガバナンス」として暫定的に定義される。このガバナンスモデルは、信頼・互恵性を重視する官民間のネットワーク的相互作用だけでなく、権力行使によって階層的(hierarchical)な調整作用を統合している点に特徴がある。この戦略的ガバナンスは、信頼・互恵性と階層という構造を併せ持つことにより、国家及び社会に分散した人・モノ・カネ・情報といった資源を、戦略的に経済政策に活用し、効果的な経済政策の立案・実施に貢献する。

具体的には、日本・韓国・台湾・マレーシアに戦略的ガバナンスの事例が見られた。これら諸国では、政策調整のための多様な「制度」が活用されていることが指摘された。例えば、第一に、政府省庁内において政策調整の中核的役割を担う卓越した省庁(central agencies・pilot agencies)が創設され、ビジョンや主要経済計画・政策の立案・実施に当たって、積極的に活用されていた。第二に、財界団体・業界団体が政府の政策調整能力をサポートするために組織・活用されていた。第三に、審議会など、多数の政府・企業会合が組織・開催され、官民合同の政策調整を可能にするチャンネルとして機能していた。

これら「制度」の「ガバナンス」に関しては、権力的・階層的要素と信頼・互恵性の双方が制度を統治(govern)していた。まず、権力的・階層的要素については、官民間の緊密な相互作用が、開発ビジョンを伴った強力なリーダーシップによって権力的・階層的(hierarchical)に統治(govern)されており、会合における人選及び政策のモニタリングを通じても権力的・階層的(hierarchical)に運営管理されていたことが指摘された。また、信頼・互恵性については、戦略的ガバナンスの官民関係においてレントの配分といった互恵性も見られたが、配分されたレントについては政府・指導者による権力的・階層的な業績モニタリング・評価も伴うことが多かった。つまり、レント配分とモニタリングは「アメ(レント配分)とムチ(権力的なモニタリング)」の関係にあったのである。東アジアにおいてレント配分が国家経済開発と両立しえたのは、まさにこの「アメとムチ」の混合が存在していたためであったといえよう。これら諸国におけるガバナンスは、ドナー機関が提唱するよう

な参加型 (participatory) のものではなく、むしろ高度に選別的でエリート主義的であり、政府・企業関係も平等ではなく垂直的・階層的なものであった。

近年、バングラデシュにおいても、上述したような政策調整メカニズムが導入されてきている。しかし、政策調整メカニズムが有効に機能するには多くの問題も見られる。第一に、バングラデシュ中央政府の官僚制度は縦割りの弊害が存在し、省庁間での政策調整を行うことが特に政策の実施段階で困難となっている。第二に、恣意的で政治的な人事異動により、官僚個人のみならず組織全体の専門性の蓄積を大きく損ねている。第三に、政策のモニタリングや職員への懲戒処分はほぼ皆無であり、そのことが政策の効果発現に当たっての障害となっているばかりか、職務遂行にあたっての負のインセンティブとなっている。第四に、二大政党政治が政府機関全体に浸透しており、各党のパトロネージネットワークを拡大することにしのぎを削っている。このように、官民合同の審議形式による政策調整メカニズムが導入されてきたとはいえ、現行の政策調整メカニズムは役割が限定され、人選が不均衡に歪められ、モニタリング・評価を欠如した不完全なものとなっている。

こうしたバングラデシュでの現状を踏まえ、本研究はバングラデシュの政策調整能力を強化するための提言を行った。第一に、中央政府内部のガバナンスを改善するため、ミッションの重視及び動機付け、専門能力に応じた関連省庁内での人事異動、実力主義・実績主義に基づいた人事管理、政府内の中核的機関による集権的政策調整、アメとムチの導入、といった行政的側面の改善を指摘した。しかし、本研究はこれまでの報告書が採用した「行政的アプローチ」と異なり、ガバナンス改革の「政治的アプローチ」にも注目した。つまり、二極政治の国民的和解と政治的リーダーシップの覚醒についても強調した。

第二に、本研究は戦略的ガバナンスに関連する提言も行った。戦略的ガバナンスの導入にあたっては、官民ネットワークの TOR を明確にすること、ネットワークの人選は実力主義に基づくこと、ネットワークの活動ではメンバー間の相互モニタリングを導入すること、必要に応じてメンバーへの制裁を実際に適用可能とすることを提言した。また、戦略的ガバナンスの構築にあたっては、日本は審議会運営における比較優位を有していることも強調された。

このように、本研究では経済開発のための戦略的な政府・企業関係の制度とガバナンスについて分析を行った。現在提唱されている平等主義的な参加型アプローチのガバナンスと異なり、戦略的ガバナンスは若干エリート主義的に感じられるであろう。しかし、テクノクラートや主要企業は、社会への卓越した影響力・役割・責任を本来担うべきである。バングラデシュの事例は、社会をリードすべき貴重なエリート層が自己の役割・責任を全うしないことで、バングラデシュという国全体がどれほど深刻な影響を受けてきたかを例証しているとも考えられる。また、本研究では、エリートの役割と責任を再評価するだけでなく、「政治」、「権力」、「階層 (hierarchy)」といった近年回避されてきた概念に敢えて取り組み、その必要性を論じた。「エリート」や「政治」といった不人気のコンセプトは、ガバナンスから排除されるべきものではなく、ガバナンスに不可欠な一部分を構成しているのである。

## Abstract

This paper analyses the institutions and the governance of national policy co-ordination from a comparative perspective. It deals with the cases of Japan, South Korea and Taiwan in comparison with the main case of Bangladesh. International donors emphasise good governance, focusing on the rule of law, predictability, transparency and accountability. Recently, they have also advocated network-like partnerships with stakeholders. By establishing a network structure, *trustful and reciprocal relationships* among the network members governs interpersonal transactions. However, this paper proposes a strategic governance model, which is tentatively defined as the governance of development policy networks involving the government and key economic actors. This governance model also incorporates hierarchical co-ordination through the exercise of *power*.

Strategic governance has been observed empirically in Japan, South Korea, Taiwan and Malaysia. These countries have utilised diverse institutions for policy co-ordination: central agencies within the core of inter-ministerial policy co-ordination; business associations that have been organised to support government capacity for policy co-ordination; and a number of government-business meetings, including deliberative councils, have provided a stable channel for joint policy co-ordination. The close government-business interactions in these institutions are governed through the power of a strong and visionary leadership commitment as well as operational control over membership and monitoring mechanisms. Although these have reciprocal relationships, such as rent allocation, they are accompanied by performance monitoring and evaluation. Hence, it is this mixture of carrot-and-stick approaches that has made rent allocation compatible with national economic development. It should be remembered that governance in these countries was not participatory, but highly selective and elitist, and their government-business partnerships were not equal, but hierarchical.

Recently, Bangladesh has also introduced policy co-ordination mechanisms. However, the bureaucracy was too compartmentalised to ensure inter-ministerial policy co-ordination. Random and politicised personnel transfers damaged individual and organisational expertise. Monitoring activities and disciplinary action were largely missing. In addition, extensive bipartisan politics pervaded the whole system of government agencies in order to expand the patronage networks of the two main political parties. Thus, in spite of the recent introduction of deliberative policy co-ordination mechanisms, they already face problems concerning their limited roles, unbalanced and questionable membership, and lack of monitoring and evaluation

activities.

This paper also makes recommendations to enhance the policy co-ordination capacity of Bangladesh. Firstly, internal governance within the national government should be improved by putting greater emphasis on the mission, motivational aspects, personnel transfers to relevant ministries requiring higher levels of expertise, merit and performance-based personnel management, centralised policy co-ordination by a central agency, and carrot-and-stick mechanisms. However, unlike the administrative approach to governance taken by conventional reports, this paper also pays attention to the political aspects of governance: national reconciliation to resolve bipartisan politics, and an awakening of political leadership. Secondly, recommendations were also made in relation to strategic governance. It was advised to introduce clearly defined TOR, merit-based membership control, mutual monitoring, and credible sanctions. To implement these recommendations, Japan should be aware of its comparative advantage in the operation of deliberative council management.

Thus, this paper analyses the institutions involved and the actual process of governance of strategic government-business relationships for economic development. Unlike the familiar egalitarian and participatory approach to governance, this might be considered a rather elitist notion of the approach to governance. However, key technocrats and business as a whole should have prominent and influential roles and responsibilities. The case of Bangladesh actually illustrates how seriously this country has been affected by the poor performance of these elites in the fulfilment of their roles and responsibilities. In addition, in any reappraisal of the roles and responsibilities of such elites, this paper argues that we should not avoid unpopular concepts of politics, power and hierarchy. They are a crucial part of governance.

# **1. Introduction**

## **1-1 Scope and Objectives of the Research**

This research is concerned with the policy co-ordination capacity of governments that are oriented towards economic development, in terms of the institutions and governance structures involved.<sup>1</sup> As often indicated in neo-institutionalism and economic sociology, the co-ordination capacity of any society may be affected by its institutions. This naturally implies that, in assisting countries that exhibit weaknesses in the co-ordination capacity of their society, it is necessary to examine successful examples of institutions in other countries and the transferability of their experience.

The objectives of this research are:

1. to identify the institutions that improved the policy formulation and implementation capacity of Japan, newly industrialising economies (NIEs) and Malaysia, as well as their governance mechanisms;
2. to analyse the concrete mechanisms and problems of bureaucracy and policy co-ordination in Bangladesh; and
3. to make recommendations with regard to Japan's future assistance to Bangladesh in order to improve the capacity of Bangladeshi policy co-ordination.

## **1-2 Analytical Framework and Approach**

To realise the above objectives, this research employs the framework of neo-institutionalism. Neo-institutionalism understands that institutions determine interpersonal and informational transactions, providing a viewpoint on the relationship between institutional architecture and performance.

Concretely, this paper focuses on (1) institutions for policy co-ordination, (2) internal governance structures of the government, and (3) the inter-organisational governance structure between the government and the private sector—particularly the business sector. Firstly, institutions for policy co-ordination refer to a framework for the integration of dispersed resources between the public and the private sector. This framework stabilises human interactions and leads to the creation of certain patterns. This paper identifies the central agencies in the government, business associations and government-business meetings, such as deliberative councils, and explains their role in

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<sup>1</sup> In this paper, policy co-ordination refers to the whole policy process including policy-making, policy implementation and policy evaluation.

the policy process. Secondly, as an internal governance structure of the government machinery, bureaucracy is analysed in terms of interpersonal and informational transactions,<sup>2</sup> incentive mechanisms,<sup>3</sup> the political environment and leadership. Thirdly, the inter-organisational governance structure focuses on two modes of the mechanism of governance: through networks and through hierarchies. Network-type governance is expressed in the trustful relations and reciprocal behaviour of a policy community.<sup>4</sup> Hierarchical governance is seen particularly in the exercise of power.<sup>5</sup> This paper analyses how these two governance modes are utilised to establish and stably manage institutions for policy co-ordination.

Besides these disciplinary approaches, this research also included two weeks of field research in Dhaka, Bangladesh to collect detailed information on institutions and their governance structure for the co-ordination of economic policies. During this field research, 25 interviews were arranged,<sup>6</sup> and the brochures and annual reports of various organisations were also collated. Both the Headquarter and the Bangladesh Office of the Japan International Cooperation Agency (JICA) made substantial efforts to arrange these interviews. The interviewees included government officials, business associations, private businesses, highly regarded non-governmental organisations (NGOs) and donor agencies. The field survey contributed to this research by providing further and more detailed information.

### **1-3 Significance of the Research**

This research has significance in its contribution to suggesting ways of reinforcing the policy co-ordination capacity of developing countries, which is currently reducing the role of the government. This contribution benefits donor countries as well: the policy co-ordination capacity of the recipient countries will ultimately affect the effectiveness and sustainability of development projects. In short, policy co-ordination capacity is an essential factor in the successful implementation of the recipient countries' own policies as well as of projects receiving development assistance.

Nonetheless, in developing countries in general, the availability of resources—human resources, material resources, financial resources and intellectual resources—is limited. To effectively utilise these scarce resources, strategic scenarios are required, rather than

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<sup>2</sup> For example, attention is paid to how the organisation collects and distributes information, and transacts information among staff at different levels and with varying levels of expertise.

<sup>3</sup> Incentive mechanisms here include personnel management systems, motivation, and carrot-and-stick systems.

<sup>4</sup> The allocation of rents and rewards would be examples of reciprocal behaviour.

<sup>5</sup> Leadership, initiatives, discretion, monitoring and disciplinary action are examples.

<sup>6</sup> See Appendix for details.

normative prescriptions, to improve their policy co-ordination capacity. Hence, it is desirable to make recommendations that are based on the concrete problems of the bureaucracy of Bangladesh and its policy process and the practical lessons that can be drawn from successful experience in other countries.

#### **1-4 Overview of the Report**

This paper consists of six chapters. After presenting the scope, objectives, framework and significance of the research in this introductory chapter, the next chapter, entitled Approaches to Governance, conceptually reviews the good governance approach and proposes an alternative strategic governance model, which is based on the experience of Japan, two NIEs and the second-tier NIE of Malaysia. The third chapter entitled Institutions and the Governance of Policy Co-ordination in NIEs and Malaysia analyses the successful cases of Japan, two NIEs and Malaysia in terms of their institutions and governance mechanisms for policy co-ordination. The fourth chapter, entitled Institutions and the Governance of Policy Co-ordination in Bangladesh, reveals the current status and problems of the institutions and governance related to policy co-ordination in Bangladesh. Chapter Five, entitled Recommendations to Reinforce the Capacity for Policy Co-ordination in Bangladesh, makes recommendations to strengthen Bangladeshi policy co-ordination with particular reference to Japan's comparative advantage in assistance. The final chapter summarises the findings of this research.



## 2. Approaches to Governance

### 2-1 Introduction

This chapter is designed to provide a conceptual review of approaches to governance. The governance approach is relatively new as it only emerged in the 1990s. Traditionally, development studies focused on the *role* of the government in the development process. The logic of this is that in developing countries, which do not have an effective market, the government is obliged to intervene in the market (Shiratori 1997: 32–3). As White (1984: 97) argues, late developers follow different patterns of economic development from those of earlier industrialisers, since the former experience a less spontaneous development process. It is against this background that the government becomes the primary agent for the promotion of social transformation. In this case the government thus undertakes co-ordination activities as the planner, risk-taker, investment banker, or entrepreneur.

Thus, co-ordination has become one of the major activities of developing countries. Co-ordination here is defined as the process of the reconciliation of diverse interests to achieve agreed policies and common goals, and the exchange and dissemination of information between the government and social actors. Of these policies and goals, this paper focuses on nationally-set economic—particularly trade and industrial—policies and goals. Developing countries need to guide the interests of economic actors away from short-term profits and risk aversion and towards long-term national economic development. Policy co-ordination provides a means of achieving ‘consensus’ on the allocation of scarce national resources and on business economic activities for national long-term development.

However, the co-ordination capacity of different countries varies widely (Weiss *et al.* 1995: 4): the remarkable economic development of the NIEs is in distinct contrast to the collapse of planned economies and the chaotic situation in some sub-Saharan countries. Hence, from the 1990s, attention has shifted from the *roles* of the government to *capacities* of the government.

This chapter focuses on governance, which has a crucial impact on the capacities of the government. Firstly, the good governance approach by the World Bank will be briefly reviewed. Secondly, this chapter scrutinises both the theoretical and empirical problems of good governance. Thirdly, based on these problems of the good governance approach, this chapter provides an alternative model of governance: tentatively referred to as ‘strategic governance.’

## **2-2 Governance and Good Governance**

### **2-2-1 The Emerging Focus on Governance**

From the 1990s, development studies have incorporated significant contributions from political science and public administration studies. One of these contributions is the emergence of the greater attention paid to ‘governance.’ Governance, though frequently appearing in a number of discourses, is a very confusing term: it refers to policy networks (Rhodes 1997), public management (Hood 1990), the co-ordination of economic sectors (Hollingsworth *et al.* 1994), public-private partnerships (Pierre 1998), corporate governance (Williamson 1996), and good governance (Leftwich 1994) (Pierre *et al.* 2000: 14). In this paper, ‘governance’ is defined as:

Activities to search for better solutions to public issues that are carried out by networks comprised of various actors, such as the government, private business, organisations, groups and citizens (Shinpo 2003: 17).<sup>7</sup>

The governance approach appeared with recent trend towards redefining the role of the government and public-private relationships. The traditional ‘common sense’ of the interventionist or welfare regime, which makes a claim for public service provision by an active government, is giving way to more diverse service delivery by various actors—regardless of whether they are public or private. It is in this context that recently public service is being delivered by public corporations, consociations, private finance initiatives (PFI), subcontracting to private companies, volunteers and NGOs (Kudoh 2003: 50). This participation of numerous actors in public service delivery naturally obscures the public-private boundary. However, the greater participation of actors in public service delivery still leaves the problem of asymmetry of access to the information and resources that are required to deliver effective public services. Therefore, various forms of information and resources, which are dispersed among entities in the public and private sector, need to be integrated in a more sophisticated way to jointly co-ordinate policies and solve problems to provide better public services (Masaki 1999: 94–5).

### **2-2-2 Good Governance Approach**

Despite confusion with regard to the term, the most prevalent governance approach is perhaps ‘good governance approach.’ The good governance approach is advocated by the World Bank and major donor countries. It is characterised by four aspects: (1) the rule of law, (2) predictability, (3) transparency, and (4) accountability (Shinpo 2003: 16). This governance structure assumes that the government exists just to provide a sound

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<sup>7</sup> Original in Japanese. Tentative translation is by the author.

institutional environment for the freedom of rational actors to access the policy process. This assumption that rational actors can freely access the policy domain is the same as that behind the market mechanism, whereby rational actors can access the market by considering price signals. Market-type governance believes that information and resources are efficiently allocated through free competition between the rational choices of a plurality of actors (Pierre *et al.* 2000: 18–9).

However, recent developments in the empirics and theories of governance studies emphasise a more network-type governance structure, rather than market-type governance. In essence, network theory emphasises horizontal patterns of interpersonal exchanges and reciprocal lines of communications (Powell [1990] 1991: 265). Network mechanisms—perhaps ‘partnerships’ to use a more familiar term—also stress trust among network members (Frances *et al.* 1991: 15). In short, networks are governed by trust and reciprocity within the network (see Table 2-1). It is believed that more participatory and more democratic decision-making will further improve good governance since it may create consensus, mutual co-operation, and legitimacy as well as transparency in the policy community. With mutual co-operation, network mechanisms have an advantage in terms of facilitating co-ordination of the interests and resources of the public and private sectors in a relatively stable way (Pierre *et al.* 2000: 20).

Accordingly, the good governance approach seems to have slightly departed from the market-type governance structure to become more like the network-type one. It advocates a more democratic decision-making and participatory approach. This inclination towards democratic and participatory governance is typically seen in the United Nations Development Programme (UNDP). The UNDP defines governance as:

[t]he exercise of political, economic and administrative authority to manage a nation’s affairs. It is the complex mechanisms, processes, relationships and institutions through which citizens and groups articulate their interests, exercise their rights and obligations and mediate their differences. [...] Sound governance is therefore a subset of governance, wherein public resources and problems are managed effectively, efficiently and in response to the critical needs of society. *Effective democratic forms of governance rely on public participation, accountability and transparency* (UNDP 1997: 9).<sup>8</sup>

Hence, as the UNDP advocates, the good governance approach has an affinity to

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<sup>8</sup> Emphasis added.

democratic and participatory decision-making, which assumes that there are networks or partnerships of government-civil society relationships.

**Table 2-1: Comparison of Governance Structures**

Governance Structure	Governance Mechanism	Advantages	Disadvantages
<b>Markets</b>	<ul style="list-style-type: none"> <li>• Aggregation of free competition and rational choice of atomic actors</li> </ul>	<ul style="list-style-type: none"> <li>• No intentional co-ordination</li> <li>• Built-in stick mechanisms where the market works</li> </ul>	<ul style="list-style-type: none"> <li>• No guarantee of achievement of long-term and nationally optimum resource allocation</li> <li>• No effective co-ordination where the market fails</li> </ul>
<b>Networks</b>	<ul style="list-style-type: none"> <li>• Trust and reciprocity</li> </ul>	<ul style="list-style-type: none"> <li>• Flexible co-ordination</li> <li>• Mutually beneficial co-operation</li> </ul>	<ul style="list-style-type: none"> <li>• Inefficient for large-scale co-ordination</li> <li>• No monitoring and stick mechanisms</li> </ul>
<b>Hierarchies</b>	<ul style="list-style-type: none"> <li>• Power</li> </ul>	<ul style="list-style-type: none"> <li>• Efficient co-ordination</li> <li>• Monitoring and stick mechanisms</li> </ul>	<ul style="list-style-type: none"> <li>• Inflexible co-ordination due to bureaucratic failure</li> <li>• Undemocratic and asymmetric relations of rigidly monitored junior partners towards seniors</li> </ul>
<b>Strategic Governance</b>	<ul style="list-style-type: none"> <li>• Power</li> <li>• Trust and reciprocity</li> </ul>	<ul style="list-style-type: none"> <li>• Flexible and efficient co-ordination</li> <li>• Carrot-and-stick mechanisms</li> </ul>	<ul style="list-style-type: none"> <li>• Institutionally demanding</li> <li>• Limited democratic governance and transparency</li> </ul>

Source: Composed by the author.

### 2-2-3 Problems of the Good Governance Approach

The good governance approach has been developing systematically. Nonetheless, several deficiencies can be observed, both theoretical and empirical. Theoretically, one of the deficiencies arises from an excessive reliance on market-type governance. In the good governance approach, the government is expected to have no interests or visionary strategy; hence it is merely regarded as a black box. It is supposed to simply provide a well-defined institutional framework in which all the stakeholders can freely compete to access the policy domain according to their rational choices (see Table 2-1). Meanwhile, the aggregation of individual rational choices does not always lead to a social optimum. This is particularly crucial in developing countries where markets generally fail and the resources available for development are limited. In addition, developing countries often suffer from weaknesses in their private sector: the extent to which such actors can spontaneously access the policy community, except to uphold their self-interest, is therefore questionable.

The recent shift towards network-type governance also requires some caution. As Frances *et al.* (1991: 15) and Nooteboom (2000: 925–6) argue, while network mechanisms have the advantage of flexible and mutually beneficial co-ordination,<sup>9</sup> there is some difficulty with large-scale co-ordination since it may increase monitoring

<sup>9</sup> This is because trustful and reciprocal interactions in networks are expected to create spontaneous co-ordination.

costs and monitoring failures, which may increase the risk of information leakage, distrust of other network members, and conflicts between private interests and public interests (Table 2-1). One example of an overloaded co-ordination problem in the network mechanism can be found in the Comprehensive Development Framework (CDF) under the World Bank's initiative. In the CDF, not only the public sector, but also the private sector, civil society, NGOs and donors are expected to participate in development policy-making. Yet, as Ohno *et al.* (2000: 243) point out, this normatively good governance mechanism dramatically increases the number of meetings and complicates co-ordination among the concerned parties. Certainly, the CDF would be realistic if such an increase in transactions is still manageable for government officials and produces better policy outcomes; however, with regard to governments in developing countries, which are often the recipients of international assistance for administrative reforms, it seems logically rather optimistic to expect these governments to manage the increased transactions. As a result, governments, particularly those whose co-ordination capacities are weak, may suffer from the problem of co-ordination overload.

Strangely, current discourse on governance avoids 'hierarchy' as a governance structure (Pierre *et al.* 2000: 15). Not to mention the negation of hierarchy by the adherents of market co-ordination, network co-ordination expects that trustful relationships in networks may realise 'governance without a government.' Such a rejection of hierarchical co-ordination is prevalent mainly because the visible costs of hierarchy are often revealed by rigid bureaucratic failure and partially because its affinity to the concept of 'power' is understood as being opposed to the norms of democracy (Table 2-1). Nevertheless, it is a reality that there is a disparity in access to information and resources among different organisations. It is also natural that interdependency with such disparities may create asymmetrical relationships and the disproportionate allocation of power among the network members (Masaki 1999: 100). Conceptually, network members depend on the following resources of other social actors:

1. *legal resources*: power and authority for enforcement and discretion that are mandated to public sectors by law and customs;
2. *financial resources*: property such as tax revenue, incomes and equity;
3. *political resources*: the power and authority of political actors mandated by public support;
4. *informational resources*: the reservoir of various kinds of information; and
5. *organisational resources*: possession of the property of personnel, skills and technologies, buildings, facilities and equipment.<sup>10</sup>

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<sup>10</sup> Summary of Rhodes (1986: 17) by Masaki (1999: 101). Modification added by the author.

These different resources are allocated differently to different actors: the government may have the largest proportion of legal resources and some financial, informational and organisational resources, while the business sector may have more financial resources and some informational and organisational resources. Politicians perhaps have more specialised political resources whilst research institutes have more informational and organisational resources.

In addition to disproportionate resource allocation, networks—regarded as horizontal interpersonal transactions—require ‘management’ to maintain them stably.<sup>11</sup> Since in network mechanisms—like market mechanisms—the entry and exit of members is basically free, this may potentially make resource exchanges for service delivery unstable (Masaki 1999: 102). Thus, it is necessary for some leading actors to direct and even enforce the transactions in networks in order to maximise the effectiveness of scarce resources (*ibid.*: 103).<sup>12</sup>

Another qualification to network-based good governance is necessary. Networks are a fairly fragile mechanism: networks—emphasising trust and reciprocity among members—often cause unhealthy adhesion and cosy relationships. Thus, it is necessary to be aware that, as Bachmann (2001: 349) claims, networks or partnership network mechanisms are not the only form of governance, and that power may be exercised hierarchically to co-ordinate and manage social relationships (Table 2-1). Bachmann (2001: 351) further maintains that most social relations consist of a combination of trust and power.<sup>13</sup>

The process of development actually accompanies continuous changes in the mobilisation, combination, usage and distribution of resources (Leftwich 2000: 5–6). Even if participatory decision-making is adopted, in the case of policy co-ordination, for instance, resource allocation requires a national visionary strategy and co-ordination capacity.<sup>14</sup> In many cases of developing countries where the resources are disproportionately distributed, it is governments that are expected to have such a

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<sup>11</sup> Network management refers to formulating a system design to produce effective policy outputs by combining functions, skills and technologies, as well as the resources of various network members (Masaki 1999: 103).

<sup>12</sup> The policy process—regardless of whether it is a hierarchical or network-style one—in essence entails a decision-making process and monitoring activities. However, as McGuinness ([1990] 1991: 75) argues, decision-making and monitoring require an elite. This may also support the idea that network management requires leading actors.

<sup>13</sup> Bachmann (2001: 350) argues that while trust positively expects actors not to betray others, power negatively assumes undesirable actions by others. In this sense, trust and power can co-exist to reduce opportunism and uncertainty for network members.

<sup>14</sup> Leftwich (2000: 7) defines ‘co-ordination capacity’ as the capacity to steer, push, persuade and reconcile economic agents.

strategy and capacity (*ibid.*: 7). This asymmetry traditionally reinforced the role of the government in development. In addition, the nature of the development process—changes in resource utilisation and allocation—may potentially cause conflicts between the actors since it may differentiate the losers and winners. In such cases, the ultimate option could be the exercise of power by leading actors in the networks.

A more fundamental question on the incompatibility of democracy and economic development has been raised by political economists. As Wade (1990: 374) points out, it has been historically shown in most advanced countries that capitalist economic development, often led by the government, preceded democratic political development. According to comparative analyses of developing countries, ‘democratic regimes tend to grow more slowly than authoritarian ones’ (*ibid.*).<sup>15</sup> Marsh (1979: 244) argues that ‘political competition/democracy does have a significant effect on later rates of economic development; its influence is to retard the development rate rather than facilitate it.’ Weede (1983: 312) also claims that ‘political democracy looks like a major barrier to economic growth in those countries where the state strongly interferes in the economy.’<sup>16</sup> This is explained by the following factors:

1. Elected representatives of the legislature are apt to be motivated by particular interests rather than the public interest, such as national economic development (Wade 1990: 373–4).
2. While business and civil society may underdevelop their resources in terms of scale and capabilities, administration bodies in which there is a concentration of national elites have greater advantages in terms of the availability of resources. Consequently, the technical views and strategy of economic technocrats may come to predominate over the non-technical and general will of the legislature.
3. While democracy institutionally provides the framework for changes in government through regularly held elections, the administration is more stably managed. This facilitates not only the maintenance of consistency in development policies, but also guarantees a stable environment for business investments over the long-term (Wade 1990: 373–4).

As a result, developing countries are often obliged to make a choice ‘between faster economic development and political development, such as civil and well-defended political rights’ (Wade 1990: 373). In such a case, the priority given to economic

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<sup>15</sup> Leftwich (2000: 150) points out that democratic politics tends to result in accommodation and compromise between various public interests. Its neutral policy preference may often be an inhibiting factor for necessary radical changes in the development process.

<sup>16</sup> Quoted in Wade (1990: 374).

development may require ‘some curtailment of the political and civil rights of those who oppose the changes, and the powers of democratically elected legislatures’ (Huntington 1968).<sup>17</sup>

Besides theoretical deficiencies, the good governance approach can be questioned in empirical terms as well. Although good governance is perhaps normatively good, the remarkable economic development of the NIEs under ‘bad governance’ suggests that good governance is not the only institutional choice. In fact, as Watanabe (2004) argues, governance in western European countries, Japan, the NIEs and Malaysia during their development process cannot be good. In the case of the NIEs, the rule of law, transparency, accountability and the participation of civil society was missing. Their governance improved through the advancement of income and education levels as a result of economic development. Hence, Watanabe (2004) claims that the good governance approach is a form of dogmatism that ignores stages in development—to put it more plainly, it ignores the causal relationship between development and governance.<sup>18</sup>

Particularly in South Korea, the governance mechanism was far from ‘good.’ The authoritarian regime permeated the society during its development process. Although the South Korean government created networks with key business sectors, government-business relationships cannot be equal. As Lee (1992) precisely indicates, the Korean government and business groups formed a hierarchy—a ‘quasi-internal organisation’ in Lee’s terms—in which the government, as the headquarter, tightly led, directed, monitored and even sanctioned the activities of business as if they were branches of the government.<sup>19</sup> The government governed exchanges of informational and financial resources directly with business through the quasi-internal organisation rather than via sporadic exchanges indirectly through the market (Lee 1992: 192). The government also governed the policy implementation process by internalising transactions between the government and business. This internalisation of transactions enabled the government to monitor the process and performance of policy implementation to improve policy effectiveness (Lee 1992: 193–4). In short, the governance model of the Korean case was not democratic, and its transparency and accountability were limited narrowly to the hierarchy of the quasi-internal organisations.

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<sup>17</sup> Quoted in Wade (1990: 373).

<sup>18</sup> In the 1960s, development discourse more realistically understood the introduction of democracy: democracy can be introduced as a result of development since its preconditions are a high literacy rate, the prevalence of communication and education, the formation of a middle-class and a civil society and moderate equality, all of which require socio-economic development (Lipset 1959).

<sup>19</sup> Summary by Moon *et al.* (1994: 374).



## 2-3 Strategic Governance Approach

In the search for an effective governance model for economic development, this paper proposes an original form of model of ‘strategic governance.’ Strategic governance is tentatively defined as the establishment of policy networks specifically and strategically for national economic development between the government and key actors and their hierarchical management in policy co-ordination and monitoring.<sup>20</sup> It has the following functions:

1. The government strategically selects and effectively utilises leading business sectors as key resources in order to co-ordinate and implement national economic development policies;
2. The government as the primary co-ordinator resolutely takes the initiative to lead selected key business sectors to contribute to national economic development using carrot-and-stick mechanisms; and
3. Strong political or organisational leadership is committed to realising the above functions.

As these functions imply, this governance model is strategic, since it is a governance structure defined very narrowly for national economic development. Hence it has a strong target-oriented nature, rather than a norm or being virtue-oriented to participatory decision-making.

Its governance structure mixes horizontal transactions in networks among the members and vertical transactions in a hierarchy (see Table 2-1). This hybrid model is governed by mutual co-operation, trust and reciprocity among the members, as well as power exercised by the leading agents. Broadly, mutually co-operative interactions between the government and business are also managed rather unilaterally by the leading agent—the government. Specifically, in this strategic governance, network-type of transactions can be found in trustful and reciprocal behaviours, such as resource exchanges and joint commitment to the policy process. These interdependent interactions take place rather horizontally between the network members. In contrast, the effectiveness of hierarchy lies in the exercise of power by the leading actors, such as visionary leadership and initiatives, selective membership control of networks,<sup>21</sup>

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<sup>20</sup> As already mentioned, strategic governance not only obscures the boundary between the government and business, but also integrates them into a ‘quasi-internal organisation.’ Consequently, carrot-and-stick mechanisms are applied both to the *narrowly-internal* government domain—incentive structures for government officials—and the *quasi-internal* government domain—rent allocation and monitoring in government-business relationships.

<sup>21</sup> In strategic governance, membership is limited to the key strategic sectors, which have a direct influence on investment, production and exports, and which have excellent performance and experience

formulation of a national strategy for economic development and economic policies, monitoring of the policy process, and credible discipline to minimise opportunism and poor performance. These are often unilaterally exercised by the leading agents in the networks. This power is exercised not only through the initiative of the government, but also through the ‘hierarchical structure’ of the government-business relationship, since networked government-business relationships obscure their boundaries and become integrated into the quasi-internal organisation. In short, in strategic governance, both horizontal interdependence and co-operation between network members and a rather top-down form of control from senior agents to junior ones co-exist in a sophisticated interrelationship.

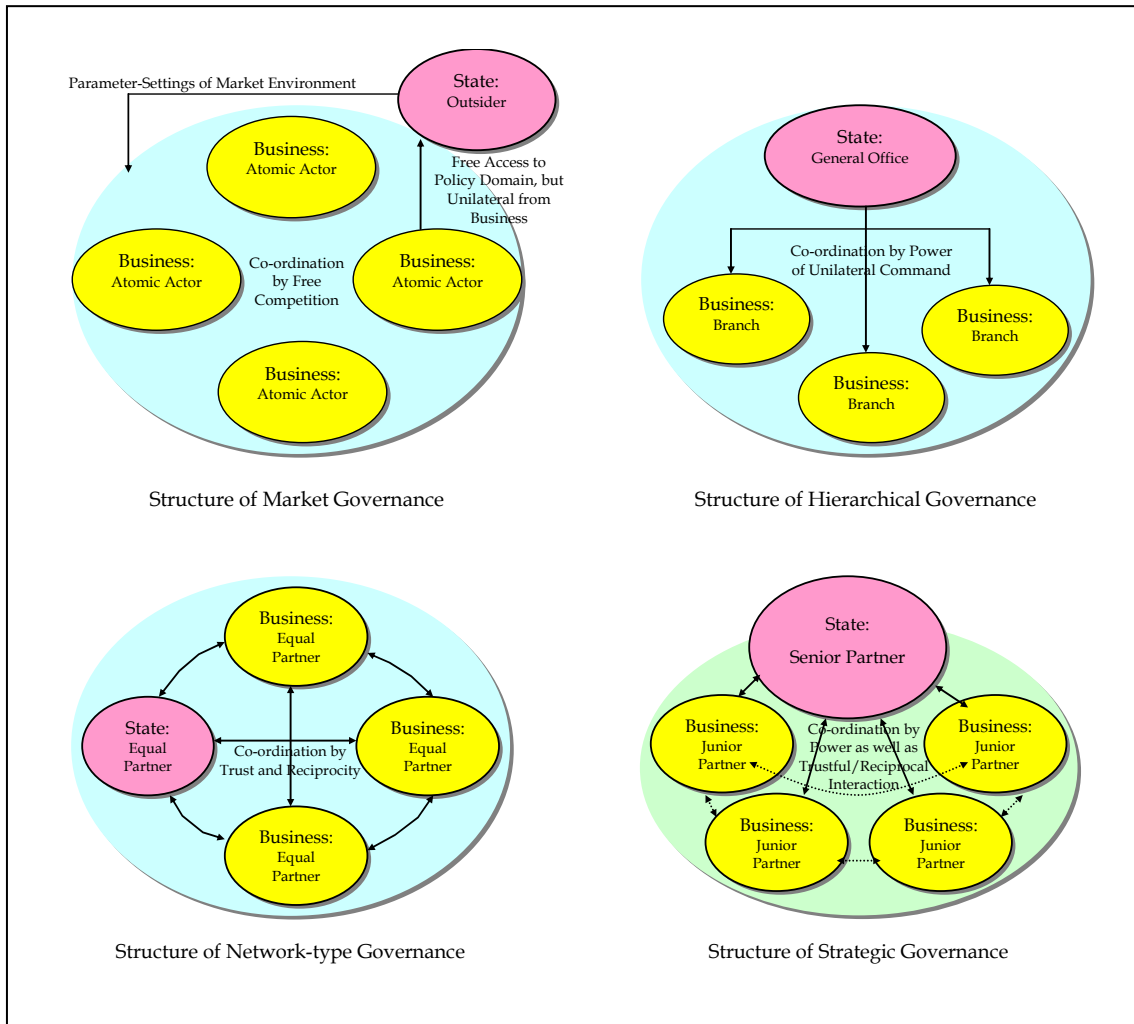
Figure 2-1 compares four governance structures: market governance; hierarchical governance; network-type governance; and strategic governance. Firstly, market governance is based on aggregation of the free competition of individual rational choices.<sup>22</sup> Here, the government is an outsider in relation to the market: the government can only provide a stable framework and the parameters for the market environment. No intentional co-ordination of specific economic transactions is carried out: only the market can co-ordinate resource allocation by invisible hand of God, or, more specifically, the price mechanism. However, it should be noted that, as already indicated, market governance assumes free access to the policy domain in the government if the market actors prefer this, as the pluralist notion of democracy argues. In contrast, secondly, hierarchical co-ordination more actively intervenes in the economy by exercising the power of its prominent actor—the government. In some cases, such as South Korea, the government played the role of general office while business is defined as its branches in a quasi-internal organisation. Thirdly, network-type governance focuses on the close relationship between the government and the business sector, but it assumes that this relationship is maintained through an equal partnership. Such a partnership consists of mutually trustful and reciprocal relationships between the network members. Finally, strategic governance basically combines hierarchical governance and network-type governance. That is to say, although interactions under strategic governance are based on mutual trust and reciprocal actions between the government and business, but they are controlled, monitored and, if necessary, sanctioned by the unilateral power of the responsible leading agents. In short, strategic governance allows *managed interactions*.

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in economic activities. Therefore, non-key strategic sectors, rather indirect consumers, for instance, have a lower priority when it comes to representing their interests.

<sup>22</sup> See also Table 2-1.

**Figure 2-1 Concepts of Governance Structures**



Sources: Drawn by the author.

The expected effects of policy co-ordination through strategic governance are multi-faceted. Firstly, strategic governance activates the exchange of resources, particularly informational resources. By directly exchanging and sharing information on international markets and technological trends, information gaps and disparities may be reduced (Campos *et al.* 1996: 79; World Bank 1993: 187).<sup>23</sup> The direct and non-market routed exchanges of information not only facilitate efficient information collection and dissemination, but also increase the effectiveness of economic policies since they are based on a realistic estimation of practical information and data. Secondly, the trustful

<sup>23</sup> In principle, information resources held by government officials are expected to give the government a comparative advantage in terms of technical knowledge on the economic consequences of policies as well as detailed knowledge of regulation (Campos *et al.* 1996: 138). Nonetheless, the government also needs external resources of highly competent technical expertise on industries, since the issues faced by industries in recent times are very complicated, and government officials are often trained as generalists and are frequently rotated to areas that are not related to their expertise (Schwartz 1993: 229).

relationship in strategic governance helps to establish commitment in goal-setting in joint projects for economic development, identification and trouble-shooting of economic problems. Thirdly, since strategic governance is accompanied by strict monitoring activities inside the policy networks, it contributes to better—though limited—transparency. Although strategic governance has some aspects of reciprocal exchanges such as the rent allocation of subsidies, this transparency under tight monitoring lessens the risk of futile corruption.<sup>24</sup> In addition, the monitoring of the policy process and performance facilitates constant feedback on the effectiveness of economic policies and assists in the flexible adjustment of already implemented policies. Fourthly, since strategic governance facilitates joint policy co-ordination among the key sectors, it may further legitimise discussion and decisions made in the policy networks. It will lead to the formation of consensuses on economic development strategies and policies, facilitating smoother policy implementation. In short, policy networks—often taking the form of deliberative councils—not only function as proto-democratic institutions, which allow key business elites to participate in the policy process and provide a direct access channel to it, the government in turn benefits from the legitimisation of its economic policies through this joint deliberation (Campos *et al.* 1996: 106–7; World Bank 1993: 187). Fifthly, strategic governance allows selected key actors to interact continuously over an extended period of time, thus this long-term exchange relationship increases predictability for the network members and reduces any uncertainty caused by self-interested opportunism, rent-seeking and maximisation of short-term gains (Chu 1989: 659; World Bank 1993: 187; Campos *et al.* 1996: 102–3). These five effects are expected to contribute to providing an important source of institutional capacity.

## 2-4 Conclusions

In this chapter, governance was focused on as a primary factor affecting the capacity of the government for policy co-ordination. Firstly, it was shown that the recent attention to governance has appeared due to the unsatisfactory performance of service delivery by the government, and due to the obscured boundary between the government and the private sector in service delivery. Secondly, this chapter reviewed the good governance approach, which is dominant in international communities, including the World Bank and the Organisation for Economic Co-operation and Development (OECD). Good governance—comprising the rule of law, predictability, transparency and accountability—originally had an affinity with market-type governance. However, this chapter also points out that recent developments in the good governance approach have

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<sup>24</sup> It is this sanction-backed monitoring mechanism that enables rent allocation to be compatible with economic development.

incorporated the network-style of governance by focusing on partnerships with the stakeholders. Thirdly, the theoretical and empirical deficiencies of the good governance approach were indicated. Although the good governance approach seems to reject power and hierarchy, these are indispensable to the management of policy networks. Fourthly, based on a critical review of the good governance approach, a strategic governance model was proposed. The strategic governance model refers to the governance of government-business policy networks that are strategically institutionalised for economic development. This model is strategic since its membership is very selectively confined to key business sectors that have excellent experience and performance in economic sectors. In terms of the governance structure, this model is unique in that it does not reject the power of the leading actors in network management.

The next chapter will analyse the cases of Japan, the NIEs and Malaysia in terms of the framework of strategic governance.

### 3. Institutions and the Governance of Policy Co-ordination in NIEs and Malaysia

#### 3-1 Introduction

This chapter is concerned with an empirical analysis of the institutions and governance of policy co-ordination in successful industrial economies: Japan, two NIEs and Malaysia. These states are often called developmental states.<sup>25</sup> These developmental states have distinctive features: (1) visionary leadership for national and long-term economic development, (2) a highly qualified and insulating central agency to co-ordinate economic policies, and (3) institutionalised government-business co-operation. Although economic ministries are insulated from particularistic and short-term interests, they are also connected to key economic actors. Weiss (1998: 64) argues that while connectedness without insulation may result in rent-seeking and distributional coalitions, insulation without connectedness may increase the risk of information gaps arising between the government and the private sector, and ultimately result in policy failure.<sup>26</sup> Hence, it is this combination of insulation and connectedness that minimises such risks and enhances the effectiveness of economic policies (*ibid.*). Similarly, Weiss *et al.* (1995: 149, 169–70) indicate that the government-business relationship in the developmental states is highly interdependent, but highly managed by a senior partner: Weiss *et al.* (1995) called this ‘governed interdependence.’ With governed interdependence, the senior partner—the government—directs policy patterns: (1) strong orientation to long-term economic development, (2) high selectivity and targeting for dynamic comparative advantage, and (3) performance monitoring and discipline in exchange for the provision of various forms of support (Weiss *et al.* 1995: 151–6).

Based on this brief summary of the key features of developmental states, this chapter analyses the institutions and governance of the developmental states in terms of strategic governance, as proposed in Chapter Two. Firstly, to examine the policy process and institutions of Japan, South Korea and Taiwan, central agencies, business associations, government-business meetings will be focused on. Secondly, vision, leadership, commitment, and carrot-and-stick incentives will be examined as mechanisms of governance in these developmental states. Thirdly, attention is given to the case of Malaysia.

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<sup>25</sup> Not many researchers identify Malaysia as a developmental state. However, as shown later, from the Mahathir regime, Malaysia introduced a very similar industrialisation strategy, economic policies and institutions for government-business joint policy co-ordination. Therefore, there are sufficient empirical grounds to regard it as one of the developmental states.

<sup>26</sup> Seddon *et al.* (1995: 350) also take this point by distinguishing ‘isolation’ and ‘insulation.’

### 3-2 Institutions and the Policy Process

Although Japan, South Korea and Taiwan had a developed infrastructure, educational system and industrial base, Japan and South Korea were seriously damaged by World War II and the Korean War, respectively. Taiwan also suffered from the massive immigrant flows of the Kuomintang (KMT) regime from mainland China. In addition, South Korea and Taiwan had to face serious security threats from bellicose neighbours: North Korea and China, respectively. Thus, all these countries started from devastated conditions and politico-economic crises.

In these three countries, industrial policies played a significant role in enhancing the economic and defence base. A feature of their industrial policies is the strong orientation to continual modernisation and upgrading of the industrial structure by targeting priority industries and leading a dynamic shift through inductive industrial policies. For instance, Japanese industrial policies shifted from the priority production of coal in the 1940s to heavy chemical industrialisation (HCI) in the 1950s, the promotion of high-value added industry in the 1960s, the encouragement of knowledge-based industries in the 1970s, and high-tech industrialisation in the 1980s (Kawakita 1991:11). The Ministry of International Trade and Industry (MITI) promoted these shifts using various policy instruments such as official licenses, foreign currency allocation, regulation of foreign technology exports, administrative guidance (*Gyôsei Shidô*), policy loans, and subsidies (*ibid.*: 217–23).

Similarly, in South Korea, its industrial drive started from the 1960s: export-oriented industrialisation (EOI) from the Comprehensive Measures for Export Promotion (*Suchul Chinhung Chônghap Shichêk*) in 1964, HCI and General Trading Company promotion from the 1970s, and high-tech industrialisation from the 1980s. The South Korean government provided preferential policy loans to promote industrialisation while it also restricted excessive competition within domestic markets.

Taiwan's industrialisation drive was commenced to prepare for the coming termination of US aid. Its industrial promotion shifted from EOI in the 1960s to HCI in the 1970s and a high-tech drive from the 1980s. The KMT government provided tax incentives on investments mainly for export purposes through the Statute for Encouragement of Investment (1960–1990).<sup>27</sup> To maintain its effectiveness, this Statute was revised 15 times over three decades to adapt to changes in economic development goals and situations. The Statute also offered tax incentives to targeted strategic industries, which

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<sup>27</sup> The Statute exempted and reduced in total NT\$414.6 billion worth of taxes during the three decades (Hsiau 1997: 39).

were expected to have rapid growth and export potential (Wade 1990: 182–3).

### 3-2-1 Central Agencies

One of the features of the developmental states is the strong central co-ordination by central agencies—or pilot agencies. Key facets of the bureaucracy in the NIEs are the high prestige and quality of the bureaucrats, the high capacity for the collection and analysis of economic information, and the high capability for the policy co-ordination of industrial change (Weiss 1998: 49–53). Central agencies are often super-ministries that integrate these key facets.

In Japan, MITI has been the most popular ministry for civil-servant examinees partly because MITI has a number of *Amakudari* posts<sup>28</sup> and partly because it provides a number of chances to nurture new industries (Kawakita 1991: 16). Its officials are motivated by a strong mission to commit to further industrial upgrading. MITI provides a fairly free environment that enables younger officials to challenge their cadre officials to policy debates (Kawakita 1991: 17). The role of MITI is to set indicative plans, called a ‘Vision,’ and goals that private enterprises should achieve. According to these goals, MITI allocates preferential capital to strategic industries (Johnson 1986: 201–2).<sup>29</sup>

In South Korea, despite the long tradition of the prestigious status of bureaucrats, the bureaucracy under Rhee Syngman regime was corrupt and incapable.<sup>30</sup> When General Park Chung-Hee captured power through his *coup-d’état*, he purged 4,369 politicians and 35,684 government officials (Cheng *et al.* 1996: 14; 1998: 104). With Park’s restructuring of the bureaucracy, administrative elites were recruited from prestigious universities; in 1980, 97 percent of senior officials graduated from universities, 42.9 percent from the Seoul National University (Hwang 1996: 316). The Korean government also offered financial incentives to attract highly talented personnel: 59 allowances were paid to compensate for the wage gap with the salary levels of the highly paid staff of business groups—*chaebol* (World Bank 1993: 176).

By recruiting highly qualified human resources, the Korean government established a central co-ordination machinery—the Economic Planning Board (EPB). The EPB was established under the direct supervision of the Cabinet and it was granted a superior position to supervise other economy-related ministries. Its main roles are to co-ordinate,

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<sup>28</sup> *Amakudari* (descent from heaven) refers to high-ranking government officials obtaining executive posts in private companies.

<sup>29</sup> However, the leverage of MITI has been decreasing from the end of the 1970s (Dore 1986:128). This is partially because MITI has been losing various policy instruments such as foreign exchange controls, but mainly because private companies no longer need the assistance of MITI.

<sup>30</sup> The Rhee Syngman regime dispatched government officials to Pakistan as trainees of economic policy-making (Evans 1998: 73).



implement, monitor and review the Five-Year Plans as well as to co-ordinate other ministries.<sup>31</sup>

Taiwan's bureaucracy also experienced its reform. After the handover of Taiwan to the KMT regime, officials sent to Taiwan were seriously incapable and extremely corrupt. When the defeated KMT regime fled to Taiwan, it commenced with reforming the central administration and establishment of Control Yuan (Evans 1998: 72–3).<sup>32</sup> In Taiwan, the status of the civil service was not high for the islanders since mainlanders dominated the bureaucracy.<sup>33</sup> However the KMT government selected highly qualified personnel among National Taiwan University students or through special appointments to fill posts for economic technocrats. The government also offered incentives of higher salaries or earlier promotion to these elite technocrats (Cheng *et al.* 1996: 25–6).

In Taiwan, such economic technocrats were posted to the central agencies of the Council for International Economic Co-operation and Development (CIECD: 1963–1973) and the Council for Economic Planning and Development (CEPD: 1977–). These central agencies took charge of the formulation, co-ordination, implementation and evaluation of economic development policies (Wu 1990: 48, 58). In 1969, their authority was further reinforced to include additional roles in formulating medium-term and long-term economic development plans as the headquarter of economic development. Since their Chairperson served as the Vice Premier of Executive Yuan,<sup>34</sup> their strong organisational centripetal force facilitated policy co-ordination (Wu 1990: 51–3).

While central agencies specialised in the co-ordination of overall economic strategies, sectoral authorities co-ordinated specific industrial policies. The Industrial Development Bureau (IDB) of the Ministry of Economic Affairs (MOEA) took charge of screening loan applications, arranging export cartels, implementing joint R&D projects and formulating strategies for high-tech industrialisation, while the IDB maintained a close dialogue with targeted private sectors (Cheng *et al.* 1998: 96; Wade 1990: 206).

In sum, Japan, South Korea and Taiwan all established central co-ordination mechanisms to formulate, implement and monitor policy performance. Perhaps

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<sup>31</sup> Weekly Briefings were also held to ensure communication between executives and economic ministries. Besides, President Park himself was committed to monitoring; he established an 'Economic Situation Room' in his office to monitor export progress (Cheng *et al.* 1996: 27–8).

<sup>32</sup> Control Yuan is in charge of impeachment, censure and audit.

<sup>33</sup> In Taiwan, there is a serious sub-ethnic cleavage between the mainlanders who fled from the mainland as a result of the KMT's defeat with the identity of Chinese, and islanders who are the descendants of earlier immigrants with a strong identity of Taiwanese.

<sup>34</sup> Executive Yuan is equivalent to the administrative machinery.

government in developing countries needs this kind of centre of excellence (COE) in the government machinery, which can play a leading role in co-ordinating the economic ministries, monitoring policy performance, and formulating visionary strategies.

### **3-2-2 Business Associations**

No matter what means governments use to co-ordinate the policy process and formulate visionary plans, they need business counterparts to interact with. Although the number of members of government involved in policy co-ordination is limited, business is generally composed of countless firms in various sectors. In addition, as the economy becomes large in scale and complex in structure, the government needs to form intermediate organisations through which it can interact efficiently with business.<sup>35</sup> Here the role of leading business associations comes into the limelight. In principle, business associations play a significant role in facilitating the formulation, implementation, and monitoring of economic policies and provision of feedback to the government.

Japanese business and industrial associations are the most extensively organised. *Keidanren* (Federation of Economic Organisations), established in 1946, has been playing a central role in providing a bridge between the business community and political circles. While it internally co-ordinates the interests of the business community, it may make policy recommendations and set up *nemawashi* (Shimokawa 1990: 277).<sup>36</sup> Keidanren includes 123 sectorally organised industrial associations and 970 leading enterprises from various sectors (Yoshimatsu 1997: 121–2). Although Keidanren is oriented to more macro-economic perspectives, in more sectoral terms, the industrial associations have more technical expertise. In 1993, there were 15,128 industrial associations in Japan; they formed a sub-governmental iron triangle among the industrial associations, the Liberal Democratic Party's Policy Research Councils and the concerned departments of the ministries to co-ordinate and implement sector-specific policies (Yoshimatsu 1997: 122). Both business and industrial associations participate in the policy process through (1) the submission of formal recommendations to the government, (2) the dispatch of members to ministerial deliberative councils, (3) policy co-ordination with the relevant ministries through informal contacts, and (4) provision of the latest and most precise information to government officials (Yoshimatsu 1997: 124–8). Business and industrial associations—through prior consultation with government officials in MITI when they co-ordinate new economic policies—are able to add technical expertise to the work of government officials (Yoshimatsu 1997:

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<sup>35</sup> Weiss (1998: 63–4) indicates that more the member companies of business associations are included, the easier co-operative co-ordination between the government and business becomes.

<sup>36</sup> *Nemawashi* is a Japanese term referring to informally seeking prior consent from politicians in the course of making decisions.

126–8).

Korean business associations were more politically controlled under state corporatism arrangements.<sup>37</sup> When General Park Chung-Hee came into power, he realised that his military government lacked economic knowledge and experience for economic development. Thus, his government ordered business leaders to dedicatedly co-operate with Park's economic policy-making (Im 1987: 55–6). Park disbanded existing business associations and reorganised new business associations. In South Korea, four business associations and approximately 200 industrial associations have been created. Yet these associations were identified as a government arm for political control over the business and industrial community under state-corporatism, rather than channels for representation of their autonomous interests. For instance, most associations received government officials to fill their important positions (Cheng *et al.* 1996: 39).

Of these business and industrial associations, the Federation of Korean Industries (FKI) has been of significance. The FKI has been involved in extensive activities for various forms of policy co-ordination and makes recommendations on finance, foreign exchange, central government finance, taxation systems, custom duties and trade, as well as exchanging and spreading export-related information. An example of this is the First Five-Year Plan. After the plan was implemented in 1962, the plan turned out to be unrealistic. In fact, the performance did not reach its first year goal by the end of 1962. The economic growth rate in 1962 reached 4.1 percent in contrast with the 5.7 percent of the plan. The FKI organised a review team and began to formulate a supplementary plan (FKI 1983: 205). With this supplementary plan, the First Five-Year Economic Plan was adjusted and consequently overperformed between 1963 and 1966. The FKI not only revised the First Five-Year Economic Plan, but also set the direction of export promotion policies. After Park's shift to 'Export-Firstism' in January 1963, the FKI responded by establishing a Subcommittee for Promoting Export Industries, and suggested that sunset labour-intensive industries be attracted from industrialised countries (FKI 1983: 178). In the 'Opinion on the Direction of Economic Policies of the Third Republic' of December 1963, the FKI suggested the government anticipate global economic trends, thereby selecting areas in which high growth was expected, and give priority to them in export promotion measures (FKI 1983: 484). In the first oil shock,

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<sup>37</sup> Schmitter (1975) distinguishes between societal/democratic corporatism and state/authoritarian corporatism. According to him, societal corporatism, on the one hand, by balancing the demands of both industry and labour, tries to ensure the international competitiveness of industries and the prevention of inflation through the modest control of wages. State corporatism, on the other hand, is rather 'pre-emptive, preventive, defensive, and compartmental' (Huang 1997: 27). This implies that the institutions of state corporatism function rather as the state's arms for societal control than for the representation of interests. Therefore, relations between the state and other actors in state corporatism became extremely unilateral and vertical, but were rather mutual and horizontal in societal corporatism.

FKI, establishing a Subcommittee for Strengthening International Competitiveness, examined 246 items from 28 industrial sectors, and identified 148 items for rationalisation through government-business discussions (FKI 1983: 191–2, 353). Furthermore, with the experience of the second oil shock, FKI made a recommendation that strongly urged the government to shift its promotion targets to technology-intensive sectors such as electronics, shipbuilding and machinery (FKI 1983: 557).

Taiwan's business and industrial associations were also organised for political control over economic sectors by the KMT. However, from the 1970s when the KMT faced a legitimacy crisis in the course of deepening diplomatic isolation and searched for alternative legitimacy in a more active commitment to economic development in Taiwan, the functions of these business and industrial associations were accordingly reinforced. Among several business associations, the Chinese National Federation of Industries (CNFI) and Chinese National Association of Industry and Commerce (CNAIC) have been the main counterparts of the government for industrial policy co-ordination.<sup>38</sup> Internally, since the CNFI includes important regional and sectoral industrial associations (Xu 1991: 109–10), it not only provides member associations with information on government policies and market trends, but also co-ordinates the member's interests.

Externally, the CNFI has been involved in policy co-ordination with the government. Firstly, the CNFI organises or attends large-scale conferences that are often held to build a consensus on national economic development when certain major politico-economic changes and shocks are observed. For instance, when the second oil shock hit Taiwan, the government realised the need to accelerate the high-tech drive. In December 1981 the government held the Second National Economic Conference (*Dierjie Quanguo Jingji Huiyi*) to define the targets of the Strategic Industries. After the discussions and suggestions at this conference, the government identified 169 products as promotion targets. The government also invited business to the Third National Science and Technology Conference in January 1986 (Xue 1996: 309). In fact, approximately seven months later, the science and technology related ministries and agencies, referring to the conference suggestions, formulated the Ten-Year Long-term Development Plan of National Science and Technology (*Guojia Kexue Jishu Fazhan Shinian Changcheng Jihua*). In addition, the National Industrial Conference (*Quanguo Gongye Huiyi*) was held in 1991 by inviting government officials, the CNFI, representatives of industrial associations, and academics.<sup>39</sup> Similarly, facing the

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<sup>38</sup> Although the CNAIC is also an important business association, the CNFI has greater economic significance since it has more technical expertise than the CNAIC. Thus, the following analysis is made to the CNFI.

<sup>39</sup> This Conference was organised to respond to the changing political, economic, and social environment

communication and IT revolution and liberalisation trends of the world economy, the CNFI organised the National Industrial Development Conference (*Quanguo Gongye Fazhan Huiyi*) in 1996 (CNFI 1996: 23; 1997: 10).

Secondly, the CNFI arranged or participated in various and frequent discussion meetings. These discussion meetings dealt with topics such as small and medium-sized enterprises (SMEs), taxation systems, human resources development, industrial technology, fair trade, industrial relations and environmental protection. By inviting participants from the industrial community, government and academics, these meetings produce concrete policy recommendations for government reference. To take a few examples, as regards the Statute for Encouragement of Investment, in the revision of December 1979, the government asked the CNAIC to provide practical opinions; the CNAIC then collected opinions from members one week later, and sent 40 suggestions to the government in February 1980 (*Gongshang Yuegan*, vol. 28, no. 2, February 1980: 38–39). Similarly, in preparing the 13th revision of the Statute for Encouragement of Investment of July 1982, the MOEA held a discussion meeting with business for the revision of the Statute in April 1981 (*Gongshang Yuegan*, vol. 29, no. 5, May 1981: 47).

Thirdly, the CNFI has been organising monthly luncheon meetings (*wucanhui*) with government cadres. These provide communication channels between government officials and business to exchange wide-ranging economic information, such as on industrial development, export markets and R&D.<sup>40</sup>

In short, by connecting networks of industrial associations, the governments of Japan, South Korea and Taiwan obtained and shared concrete and practical data on industries, markets and technologies, which may have provided an important informational basis for effective industrial policies.

### **3-2-3 Government-Business Meetings**

In Japan, Korea and Taiwan, both the government and business have become

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after the democratic opening. Although this conference was held for just two days, actual information exchanges between the public sectors and various private sectors were conducted during the preparatory meetings and investigatory meetings that were held 39 times, involving a total of 2,000 participants. Preparatory meetings were held on a functional basis, covering industrial policies, industrial technologies, tax and finance, industrial ethics, and the functions of industrial associations (CNFI 1992: 9).

<sup>40</sup> Besides being involved in direct policy co-ordination, the CNFI is consigned by the MOEA to provide practical data and information to the government through industrial surveys and research. In 1994, the CNFI made a survey of the demand for industrial R&D, which was assigned by the MOEA. The CNFI sent the questionnaire to 5,000 firms and identified 80 technologies in high demand. Similarly, the MOEA assigned the CNFI to survey the current production facilities of firms (CNFI 1995: 16–9). The information obtained through these surveys was crucial for effectively formulating technical industrial policies: to improve the economy, policy-makers needed to identify concrete and practical conditions and problems.

interwoven through close networks. These are embodied in institutionalised government-business meetings.

Japan has most intensively institutionalised such meetings in the form of deliberative councils. MITI, for example, has 34 deliberative councils (Kawakita 1991: 60).<sup>41</sup> They are organised along functional lines and sectoral lines. Functional deliberative councils deals with industrial rationalisation, industrial pollution and industrial finance, while sectoral councils co-ordinate all the industrial sectors such as steel, automobile and chemical industries (Campos *et al.* 1996: 83–6). Among these deliberative councils, the Industrial Structure Council has been the most important one, which handles the ‘management of industrial policy as a whole’ through representatives from the public and private sectors (Johnson 1986: 193). The Industrial Structure Council, established in 1964, provided visionary plans for industrial policies every decade. For example, it published the visions of the HCI in the 1960s, knowledge-intensive industries in the 1970s, creativity and knowledge-based industries in the 1980s and a better quality of life in the 1990s (Kawakita 1991: 61). Although not all visions were successful, particularly after the 1980s, they indicated the direction of industrial development in the earlier stages.<sup>42</sup>

Membership of deliberative councils is managed by a secretariat staffed by MITI officials. In general, the members of deliberative councils are chosen from university faculties, the business sector and government corporations, but in a minority of cases they may be selected from among journalists, incumbent bureaucrats, local government officials and labour unions (Schwartz 1993: 221).<sup>43</sup> With members from private business, Japanese deliberative councils created a forum for government and business: they facilitated discussion on policy issues and market trends as well as promoting consensus-building between them on economic development policies (World Bank 1993: 182). Cheng *et al.* (1996: 31) also point out that Japan’s deliberative councils are utilised (1) to obtain the technical advice of external experts to compensate the weak level of expertise of the generalist bureaucracy, and (2) to ensure transparency and fairness in decision-making, although this is limited narrowly to the council members.

In South Korea, the most well-known government-business meetings were the Monthly Export Promotion Meetings. As the World Bank (1993: 183) points out, they provided

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<sup>41</sup> Japan’s reliance on deliberative councils facilitated policy co-ordination outside the Diet since these councils were less subject to particular political interests (Johnson 1986: 193). This is in striking contrast to policy co-ordination through the US Congressional Committee hearings.

<sup>42</sup> Besides these cross-sectoral visionary plans, the Industrial Structure Council was committed to making sectoral policy recommendations.

<sup>43</sup> Schwartz (1993: 224) indicates that 64 percent of the subcommittee members of the Industrial Structure Council are from individual private businesses.

the most important communication channels between the government and business from 1965 to the 1980s. Because President Park refused to meet with business representatives in private, these meetings were the only channels whereby the president could have a direct role in co-ordination (Campos *et al.* 1996: 91). A limited number of members, selected among business association leaders, the governors of financial institutions, major export enterprises as well as economy-related ministers, could attend these meetings. Through concrete discussions on institutional arrangements, legal and procedural issues, and other issues related to export promotion, these meetings helped reduce obstacles to exports (Lee 1997: 619; Campos *et al.* 1996: 91). In the meetings, firstly, the chairperson—President Park himself—was given briefings on the achievement of export targets from every business subsidised by government policy loans. Secondly, members of the meetings discussed the problems of specific industries. Thirdly, business members expressed their views on export market trends, and examined the drafts of regulations and policies. Fourthly, based on the opinions of business, President Park ordered relevant departments of the ministries to adopt remedial measures. Fifthly, in subsequent meetings, ministers were obliged to report on their substantive actions and performance (World Bank 1993: 183; Cheng *et al.* 1996: 41–2).<sup>44</sup> Although the details of the discussions in these meetings were not disclosed, to take one example, President Park utilised the Monthly Export Promotion Meeting to set up the General Trading Companies (GTCs). Shin (1993) reveals the policy process of GTC promotion. When the state conceived of the promotion of GTCs, the government instructed Samsung and Daewoo to investigate the Japanese GTC system. Samsung and Daewoo were also required to provide a report covering three points: concrete information on Japanese GTCs; a concrete plan for Korean GTCs; and promotion policies for Korean GTCs (Shin 1993: 54). Based on this report, the government formulated its GTC promotion plan. This plan was examined and finalised at the Monthly Export Promotion Meeting on April 1975.

Park also organised Monthly Economic Briefings. As with the Monthly Export Promotion Meetings, the members of the briefings were the President, the EPB, business leaders, and representatives of financial institutions. While the Monthly Export Promotion Meetings focused heavily on co-ordinating countermeasures to eliminate impediments to export growth, the briefings paid more attention to analysing and monitoring economic performance, particularly regarding exports. In the briefings, the government reported monthly export performance in overall, sectoral and even product-specific terms. Businesses that were promoted by government schemes were obliged to report their companies' export performance. Based on those meetings, the

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<sup>44</sup> Campos *et al.* (1996: 91) indicate that the countermeasures discussed in the meetings were mostly implemented.

government could grasp up-to-date information on export problems in real time as well as monitor the policy implementation process.

In more technical and sectoral terms, the government utilised deliberative meetings to set export targets and monitor their export performance. In 1965, after the Ministry of Commerce and Industry (MCI) formulated its export expansion programme, it established the Export Promotion Subcommittee (EPSC). The members of the EPSC included the vice-ministers of the economic ministries and agencies, and representatives from business associations. Through joint consultation between them, the EPSC set export goals 'by region, industry, and, in some cases, by individual firm' (Haggard *et al.* 1993: 71). This sector-specific deliberation was utilised to formulate and adjust sector-specific industrial policies.

In contrast, the KMT government in Taiwan was initially reluctant to consult with business sectors on economic policies partially for fear of the potential public-private adhesion and mainly due to the deep sub-ethnic cleavage between the mainlander-dominated bureaucracy and the islander-dominated business sectors (Chou 1995: 93). However, when deepening diplomatic isolation drove the KMT to become aware of the reality of its settlement in Taiwan, the KMT government initiated the establishment of a policy community with the islander-dominated business sectors in order to commit to economic development in Taiwan. In March 1974, Premier Chiang Ching-kuo called for mutual co-operation between the government and business. Similarly, in 1978, four government officials clearly stated that the government expected to refer to the opinions of business representatives and sought further co-operation from business. The economic role of business associations was accordingly strengthened and state-business meetings were also established. In 1979, the Executive Yuan<sup>45</sup> distributed the Operational Manual of Advisory Council Institutions (*Xingzhengyuan Jisuoshu Gezhuguan Jiguan Jianli Zixun Zhidu Shishi Yaodian*). Soon, ministers and agencies under the Executive Yuan established various advisory councils (Mo 1993: 62). Businesses were allowed to participate in consultations and deliberations. In 1981 the Executive Yuan formulated the Promotional Manual for Private Company's Participation in the Government's Economic Tasks (*Minjian Qiye Canyu Zhengfu Jingji Shiwu Tuijin Yaodian*). This manual instructed government organisations to investigate existing policies and laws with business leaders and business associations through discussion meetings or advisory councils (*ibid.*: 62–3).<sup>46</sup>

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<sup>45</sup> The Executive Yuan is equivalent to the administrative body.

<sup>46</sup> Liu Tai-ying, an influential economist and KMT member, also called for the introduction of Japanese



In the early 1980s, the ad hoc Economic Innovation Commission was convened; this commission provided an institutional model for government-business joint policy co-ordination. In 1985, the KMT government established the Industrial Development Advisory Council (IDAC). The IDAC consisted of six functional subcommittees: general industrial policy; industry; trade; small and medium-sized enterprises; commerce; and energy. The IDAC is also organised along sectoral lines as well: the Subcommittee on Industry had four sectoral subcommittees: the metal and machinery industry; electronics and electrical industry; chemical industry; and consumer industry (see Figure 3-1). On the one hand, modeled on the blue-ribbon Industrial Structure Council of Japan's MITI, the MOEA aimed at creating a central mechanism for industrial policy co-ordination.<sup>47</sup> On the other hand, industrial policy co-ordination could overlap with relevant economic areas such as labour, trade and energy policies. Thus, the MOEA not only established co-ordination mechanisms along sectoral lines, but also incorporated other relevant economic or functional co-ordination into the IDAC.

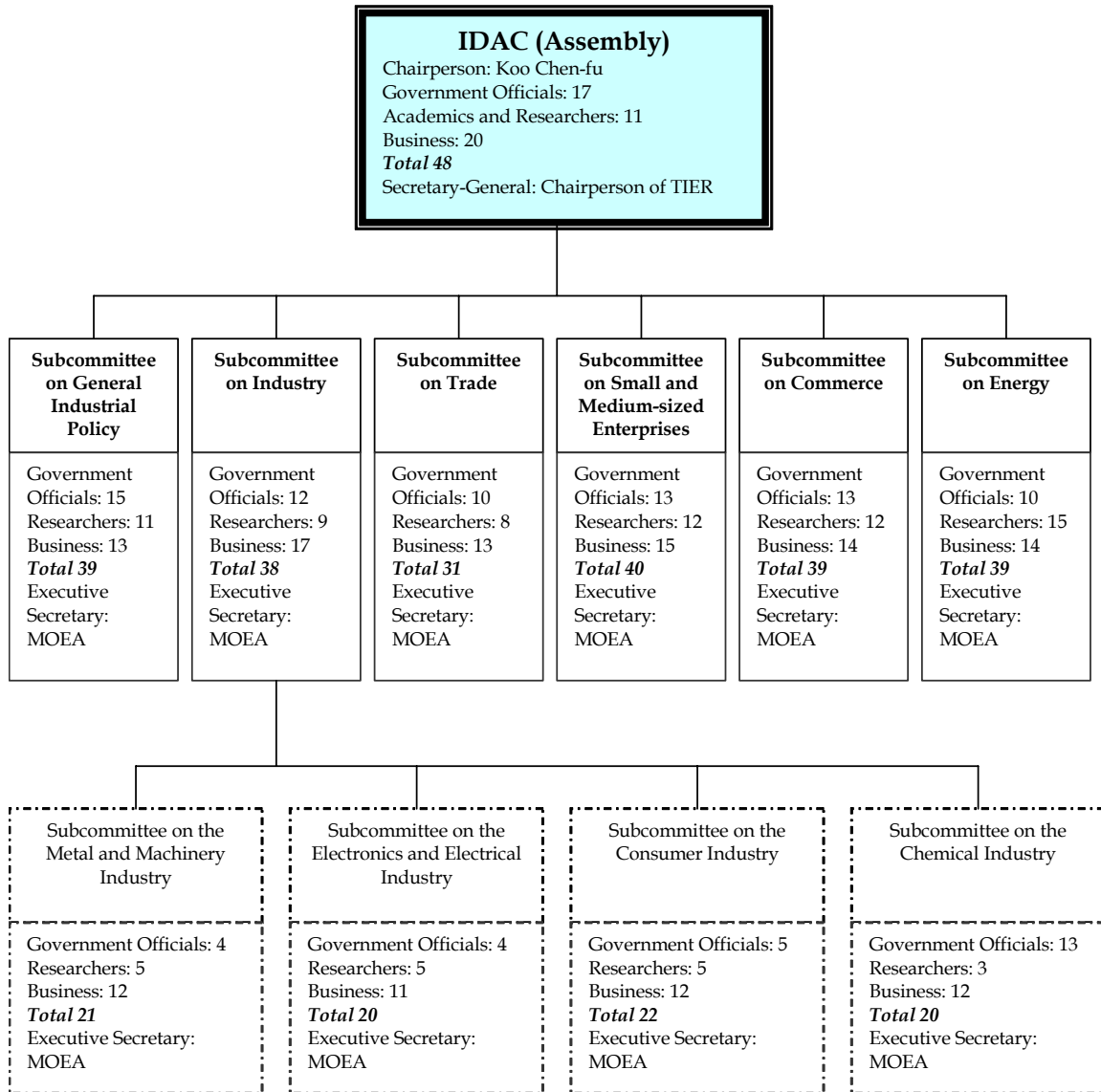
Established along both sectoral and functional lines, the IDAC was expected to deliberate on a wide range of issues concerning industrial development: industrial policies, strategies, development orientation, future prospects, drafts of plans, and laws, which were suggested by the MOEA. Meanwhile, it was also supposed to collect, analyse and investigate both domestic and international economic affairs (IDAC 1993: 41). As the IDAC has members from government bodies, financial institutions, academics, researchers, individual enterprises, major business associations, and industrial associations, this wide range of members enabled the IDAC to exchange valuable economy-related information, which may have improved the quality of its deliberations. However, although economic information may be exchanged between members through interaction in deliberations, the highly changeable economic conditions in international markets require professional intelligence to analyse and anticipate changes. Thus, the IDAC appointed the Taiwan Institute of Economic Research (TIER) as IDAC's think-tank.

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style deliberative councils to jointly tackle industrial upgrading (Cheng *et al.* 1996: 37).

<sup>47</sup> In fact, an ex-member of the Industrial Structure Council was consistently involved in setting up the IDAC in Taiwan.

**Figure 3-1 Organisational Structure of the IDAC**



*Note:* Original in Chinese. Translation is based on IDAC (Year Unknown).  
*Source:* IDAC (1999: 50–64). With minor editing by the author.

IDAC’s activities may be classified into two broad areas: formulating long-term plans and formulating technical policy drafts. Firstly, the IDAC is involved in the formulation of several important long-term development plans. As long-term perspectives are one of the emphases of the IDAC, a commitment to long-term visionary planning is crucial. Indeed, the IDAC, as commissioned by the MOEA, completed a White Paper on Industrial Development (*Chanye Fazhan Baipishu*) in 1994. This paper comprehensively dealt with ten-year development plans along both functional and

sectoral lines. Plans along functional lines cover those of trade, investment, industrial technologies, energy, production-marketing linkage, and SMEs. In addition, 11 plans were drawn up sectorally: vehicles, machinery, iron and steel, information and communications, consumer electronics, electrical machinery, pharmaceuticals, petrochemicals, food processing, cement, and textile industries (IDAC 1994: 9). For other examples, in 1988, the IDAC, examining the plans of Japan, Korea and the USA, formulated a draft of the Direction and Strategies of Industrial Development towards the 21st Century (*Maixiang Ershiyi Shiji Woguo Gongye Fazhan zhi Fangxiang yu Celüe*) (IDAC 1988: 195).

The second activity of the IDAC is to draft specific industrial policies. Task forces were established for drafting the Statute for Upgrading Industries and the Statute for SME Development (IDAC 1990: 35–66). In 1991, the IDAC, assigned by the MOEA and referring to the cases of Japan, Korea and the USA, drafted the R&D Law on Industrial Technologies (*Chanye Jishu Yanjiu Fazhanfa*) (IDAC 1991: 141–5). As industries became linked with more sectors and became more complex, industrial policy-making needed broad and highly technical knowledge. In particular, both government officials and business representatives in the IDAC have insufficient expertise in highly technical R&D fields. Most academic members of the Subcommittee on Industry are academic scientists, while those of other Subcommittees are from economics and management studies. Thus, the IDAC's Trinity, joining academia to the state and business, would certainly enhance its capacity to co-ordinate R&D policies both in broad terms and from the technical aspects.

In addition, democratisation in 1987 led the Legislative Yuan—equivalent to the National Diet of Japan—to become one of the important sites of policy co-ordination. In September 1994, business societies and three political parties—the ruling KMT, the opposition Democratic Progressive Party (DPP), and the New Party<sup>48</sup>—formally organised regular meeting channels. These channels were aimed at promoting mutual exchanges, protecting business interests, and swiftly investigating economy-related laws (*Gongye Zazhi*, no. 295, October 1994: 114–9). The CNFI, in order to tighten the relationships between business and the legislature, established the Committee for Legislative Yuan Relations (*Guohui Guanxi Weiyuanhui*). This committee, which actively attends various public hearings at the Legislative Yuan, holds Discussion Meetings for Mutual Understanding with the Legislative Yuan (*Guohui Goutong Zuotanhui*) on a monthly basis, choosing two to three topics (CNFI 1995: 296). At the discussion meeting in March 1996, one of the KMT members of the Legislative Yuan

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<sup>48</sup> The New Party, which split from the KMT in 1993, was established mainly by mainlanders and their descendants who were not satisfied with the Taiwanisation policies of islander President Lee Teng-hui.

asked business to provide its opinions on inappropriate laws and policies through extended discussion meetings (*Gongye Zazhi*, no. 313, April 1996: 15–7).

Thus, the developmental states of Japan, South Korea and Taiwan introduced deliberative policy co-ordination. The next section will analyse how this was governed.

### **3-3 Governance of Government-Business Relationships**

#### **3-3-1 Power**

Government-business relationships in the three countries have been governed primarily through the power of strong and visionary leadership. In Japan, prominent personal leadership was not salient; instead organisational leadership was available to bureaucrats and businesses who shared the nationalistic idea of economic catch-up.<sup>49</sup> This was the case not only during the departure from a devastating defeat in World War II, but also at the time of national crisis during the Meiji Restoration in the late 19th century.<sup>50</sup> In the case of the Meiji Restoration, the prominent role of the government in economic development was widely accepted by political leaders due to a scarcity of private capital, the traditional conservatism of the merchants, and ignorance of technology and production (Boyd 1987: 65–6). Even after World War II, the Japanese government adopted an interventionist approach to economic reconstruction through the Priority Production System (Ohno 1996: 216). These two interventionist governments were supported by a nationalistic backbone that focused on long-term and national development in order to survive in international politics and markets. As Ohno (1996: 285) argues, this development-oriented nationalism was naturally inclined to be undemocratic in practice since it put a high priority on the interests of the nation as a whole rather than those of individual consumers and producers. Yet Japan did not directly intervene in the economy: its main engine for economic development was not the state-owned enterprises (SOEs) but private business. In short, both in the latter part of the 19th century and after the defeat in war in 1945, Japan commenced economic development as a joint project of nationalistic bureaucrats and business. The Japanese economy was thus managed in an interventionist manner, but in a co-operative manner as well.

In South Korea as well, a national crisis motivated a nationalistic leadership to commit to ensuring political stability and economic development. After the April 19 Student Revolution deposed corrupt President Rhee Syngman in 1960, students not only

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<sup>49</sup> Personal leadership refers to goal-oriented control through the charisma of major figures, while organisational leadership is mission-driven control by powerful groups and organisations.

<sup>50</sup> In the 19th century, Japan—just after opening its doors—had to undertake modernisation as a late industrialiser with a comparatively weak international position (Pempel *et al.* 1979: 246–7).

repeated demonstrations as many as 1,840 times, paralysing the economy, and felt empathy towards the unification plan initiated by North Korea (Watanabe 1986: 39). This national chaos in terms of security and economy led the military forces to feel a sense of national crisis. It was in this crisis that General Park Chung-Hee captured power through a military coup in May 1961. To cope with the national crisis, President Park strongly committed himself to modernisation through economic development. Park, aware of the importance of the Monthly Export Promotion Meetings, 'did not miss a single monthly export promotion meeting during his 19-year rule' (Shin 2000: 173).

When a national crisis hit South Korea again in the 1970s when the US decided to disengage from the Korean Peninsula, Park also decided to commit to HCI to enhance his defence base as well as reinvigorate the export drive. Park was involved in the whole process of HCI with his strong commitment and initiatives.

Strong political leadership has crucial impacts on policy implementation. Before Park came to power, President Chang Myon also set the top priorities as anti-corruption measures and economic development. He not only prepared the Five-Year Economic Development Plan, but also hammered out the idea to establish a super-ministry that integrated planning and fiscal control. Nonetheless, due to his weak leadership and fragile political base, he failed in its implementation (Haggard *et al.* 1993: 64–5). Therefore, President Park never came up with a sudden innovation (Jones *et al.* 1980: 46–7). What differentiated the two Presidents was political leadership.<sup>51</sup> It is Park's political leadership that ensured the transition of South Korea from being a corrupt country to become one of the developmental states.

Taiwan's crisis was initially the geo-political threat from mainland China. However, when its diplomatic isolation deepened from the 1970s, the KMT under the leadership of Chiang Ching-kuo<sup>52</sup> decided to construct a co-operative policy community between the government and business. When the KMT commenced democratisation from the 1980s, the traditional sub-ethnic cleavage created a form of bipartisan politics. However, President Lee Teng-hui of the KMT initiated the National Affairs Conference (*Kuo-shih Hui-i*) in 1990 with the aim of holding discussions and consensus-building among political parties on current political issues (Hsu 1992: 136).<sup>53</sup> Through intensive discussions, all political parties learnt to compromise and eventually built a consensus

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<sup>51</sup> This may encourage weak implementation despite good policies and institutions in Bangladesh. Perhaps this may be a part of the answer to the question of what is required in Bangladesh. This will be analysed in the following chapter.

<sup>52</sup> Chiang Ching-kuo, a mainlander, is a son of Chiang Kai-shek.

<sup>53</sup> Topics covered ranged from the National Assembly to local autonomy, central government, amendment of the constitution, and mainland policies.

on the broad direction of political reforms. Hence, due to the tactical management and initiatives of President Lee, Taiwan was able to consolidate democracy without deepening bipartisan confrontation.

In addition to the strong commitment of visionary leadership, other aspects of power were exercised to govern government-business relationships in the three countries:

- government initiatives in the operational management of policy networks; and
- monitoring mechanisms.

In the case of Japan, the operation of deliberative councils was under the control of secretariats staffed by the relevant ministries. As Schwartz (1993: 228–9) reveals, these secretariats take charge of selecting the membership, assigning tasks, providing reference materials, and drafting final reports.<sup>54</sup> Even during the actual deliberations, council members in some cases play a rather passive role to formally examine and authorise drafts that the secretariats have substantially prepared (Kawakita 1991: 59). Besides, the final decision-making authority belongs not to the deliberative councils, but to the ministries concerned. Hence, the secretariats are able to lead the whole process of deliberation.

South Korea showed the most explicit operational control and tightest monitoring mechanism among the variations of the three countries. For instance, the membership of the policy community was strictly controlled by the government. The members of the Monthly Export Promotion Meetings were limited to the President, economic ministries, business associations and the financial sector.<sup>55</sup> It should be noted that representatives of labour, even the state-disciplined Federation of Korean Trade Unions (FKTU), were not allowed to join the membership, even though labour was an important element in the production process.

As is often mentioned, the Korean government offered preferential treatment—rent—to the chaebol. But in reality it was a mixture of carrots and sticks. Although Park Chung-Hee arrested 13 business leaders charging them with allegedly accumulating wealth illicitly under the previous regime, he made them promise to commit to national economic development as a condition for their release. The discharged business leaders submitted 14 sectoral development plans; they were in turn offered preferential policy

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<sup>54</sup> Schwartz (1993: 228) also indicates that the secretariats are able to select those who are sympathetic to the government's preferences.

<sup>55</sup> One of the key actors is a business that is one of the most important agents in the market. Business groups, in general, are the most important agents in the market in the sense that they have a considerable influence over production, employment, economic performance and government revenues.

loans. These policy loans were powerful policy instruments of the government. This was partly because business leaders had to depend on the financial resources<sup>56</sup> that the government provided under conditions in which all commercial banks were nationalised. It was also partly because their interest rates were kept 8–15 percent lower than the market rates (Cheng *et al.* 1998: 103–4; Kim 1988 108–9; Fields 1995: 105). Likewise, in the case of HCI, the chaebol were allowed to select an entry sector from the six targets of steel, chemicals metals, machine-building, ship-building and electronics, which the Presidential First Economic Secretary picked up (Woo 1991: 128–9). However, as a condition of government support, the promoted chaebol were required to submit sectoral development plans (Watanabe 1986: 113). Hence the Korean government functioned as an entrepreneur who decided what, who and when to produce (Amsden 1989: 17).

However, industrial promotion using government subsidies is not limited to the Korean case. What is unique in the case of South Korea is that the President imposed a rigid performance standard on the subsidised business under a strict monitoring mechanism. Chang (1993: 142, 6) reveals that the chaebol were obliged to produce a monthly report on their export performance. The report was not a matter of formality. The failure to submit a report was subject to punishment. Furthermore, the failure to achieve regional and sectoral export goals may result in the application of a high tax rate and negatively affect later financial allocations (Haggard *et al.* 1993: 71–2; Campos *et al.* 1996: 91).<sup>57</sup> Cheng *et al.* (1996: 43) cite examples in which, in the course of HCI, one company was penalised for failure to achieve the export targets, 68 percent of companies had austere tax rates applied for insufficient export performance, and in contrast 45 percent were offered further government facilities for satisfactory export performance. In sum, the Korean government provided both rewards and penalties. Although it gave preferential treatment through subsidies—or rent—to the chaebol, strict monitoring mechanisms prevented government-business linkages from falling into corrupt relations.<sup>58</sup> It could be said that government-business co-operation does not always negatively cause a moral hazard, rent-seeking and corruption; what matters is that it can positively work for economic development as long as the ‘carrot-and-stick’ mechanism is imposed.

The Taiwanese case shows that a moderate level of power was used to govern the government-business relationship. Unlike South Korea, since the KMT government

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<sup>56</sup> In this sense, the Korean government monopolised political, legal and financial resources; it depended on the chaebol for the informational and organisational resources that the government expected to exchange through policy networks.

<sup>57</sup> As Chang (1993: 137, 42) added, defaulting on obligations may be sanctioned by industrial license cancellation, fines and even imprisonment. In fact, Hyundai—one of the leading chaebol—was penalised.

<sup>58</sup> In this sense, Korean chaebol had to cope with dual discipline—export market discipline and government discipline.

utilised fiscal incentives to promote the targeted industries, it rarely monitored the economic performance of individual firms. However, this does not mean that the KMT regime did not control the business community. Business associations, for example, were also controlled by the KMT; despite the election, their commissioners were informally appointed and endorsed by the KMT (Chou 1995: 113; Cheng *et al.* 1996: 35). In the case of the IDAC as well, the Chairperson of the Assembly is appointed from among the business leaders of the KMT membership, and even Executive Secretaries in each subcommittee are selected by the MOEA from government officials of the MOEA or KMT-related business leaders (IDAC 1985: 8–10). The selection of discussion topics is initiated by the secretariats. As *Gongshang Zazhi* (1994: 17–42) points out, although every member is allowed to raise topics during the discussions at the IDAC, MOEA's secretariats substantially preside over the discussion process.

In sum, in the three countries, the governments governed government-business interactions through membership control, discussion topic selection, and, only in South Korea, monitoring of the performance of individual businesses. However, it should be noted that active government-business meetings created a certain policy community that had transparency, though such transparency was limited only to the policy community. To take one example, Korean business was requested to point out export-related obstacles at the Monthly Export Promotion Meetings; the government was in turn obliged to report in the next meeting on the countermeasures to be actually taken to remove these obstacles. As a result of government-business interactions in all three countries, not only the government, but also business, was able to monitor policy implementation. This mutual monitoring between the government and business contributed to maintaining policy networks for developmental purposes.

### **3-3-2 Trust and Reciprocity**

Besides the power exercised by the governments, policy co-ordination between the government and business is governed by mutual trust and reciprocity. In Japan, while MITI ensured business co-operation in policy formulation and implementation, the business community was also offered communication channels to policy co-ordination. Both MITI and the business sector benefited from policy co-ordination at least until the 1970s, although such benefit may have been indirect. In addition, the stable maintenance of a policy community for nearly half a century illustrates the mutual trust between both the government and business.<sup>59</sup> Rather, the recent prolonged slump in the Japanese economy and the failure to undertake structural reforms illustrates that this mutual trust has become too solid for the policy community to adapt. In other words, the

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<sup>59</sup> As Okimoto (1989: 157) points out, frequent contacts of MITI's directors with the key personnel of private business created such mutual trust.



policy community now gives priority to ensuring internal trust at the expense of the monitoring of internal activities.<sup>60</sup>

As already shown above, reciprocal exchanges were most explicitly seen in South Korea. The chaebol were able to not only ensure privileged communication channels to the policy process and more directly receive rent—intensive policy loans. Particularly during the HCI policy in the 1970s, massive financial allocations to a handful of chaebol helped them to expand their scale: the gross assets of the Hyundai Group increased 38 percent annually from 1970 to 1981, and that of Daewoo grew 53.7 percent in the meantime (Kim 1997: 153). Co-operative policy co-ordination also benefited the government as well. The government received practical information on export markets, technologies, and the deficiencies of domestic industries. Through the business commitment to government policies, economic development was indeed achieved; the government thereby reinforced the basis of the legitimacy of the regime. Although the strong leadership and commitment of President Park were discussed as the exercise of power in this section, they also encouraged business to trust in the government projects for economic development.

In Taiwan as well, the KMT government and business sectors are involved in joint policy co-ordination. As seen in the case of the revision process of the Statute for Encouragement of Investment, the government depended on the practical contributions of business associations.<sup>61</sup> The effectively revised Statute in turn contributed to export growth and an increase in national revenues. For the business side as well, a pro-business statement from the 1970s and the subsequent establishment of policy networks have provided a valuable institutional environment. However, unlike the direct financial allocation in South Korea, the benefits to the business sector are not clearly visible since the KMT government utilised indirect fiscal incentives for industrial promotion. Nonetheless, the KMT government and the business community created mutual trust: from the late 1970s, the KMT government called for active business commitment to economic policy co-ordination and business in turn welcomed such statements, and thereby the substantial institutionalisation of policy co-ordination channels was undertaken.<sup>62</sup>

Hence, the above analysis of the governance mechanism implies that power, trust and

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<sup>60</sup> This suggests that trust can be dysfunctional when it lacks a credible monitoring mechanism. For instance, the ‘iron-triangle’ of the ministries, the LDP and industry protected their vested interests and postponed the decision to overcome structural problems such as non-performing loans. See also Sinpo (2003: 27–8) and Lingle (1996: 392).

<sup>61</sup> In other words, the KMT government depended upon business for their informational and organisational resources.

<sup>62</sup> As for the detailed process of trust creation in Taiwan, see Kondoh (2003; 2005).

reciprocity govern policy networks in the three countries. However, their balance of governance differs: Japan and Taiwan seem to prefer a trustful relationship among network members with moderate power exertion, while South Korea explicitly depends on power as well as reciprocity.

### **3-4 Governance and Institutions for Policy Co-ordination in Malaysia**

Malaysia is unique in several respects. Malaysia, departing from its dependence on primary resources such as rubber and tin production in the 1960s, has exported mainly high-value added manufactured products like electronics and electrical products from the 1990s. Among the rapidly growing economies in East and Southeast Asia, Malaysia is the only multi-ethnic country and the only nation with a Muslim majority (Henderson *et al.* 2002: 1).<sup>63</sup>

Like Bangladesh, Malaysia was one of the British Colonies.<sup>64</sup> What has differentiated the developmental performance between Malaysia and Bangladesh? Ismail *et al.* (1993: 34–48) of the World Bank<sup>65</sup> identify two distinct government roles in the economic development of Malaysia: (1) the political leadership and vision of its Prime Ministers, (2) the institutional strength of the Prime Minister's Department and Economic Planning Unit (EPU). In fact, Prime Minister Mahathir bin Mohamad published and implemented a number of visions under his strong leadership. Vision 2020 in 1991 declared Malaysia's developmental goal to become an 'advanced nation' by the year 2020. He also hammered out the concept of 'Malaysia Incorporated.' With such visions and leadership, aggressive industrial policies were introduced and government-business policy networks were institutionalised. Hence, Malaysia shares the features of the developmental states of the East Asian NIEs. However, Malaysia's economic development accelerated from the 1980s, just after the inauguration of Mahathir as Prime Minister. What intentional efforts did he make to breakthrough Malaysia's status as a primary resource-producing country? Perhaps the Malaysian case has more relevance to Bangladesh since the two countries are both former British Colonies and Muslim nations.

#### **3-4-1 Economic Policies**

Though recent economic development in Malaysia has attracted attention with regard to the evolution of economic policies, its economic policies were not always consistent over the four decades. At independence in 1957, economic policy was rather

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<sup>63</sup> However, Japan, South Korea and Taiwan have ethnic minorities.

<sup>64</sup> One of the characteristics of British colonial rule is that the British rulers were reluctant to grant discretion to the lower level of local government officials.

<sup>65</sup> In Torii (2000: 143).

*laissez-faire*. However, when the victory of a political party of Chinese—a minority in the population, but the majority in economy—in the general election in 1969 triggered race riots by the majority of Malays, the political elites clarified pro-Malay economic policies (Bowie 1994: 170). Accordingly, the New Economic Policy (NEP: 1971–1990) set the priorities for economic policies to favour ethnic Malays and active government involvement in the set-up of SOEs (Bowie 1994: 174). An industrial breakthrough was made in 1981 with the inauguration of the Mahathir regime. Mahathir not only published the Look East Policy in 1981, which argued that Malaysia should learn from the Japanese experience of economic development, but also proclaimed the Vision of Malaysia Incorporated in 1983, which was influenced by the successful models of Japan Incorporated and Korea Incorporated. While he privatised SOEs, he also formulated a sectoral industrial promotion plan for the first time: the Medium- and Long-term Industrial Master Plan (1986–1995) (Torii 2000: 152–3). In 1980, Mahathir commenced HCI by creating the Heavy Industries Corporation of Malaysia (HICOM) to take charge of the planning, implementation, management and investment for HCI. In his 1991 address called the Way Forward, Prime Minister Mahathir released Vision 2020. Subsequently, the Second Medium- and Long-term Industrial Master Plan (1996–) was formulated to realise the objectives of Vision 2020. Whereas this emphasised the roles of R&D, productivity and production quality, the plan also focused on the institutional aspects of industrial promotion; it aimed at the institutionalisation of policy co-ordination mechanisms as in Japan and the NIEs (Torii 2000: 145; 163–4).

### **3-4-2 Institutions**

Traditionally, economic policies in Malaysia were co-ordinated by the EPU of the Prime Minister's Department. The EPU had been the central organ for developmental budget control and the responsible authority for development-related policy decisions. It was not only involved in the formulation of medium-term and long-term development strategies, but also the compilation of statistical data for economic planning (Henderson *et al.* 2002: 15).

Yet in the publication of Vision 2020, Mahathir reshaped the institutional framework of development. He established standing institutions of various government-business consultative bodies to co-ordinate policies for the realisation of the vision of Malaysia Incorporated (Torii 2000: 159). In 1990, the Policy Committee for Malaysia Incorporated<sup>66</sup> was organised under the Prime Minister's Department. This Committee was designed for political, administrative and business leaders to share problems and information on industrial development (Torii 2000: 160–1). Mahathir learnt from the Korean Monthly Export Promotion Meetings to establish the Malaysia Business

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<sup>66</sup> Tentative translation by the author.

Council which the Prime Minister himself chaired (World Bank 1993: 184, 7).<sup>67</sup> In 1993, learning from the Japanese government-business relationship through his Look East Policy, Mahathir set up the Malaysia Incorporated Officials' Committee under the Chief Cabinet Secretary of the Prime Minister's Department. This Committee invited government officials, business associations and business leaders to discuss the national budget (Torii 2000: 161; World Bank 1993: 184, 7).<sup>68</sup>

Since one of the objectives of the Second Medium- and Long-term Industrial Master Plan is to institutionalise the government-business policy co-ordination mechanism, the implementation of the Plan since 1996 further developed the institutions of policy co-ordination. To realise Vision 2020, the Plan established the following three layers of institutional mechanisms:

1. *Industrial Co-ordination Council*: This Council, chaired by the Minister of International Trade and Industry, invited leading members from among government officials and business circles to examine the problems of industry as a whole;
2. *Industrial Policy and Incentive Committee*: This is a subordinate committee to the Industrial Co-ordination Council in which only economic technocrats participate in examining investment promotion policies; and
3. *Public-Private Cluster Working Group* and *Strategic Thrust and Initiative Task Force*: Both are subordinate groups to the Industrial Policy and Incentive Committee with government and business members. While the former discusses the promotion of 18 targeted sectors on the Second Medium- and Long-term Industrial Master Plan, the latter examines the measures to build up international competitiveness and prepare for economic globalisation (Torii 2000: 165–6).<sup>69</sup>

### **3-4-3 Governance**

Thus Mahathir introduced a number of institutional frameworks for government-business joint policy co-ordination, which he had learnt from the prior East Asian cases through the Look East Policy. These co-operative relationships for policy co-ordination were not only introduced but also utilised for actual policy process. This institutional innovation in policy co-ordination was possible primarily due to Mahathir's strong leadership and his visions based on the successful models in East Asia.<sup>70</sup> As

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<sup>67</sup> This council invites 60 members from among government officials, business leaders and labour unions (World Bank 1993: 184, 7).

<sup>68</sup> As working level consultations, the Malaysian MITI has been holding the MITI Annual Trade and Industry Dialogue since 1988. In 1999, 112 business and industrial associations participated in the Dialogue producing 347 proposals (Torii 2000: 162).

<sup>69</sup> The main difference in the activities of the two institutions is that the former Group is sectorally designed while the latter is functionally designed.

<sup>70</sup> The reason that Mahathir was aware of the business contribution to industrial policy co-ordination is

already mentioned, Mahathir released a series of visions: the Look East Policy in 1981, the Vision of Malaysia Incorporated in 1983, and Vision 2020 in 1991. These visions sent clear messages to both the government officials and business leaders on the direction of state-business co-operation and economic development. In addition, Mahathir published the New Elements by collecting some of his visions. He distributed them to government elites to share his visions (Torii 2000: 152).

Besides strong and visionary leadership, government-business relations are controlled by government initiatives and monitoring systems. Similar to the Korean quasi-internal organisation, the Vision of Malaysia Incorporated recognises government-business relationships as a firm-type organisation: the government is involved in decision-making such as the formulation of policies and the setting of the direction for development while private companies are engaged in more practical production and trade (Jomo 1989).<sup>71</sup> Accordingly, although the government establishes co-operative relationships with business, it is led by government officials. Some consultation meetings do not allow for decisions by private business; and most of the membership is under the control of the government.<sup>72</sup>

Yet policy co-ordination networks in Malaysia are also maintained by reciprocal exchanges. In terms of the business community, leading businesses were integrated into the policy process. Although detailed information was not available due to salient government dominance of business, they were able not only to exchange informational resources, but also to receive financial assistance particularly in the case of Bumiputra companies. In addition, the strong and continuous commitment of Mahathir to institutionalise government-business networks created some sense of mutual trust. Perhaps the policy co-ordination mechanism in Malaysia has been maintained for developmental purposes not only because the power of Mahathir governed it, but also because it was supplemented by benefits to business in resource exchanges and their trust in government commitment. The mixed governance of power, trust and reciprocity discouraged the any opportunistic behaviour on the part of both the government and business.

### **3-5 Conclusions**

This chapter analysed strategic governance in Japan, two NIEs and Malaysia. Firstly,

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that he had experience of working in a private company. Through this experience, he realised that industrial promotion required economic technocrats to be familiar with the industries or to establish systems to ensure industrial information from the private sector (Torii 2000: 167–9).

<sup>71</sup> In Torii (2000: 160).

<sup>72</sup> See Torii (2000: 161–2). Torii (2000: 173) also describes Malaysian corporatism as state corporatism.

the three countries of Japan, South Korea and Taiwan established various institutions for policy co-ordination. Central agencies are at the core of economic bureaucracy to co-ordinate economic policies. However, their strong bureaucracy was not a given. It should be noted that both Korea and Taiwan originally started from corrupt governments. But the leadership with a keen awareness of the threat commenced government reform. Hence, this analysis confirmed that any reform is ultimately a matter of political leadership. Japan and NIEs also had powerful business associations—such as Keidanren, FKI and CNFI. They have supported the capacity of the government for policy co-ordination as a powerful arm of the government. In addition, Japan and NIEs have maintained extensive interactions between the economic bureaucracy and the business sector. The deliberative councils and meetings such as the Industrial Structure Council in MITI, the Monthly Export Promotion Meetings in South Korea and the Industrial Development Advisory Council in Taiwan institutionalised government-business interactions for informational exchanges and policy co-ordination. These institutions provided an effective framework through which the experience and knowledge of private business could be incorporated into national economic policies. In other words, through such a framework, private business and their resources contributed to policy co-ordination.<sup>73</sup>

Secondly, the governance mechanisms of policy co-ordination were examined. The analysis showed that policy co-ordination has been made through the power of strong and visionary leadership commitment—regardless of personal or organisational leadership. Policy co-ordination was also governed by government control over the membership and monitoring mechanisms. It was true that the Japan and NIEs, particularly South Korea, often allocated carrots or rent to business; yet this rent allocation was accompanied by the stick of performance monitoring and evaluation. It is this carrot-and-stick mechanism that made even lucrative rent allocation compatible with national economic development. It should be noted that although government-business relationships certainly provided reciprocal channels to exchange informational, financial and organisational resources, they were basically controlled by the government. While the state was the main beneficiary of this co-ordination, the benefits to business, particularly preferential treatment, were a matter of state decisions: the state decided which business would, or would not, get which benefits. Since the Korean government had nationalised and thoroughly controlled the banks, it could autonomously allocate financial resources, while business had no choice but to follow the government's instructions. Park could punish the chaebol—particularly through

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<sup>73</sup> This chapter has considered several examples of business contributions such as the revision of the Five-Year Economic Development Plan and formulation of the GTC policy in South Korea, as well as the identification of Strategic Industries and all policy processes of the Statute for Encouragement of Investment in Taiwan.

unfavourable treatment in financial allocation—if they failed to achieve agreed goals or deliver proper reports on their performance.

In the third place, this chapter confirmed that the case of Malaysia also shared a number of similarities to the cases of Japan and NIEs. The strong and visionary leadership of Prime Minister Mahathir broke through politico-economic environments. Based on his deep understandings on economic policies and institutional arrangements in Japan and NIEs, Mahathir renovated policy direction for economic development and institutional arrangements for strategic public-business relationship. He published Vision 2020 in 1991 and subsequently the Second Medium- and Long-term Industrial Master Plan in 1996 to foster industrial development. Such visions and key industrial policies were put into practice through various layers of policy co-ordination mechanisms: (1) the Policy Committee for Malaysian Incorporated, (2) the Malaysia Business Council, which was modeled on the Korean Monthly Export Promotion Meetings, and (3) the Malaysian Incorporated Officials' Committee which was learnt from Japanese government-business relationships through his Look East Policy. The analysis revealed that policy co-ordination was also governed by government initiatives. The publication of visionary plans and institutionalisation process of policy co-ordination mechanisms were led by Mahathir's strong initiatives. The most visible government leadership was seen in its control of meeting membership.

Thus, Japan, NIEs and Malaysia were examined in terms of their enhancement of their policy co-ordination capacities internally through central agencies and externally through the institutions of business associations and government-business meetings to utilise the informational and organisational resources of business. However, as confirmed in the analysis of governance, these institutions were introduced and practically utilised under strong leadership based on a vision. Governance in these countries was never a participatory process that excluded the concept of hierarchy and power; indeed it was accompanied by hierarchical and, in some cases, coercive forms of management to lead 'co-operative' relationships with selected strategic actors towards the direction of national economic development.

## **4. Institutions and the Governance of Policy Co-ordination in Bangladesh**

### **4-1 Introduction**

Despite long-standing efforts by various actors, such as the government, NGOs and international donors, the development performance of Bangladesh has not been distinctive. There are a number of factors inhibiting development; the inefficiency and lack of capabilities of the public sector have been focused on. To understand the institutional aspects of the less than outstanding economic performance of Bangladesh, this chapter analyses the governance of policy co-ordination and the institutions involved. Firstly, as institutions for economic policy co-ordination, the bureaucracies, business associations and deliberative meetings are analysed. Secondly, the governance of government-business relationships will be investigated. Thirdly, this chapter examines the governance mechanisms of the government of Bangladesh in terms of the features of its bureaucracies, disincentive structures that inhibit maximisation of their capabilities, political interference and lack of leadership. The final section examines the successful case of the Local Government Engineering Department (LGED) to draw lessons for future action in Bangladesh.

### **4-2 Institutions and the Policy Process**

#### **4-2-1 Economic Policies**

The industrial structure of Bangladesh has not changed significantly since its independence. Bangladesh remains an agricultural country: 62 percent of total workforce in 1995 were engaged in the agricultural sector, 10 percent in the industrial sector and 27 percent in the service sector (Mukai 2003: 23). The annual growth rate of gross domestic product (GDP) from 1971 to 1994 recorded four percent—less outstanding than the double-digit rate of the NIEs (Salim 1998: 72).

The economic policies of Bangladesh evolved from import-substitution industrialisation (ISI) after independence in 1971. Due to the weak base of private industries and the devastated economic conditions due to the war of independence, the government actively intervened in the economy and the main economic agents were SOEs. However, Bangladesh shifted its economic policies to private-led EOI according to the Industrial Policy in 1982, the Revised Industrial Policy in 1986 and the New Industrial Policy in 1991. To take an example, the New Industrial Policy in 1991 stipulated the privatisation of 609 SOEs, relaxation of administrative procedures, trade liberalisation, active luring of foreign investment and deregulation. It also provided monetary and credit facilities for the promotion of EOI (Salim 1994: 87–90; Mukai 2003: 30).



Although the promotion of industry under the above three industrial policies was general rather than sector-specific, it has been focused more along sectoral lines in the New Industrial Policy of 1999. The new policy emphasises not only general export promotion and export processing zones (EPZs), but also quality improvements, capital and technology-intensive industrialisation, such as the promotion of high technology. Like the industrial policies in East Asia, it confirms the importance of dynamic comparative advantage, by stating that ‘[t]he goal of external competitiveness implies the pursuit of industrialisation in accordance with the dynamic comparative advantage of the economy’ (Board of Investment 2004: 13; Ministry of Industries 1999: 2).<sup>74</sup> The policy plots a strategy for economic development by focusing on:

1. infrastructure building as the first priority;
2. promotion of agro-based industries and sub-contracting industrial sectors;
3. provision of special incentive schemes for export-oriented industries; and
4. adoption of interactive policy processes between the government and business to co-ordinate and implement industrial strategies and measures (Ministry of Industries 1999: 4–5).<sup>75</sup>

It also started sector-specific industrialisation by defining agro-based industries, the frozen food industry, textile industry, electronics, computer software, and information technology as the thrust sector industries. Although these targets seem to have compromisingly—rather than strategically—mixed the traditionally promoted ones and the newly and technologically demanding sectors, the New Industrial Policy of 1999 stipulates the provision of special financial incentives to the thrust sectors (*ibid.*: 9–10, 29). The policy also provides promotional schemes for industrial technology upgrading: highly selective measures for industrial technology improvements, relaxation of administrative procedures for technological imports, and the application of tax breaks to

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<sup>74</sup> *Dynamic comparative advantage* refers to a more created advantage. In East Asian countries, it was created to compensate for their weak economic base of limited natural resources endowment. Although neo-classical views of economic development may claim to specialise exports on the basis of Ricardo’s version of comparative advantages, this can only be the case where one country is endowed with raw materials (Evans 1995: 8). Also, ‘in a world where manufacturers dominate global trade [...] choices about what to make and sell cannot be deduced from a simple reading of natural endowments’ (*ibid.*). This logic reveals the possibility of more created comparative advantage—so-called ‘dynamic comparative advantage.’ In the creation of dynamic comparative advantage, the government needs to select strategic industries from holistic viewpoints referring to the criteria of whether they can be a leading sector as well as create high added value; and whether they can upgrade the country’s status in international markets (*ibid.*: 10).

<sup>75</sup> Introduced in the late 1990s when the East Asian miracle was still attracting the attention of policy-makers as well as academic faculties, this policy seems to have learnt from various successful cases of industrialisation in East and Southeast Asia. For instance, the attention to the path through agro-based industrialisation is similar to the industrialisation strategy of Thailand while attention to sub-contracting sectors perhaps took a hint from the cases of Japan and Taiwan. Similarly, the attention to an interactive policy process could be derived from the East Asian and Malaysian cases.

authorised R&D projects (*ibid.*: 19). Institutional support is also arranged: the National Productivity Organisation was established for skill development; the Bangladesh Standards and Testing Institutions were founded for quality control (QC); and the Bangladesh Institute of Management offers training courses for the Board of Investment, which is in charge of pre- and post-investment counselling to investors (*ibid.*: 20–1).

In sum, it could be said that recent economic policies in Bangladesh have shifted to strategic thinking for target industrial sectors in a more sophisticated way. Although it is true that the target sectors are a compromised mixture of traditional sectors and extremely technological and capital intensive sectors, and although it lacks a long-term roadmap for industrial promotion with the concept of dynamic shifts in the thrust industries phased in a time series, the policy has the potential to produce economic development—as long as it is actually implemented.

#### **4-2-2 Institutions**

The government structure for policy co-ordination in Bangladesh is rather fragmented. The National Economic Council (NEC), the Executive Committee of the NEC (ECNEC), the Planning Commission and line ministries are all involved in policy co-ordination (Figure 4-1). Although the highest policy-making body is the Cabinet, decision-making on economic policies is made by the NEC under the Prime Minister. The NEC is supposed to co-ordinate economy-related plans and policies by:

1. overall guidance in the co-ordination process of the Five-Year Plans, Annual Development Programmes (ADPs) and general economic policies;
2. finalisation and authorisation of these Plans, ADPs and policies;
3. review of their implementation process; and
4. taking other action necessary for socio-economic development (Chadha 1989: 78–9).

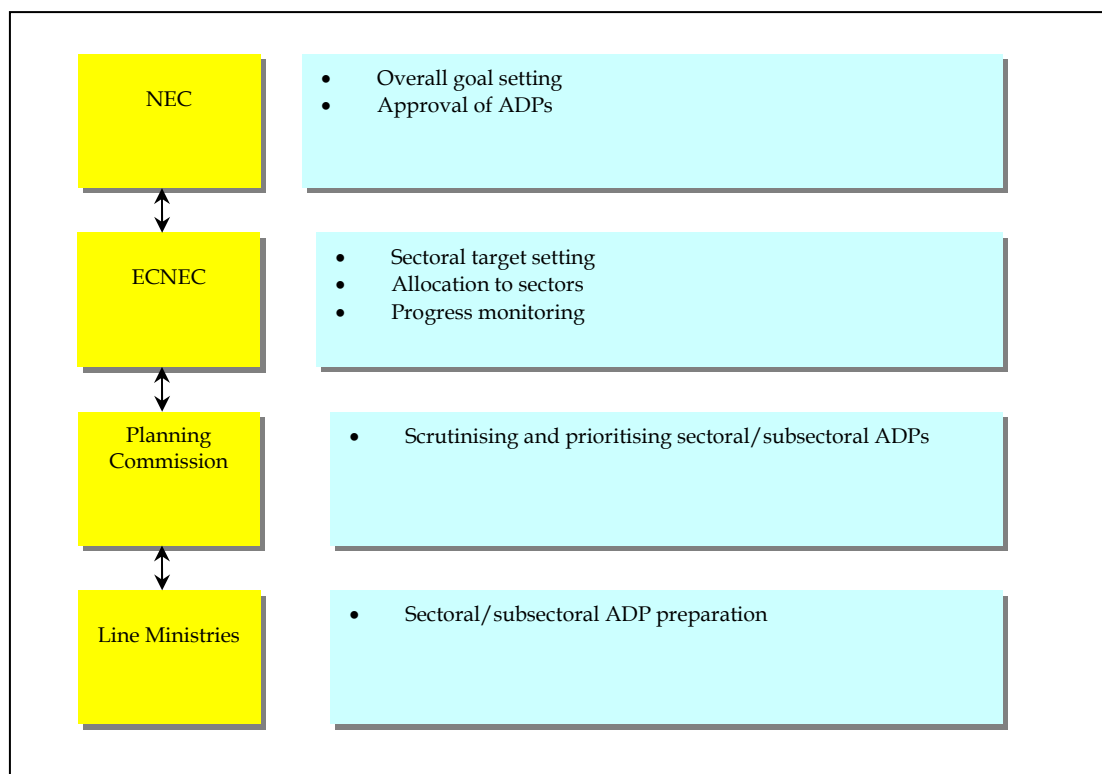
Since the NEC is the final authorisation body and the membership of the NEC is somewhat overpopulated,<sup>76</sup> actual policy co-ordination is undertaken by the ECNEC. The ECNEC is a more working-level body that has members from the Ministry of Industries, Ministry of Finance, Ministry of Commerce, the Planning Commission, the External Resources Division,<sup>77</sup> the Bangladesh Bank, and the Implementation, Monitoring and Evaluation Department (IMED) of the Planning Commission (*ibid.*:

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<sup>76</sup> Chadha (1989: 78) specifies that the NEC has members from 40 development-oriented ministries as well as the Secretary of Planning, the Deputy Chairperson of the Planning Commission and the President of the Bangladesh Bank.

<sup>77</sup> The External Resources Division is a specialised unit that is in charge of receiving external funds from donors.

**Figure 4-1: Institutional Structure of Internal Policy Co-ordination in Bangladesh**



Sources: Taifur (2004: 32) with minor modifications by the author.

79–80).

More substantially, inter-ministerial co-ordination is undertaken by the Planning Commission. The Planning Commission, chaired by the Prime Minister, has the central role of conducting the following policy co-ordination objectives:

1. to determine the priorities for sectoral development;
2. to prepare sectoral development plans;
3. to allocate resources to achieve the targets;
4. to monitor the implementation of decisions made by the Planning Commission; and
5. to evaluate and monitor overall performance (Planning Commission 2004: 6).

Since the Bangladeshi policy co-ordination system has been rather fragmented, close liaison with other relevant ministries is essential. For instance, Bangladeshi policy co-ordination in relation to broad national plans such as the Five-Year Plans and the ADPs, which cut across the scope of the individual ministries, requires inputs from various ministries, such as data and technical expertise, concrete proposals for Plans and ADPs, and even funds from donors (Chadha 1989: 80–1, 9). Hence, the Planning

Commission is supposed to play a vital role in inter-ministerial co-ordination.

Bangladesh also has several business associations. Among these, the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI) could be considered as the peak association. The FBCCI defines its role as:

1. to aid and stimulate investment in and the development of the trade, commerce, industry, agriculture, tourism, human resources and communication sectors;
2. to project, encourage and safeguard the interests of the private sector through effective participation in the process of consultation and interaction with the government, ministerial consultative committees and other inter-ministerial bodies and agencies;
3. as the apex trade organisation, to play a pivotal role in a consultative and advisory capacity in the formulation of commercial, industrial and fiscal policies at the national level;
4. to represent the private sector in both permanent and ad hoc committees and task forces;
5. to co-ordinate and promote the interests of the member associations;
6. to assist the industrial associations in the organising of Trade and Industry Fairs;
7. to collect and disseminate statistical data and other information for the advancement of trade and industry;
8. to spread commercial, technical and economic knowledge for the promotion of commercial, technical, industrial and scientific education; and
9. to study and undertake research for the promotion and growth of trade and industry (FBCCI 2003a).

In short, there are two aspects of FBCCI activities: one is to provide services to the members and the other is to interact with the government. With regards the latter activity, from 2003 to 2005, the FBCCI actively participated extensively in 54 government committees on agriculture, fiscal policies, taxation policies, capital markets, labour policies, education, human resources, intellectual property, life sciences, free trade, imports, exports, WTO, SMEs, the textile industry, ready-made garments, industry, energy, computers, communications, environmental problems, roads, laws, and administration reform (FBCCI 2003a). It also has representative members on 97 government committees (*ibid.*: 109–10). In addition, the FBCCI also attended 44 meetings held by the government from 2002 to 2003 (FBCCI 2003b: 38–56).

Over the past few years the Bangladesh government has been eager to introduce government-business consultative policy co-ordination mechanisms. It was stipulated that each ministry should introduce at least one consultative committee to listen to the

opinions of all stakeholders and to allow them to be engaged in drafting proposals.<sup>78</sup> In drafting the Five-Year Plans, budget and taxation system proposals, and economic policies, for example, consultative committees are actively utilised with the participation of business associations.<sup>79</sup>

Bangladesh utilises consultative mechanisms specifically for export promotion as well. Since the Ministry of Commerce in the New Export Policy in 2003 sets export targets by products and regions, the Product Development Council was established to monitor export progress and elucidate export-related problems and their solutions.<sup>80</sup> The Ministry of Commerce also uses consultative mechanisms to monitor, evaluate and revise export targets. According to an interview with officials of the Ministry of Commerce, consultation with business associations and private companies is supposed to be held every six months to revise export targets based on their export performance.

Consultative policy co-ordination was also confirmed in the co-ordination of the Industrial Policy in 1999. The policy process of the Industrial Policy of 1999 is as follows: firstly, the Ministry of Industries formulated the guidelines for policy-making; secondly, the Ministry of Industries listened to opinions from 50 private companies and business associations from different sectors; thirdly, the Minister-chaired Co-ordination Committee<sup>81</sup> was convened with participants from the economic ministries, business associations, academic faculties, engineers and specialists; and fourthly, the Cabinet Committee, chaired by the Prime Minister, gave approval with reference to the opinions of other ministries.<sup>82</sup>

The Industrial Policy of 1999 seems to have recognised the importance of the consultative policy process and performance monitoring. It identified four requirements for policy initiatives: (1) clear objectives and direction; (2) consistency of the strategy with the policy framework; (3) policy implementation through close government-business interaction; and (4) regular monitoring and evaluation of sectoral performance to correct the policy framework if necessary (Ministry of Industries 1999: 1). Based on this understanding, the Policy requires effective consultative mechanisms with the involvement of major stakeholders in the implementation process. As a form of consultative mechanism, the government introduced the National Council for Industrial Development (NCID) over which the Prime Minister presides as chairperson, and the

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<sup>78</sup> Interview with the FBCCI.

<sup>79</sup> Interview with an ex-government official.

<sup>80</sup> Through the linkage with export targets by product and sector of the New Export Policy, this council has a number of sub-committees organised according to each product and sector (Ministry of Commerce 2003: 3).

<sup>81</sup> This committee is convened a few times a year.

<sup>82</sup> Interview with the Ministry of Industries.

Executive Committee of the NCID (ECNCID) over which the Minister of Industries presides.<sup>83</sup>

In addition, national task forces are flexibly arranged to co-ordinate specific policies. To take two examples, the National Task Force on the Development of SMEs was organised to co-ordinate SME promotion policy. This Task Force has 19 members from the Planning Commission, FBCCI, the Federation of NGOs in Bangladesh, the Grameen Bank, the Bangladesh Enterprise Institute, the Woman Entrepreneurs Association, and university professors (*Daily Star*, 21 September 2004). The Task Force submitted a report that was supposed to be referred to in future policy-making. Similarly, the National Task Force for the Facilitation of an Investment Climate was organised in August 2003 to create an investment-friendly environment. This Task Force, composed of 17 members from the relevant government agencies, the FBCCI and representatives of foreign investors, has reviewed investment obstacles and co-ordinated trouble-shooting every three months (Board of Investment 2004: 34, 157).<sup>84</sup>

### **4-3 Governance of Government-Business Relationships**

As seen above, the Bangladeshi government has recently introduced institutions for deliberative policy co-ordination. During the field survey, most government agencies presented positive and rather optimistic views on their policy co-ordination mechanisms. However, as the business sector and other informants observed, there are a number of deficiencies. Firstly, the role of deliberative policy co-ordination seems primarily to be to legitimise government policies in the guise of democratic and participatory decision-making. Although deliberative councils allow the business sector to participate in reviewing various proposals for the budget and taxation system, business is given only consultative status.<sup>85</sup> As discussed in Chapter Three, deliberative councils have two broad functions: (1) rather formal legitimisation of government policies; and (2) substantive co-ordination with joint problem finding and subsequent trouble-shooting. Yet the ‘deliberative councils’ in Bangladesh just have the first function. Similarly, the business side may also misunderstand the role of deliberation. According to an ex-government official, some business sector participates in policy co-ordination not out of a sense of responsibility for national economic development, but to narrowly pursue

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<sup>83</sup> The NCID has members from economy-related ministries, the President of the Bangladesh Bank, government-appointed major entrepreneurs and the President of the Bangladesh Employers’ Association. Similarly, the ECNCID invited representatives from economy-related ministries and business associations (Ministry of Industries 1999: 22–5).

<sup>84</sup> The Board of Investment (2004: 34, 157) indicated streamlined investment procedures as one of its achievements.

<sup>85</sup> Interview with an ex-government official.

their interests to ensure preferential loans and tax exemptions from the government. Indeed, the interview with the Ministry of Industries indicates that, during the policy co-ordination process of the Industrial Policy of 1999, comments from the business sector largely represented their own private interests. Hence, both the government and business sides do not yet recognise the strategic role of deliberative policy co-ordination. In other words, unlike the trustful and reciprocal governance of government-business relationships in East Asia, the Bangladeshi government distrusts business while the business sector is often opportunistic in seeking its own rents.

Secondly, deliberative councils are often misrepresented. According to the FBCCI, of the 32 members of one deliberative council, the FBCCI was allowed to send only two members while the other 30 members were from the public sector. This extremely disproportionate membership makes it difficult to represent business opinion. In particular, in the case of sector-specific policy co-ordination, the FBCCI needs to solicit more technical comments from the relevant industrial associations. Besides, the qualifications of the members are also questionable. Although the membership of deliberative councils—as in the case of the NIEs—is controlled by the government,<sup>86</sup> the criteria for selection is political inclination rather than economic expertise.<sup>87</sup> This means that business persons who are politically close to the ruling party have a greater chance of being appointed. The problem of this politicised membership control is that the deliberative councils consequently fail to utilise the fairly substantial human resources outside the government. Deliberative policy co-ordination in Bangladesh is yet to pragmatically integrate key business actors with outstanding economic expertise for national economic development projects. Leading business actors seem to be ready to participate in deliberative policy co-ordination—in fact, one top NGO Group, which is also engaged in various business activities, expressed the Group's willingness to commit to participation in policy co-ordination if invited.<sup>88</sup>

Thirdly, the schedule and frequency of consultations inhibits effective policy co-ordination. For instance, the Export Promotion Council under the Ministry of Commerce is held irregularly; business associations expect that it should be held regularly once every two months.<sup>89</sup> Similarly, the NCID—a key consultative mechanism for industrial policy co-ordination—is held only once every six months. In terms of the deliberation schedule, the government seems not to be able to estimate the time that is sufficient to review the draft policies. The FBCCI complains that since the

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<sup>86</sup> For instance, the NCID has members from individual private companies, but they are appointed by the government (Ministry of Industries 1999: 22–5).

<sup>87</sup> Interviews with a leading private business group and an ex-government official. The interviewee from private business used to be a member of a deliberative council.

<sup>88</sup> Interview with an NGO.

<sup>89</sup> Interview with the FBCCI.

government in some cases requests the FBCCI to review policies with such tight deadlines, it fails to make any specific comments.

Fourthly, despite joint deliberation in Bangladesh, monitoring and evaluation activities are largely missing from such deliberations. The Five-Year Plan channels 70 percent of the budget to private sector development; however, this is not accompanied by any subsequent monitoring.<sup>90</sup> The Planning Commission admits that, although the Five-Year Plan in principle follows a policy cycle of ‘plan preparation, implementation, and evaluation,’ the evaluation is not fed back to policy revisions. In short, the evaluation is a matter of formality; it is not used to modify economic policies to improve effectiveness. Similarly, the Industrial Policy in 1999 defined priority sectors, yet the Ministry of Industries acknowledged that no monitoring of the performance of these priority sectors was being made.

In sum, the governance structure of deliberative policy co-ordination in Bangladesh is insufficient to work as strategic governance for economic development like that of the NIEs. Firstly, power is certainly exercised to control the deliberative councils; yet leadership and vision are missing. Rather, the exertion of power is highly politicised. Secondly, although the government and business have recently established consultative institutions, mutual trust and reciprocal behaviour is quite limited. This leads to limits on resource exchanges—one of the most important functions of deliberation. In addition, despite some preferential treatment of the thrust sectors, no monitoring is conducted.

Figure 4-2 shows a flowchart of the governance of policy co-ordination mechanisms in the NIEs and Bangladesh and their respective performance. In the case of the NIEs, motivated political and organisational leadership and commitment to economic development institutionalised and managed deliberative policy co-ordination strictly on the basis of merit. Membership was confined to business elites who were able to contribute to national economic development. Policy performance and promoted businesses were monitored through frequent government-business meetings. In some cases, poorly performing businesses were sanctioned. Resolute commitment of the government and business to national economic development under their strictly merit-based management in turn stabilised trust in policy networks: the government’s trust in business facilitated the granting of further roles and responsibilities in economic policy co-ordination to business, whilst business co-operated more positively in its commitment to national economic development. This further facilitated substantive policy co-ordination and enabled policy networks to achieve maturity. These well-developed policy networks provided a joint forum for economic development,

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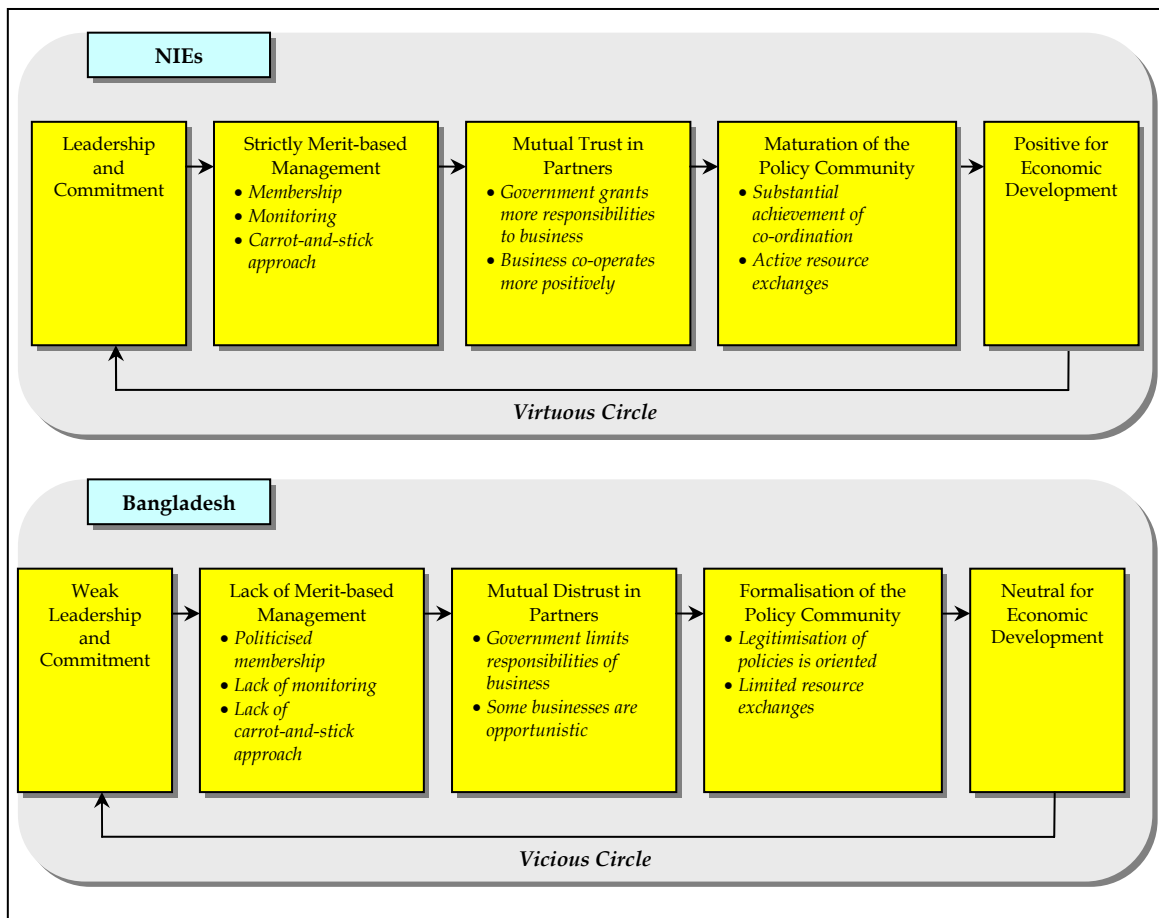
<sup>90</sup> Interview with the Planning Commission.



positively functioning to ensure economic development.

In contrast, the Bangladeshi case illustrates weak leadership and commitment to deliberative policy-making and national economic development. Currently in Bangladesh, deliberative policy co-ordination has not been managed on a strict basis of merit. Its membership has been rather politically appointed and controlled, policy performance has not been sufficiently monitored, and carrot-and-stick mechanisms have rarely been applied. Since both the government and business did not share a joint mission of deliberation for economic development, the level of trust they displayed towards their partners was low: the government granted only limited roles and responsibilities to business in the process of deliberation; and some businesses tried to rather opportunistically articulate their particular interests. As a result, deliberative policy networks became a matter of formality: they merely legitimised government policies; and resource exchanges between the government and business became unworkable. It could be logically expected that such superficial deliberation would not

**Figure 4-2: Governance and Performance of Policy Co-ordination in NIEs and Bangladesh**



Source: Drawn by the author.

have any significant impact on economic development. The failure of deliberative co-ordination for economic development further degrades the status of deliberative decision-making, so that political leaders pay little attention to commitment towards deliberative policy co-ordination.

Hence, in order to ensure the strategic importance, deliberative policy co-ordination in Bangladesh requires further improvements. This will be discussed in the next chapter.

#### **4-4 Problems of Public Governance**

Most governance problems of government-business relationships are rooted in the governance problems of the public administration and politics, which deal with government-business relationships. The government bureaucracy of Bangladesh displays the typical problems of bureaucracy in developing countries. It has expanded in size since independence in 1971. The number of ministries increased from 21 in 1972 to 35 in 1994: more than the 24 in Malaysia, 25 in South Korea and 14 in Thailand (World Bank 1999: 3; 1996: xvi). The number of civil servants has also increased 3.6 percent annually. Currently one million people are employed in the public sector—accounting for one third of formal employment in Bangladesh.

The continuous expansion of the public sector caused two problems: (1) personnel expenditures came to account for 38.4 percent of the current expenditures in 1994–1995; and (2) the level of salaries of public servants indicates that they were extremely underpaid (World Bank 1999: 3-4; 1996: xxx).<sup>91</sup>

In addition to the size of the bureaucracy, the capacity of government officials is affected by the following factors.

##### **4-4-1 Cleavages in the Bureaucracy**

Government officials in Bangladesh are divided in several ways. Firstly, there is a cleavage between the administrative technocrats and the engineering technocrats. This cleavage causes serious problems, for example, in informational transactions in infrastructure maintenance projects. In Bangladesh, human resources engaged in infrastructural maintenance can be qualitatively and quantitatively satisfactory. The senior engineers of the Road and Highway Development (RHD) under the Ministry of Communications and the LGED are capable university graduates who majored in civil engineering. There are 500 university graduates and 700 diploma holders engaged in the

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<sup>91</sup> World Bank (1996: xxx) reveals that 'public sector salaries as a percentage of private sector salaries, are about 20 [percent] in Bangladesh compared to 110 [percent] in Singapore and 70 [percent] in South

development and maintenance of the infrastructure in the RHD. Engineering technocrats are more predominant in field level organisations such as the RHD, while administrative technocrats are predominant in supervisory organisations such as the Ministry of Communications.<sup>92</sup> Although the engineering technocrats make reports on maintenance conditions with a priority list for maintenance to the Ministry of Communications, the rigid cleavage between the engineering and administrative technocrats inhibits smooth informational exchanges and feedback from the field. In particular, this is the case when the transacted information is too technical for administrative technocrats to understand reports such as those related to maintenance issues. Actually the information blockage between the field level and the central organisation level is seen not only in maintenance activities. It can be also seen in the insufficient efforts of government officials to take the opinions of business representatives seriously in co-ordinating economic policies.<sup>93</sup> In short, the cleavage between the field and the centre has caused a feedback failure regardless of whether it relates to infrastructural maintenance or economic policy—making.

The second cleavage can be found between different ranks of government officials. In Bangladesh, the post of ‘secretary’ was originally significant in making key decisions since it conferred power in budgeting and planning in the office concerned. However, these secretaries are not only constrained by vested interests, but also block and ignore information from officials in lower positions and at the field level. Lower government officials have no substantive power or responsibility.<sup>94</sup> Therefore, the information is often blocked between the higher and lower levels of government officials thus impairing monitoring and feedback mechanisms and inhibiting informational resource exchanges within government bureaucracies.

The third cleavage in Bangladesh is the compartmentalisation of the government. This problem becomes particularly serious in the policy implementation process more than in the policy formulation process. As indicated in an interview with an ex-government official, although Bangladesh has recently formulated elaborated economic policies and institutions, weak inter-ministerial co-ordination fails to obtain inter-ministerial co-operation in their implementation. The NEC, or the Planning Commission, is expected to take charge of inter-ministerial co-ordination. However the NEC passively authorises already co-ordinated policies while the Planning Commission only has a weak influence on the implementation process.

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Korea.’

<sup>92</sup> An interview reveals that nearly 90 percent of the technocrats in the Ministry of Communications are administrative.

<sup>93</sup> See the later discussion in this chapter.

<sup>94</sup> One interviewee described the role of lower government officials as ‘mere messengers.’

#### 4-4-2 Disincentive Structures

There also exist serious disincentive structures throughout the bureaucracy in Bangladesh. Firstly, personnel are often arbitrarily transferred to irrelevant offices without consideration of their expertise or experience as officials. The predictable result of such a disincentive structure is the low motivation of government officials to develop their expertise—seriously weakening their capacity for policy co-ordination. Rather, personnel transfers are often made on the basis of the personal preferences of top officials and loyalty to political parties.<sup>95</sup>

These disincentive structures and consequently weak capabilities of government officials results in furthering their lack of self-confidence and insufficient knowledge of regulations and policies (World Bank 1996: 103). This in turn causes the following negative behaviour:

- ‘[a] ritualistic reaffirmation of decisions’;
- ‘[a] culture of fear and resignation and the perception that common sense is risky and creativity is dangerous’;
- ‘[a]n excessive reliance on precedents, and misapplication of earlier decisions to apparently similar current issues, without proper regard for changes in the context’;
- ‘[a] tendency to pass files to a higher level for final approval, even on routine matters, and often all the way to the Minister or Prime Minister’;<sup>96</sup>
- ‘[a] refusal to act without specific written instructions from superiors’; and
- ‘[a] tendency to delay decisions in awkward or difficult cases’ (*ibid.*: 104).

Secondly, there is a disincentive to ensure feedback and undertake the monitoring of implemented projects. Although the IMED is supposed to play a significant role in monitoring investment projects to co-ordinate the necessary corrective action, the IMED possesses only fragmented data and depends on the donors for monitoring information. Such insufficient information and data inhibits the ownership of monitoring and feedback by the Bangladeshi government (Barenstein 1994: 103–5).

In addition, and more seriously, Bangladesh has no carrot-and-stick mechanisms at all. This negatively affects not only monitoring and feedback, but also the implementation itself. As one interviewee revealed, in the Bangladeshi policy cycle—composed of

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<sup>95</sup> The Government of Bangladesh, which seems to be aware of the problems of arbitrary personnel transfers, is considering introducing a cluster system of government officials above the joint secretaries. The cluster system refers to a system that tries to transfer personnel to a cluster of relevant posts according to their expertise.

<sup>96</sup> The chain of risk avoidance ultimately leads to the poor strategic role of the Prime Minister’s Office, which is overloaded with routine administrative tasks (World Bank 1996: 105).

planning, implementation, and evaluation—the government is basically just involved in the planning process. As a result, implementation and evaluation are often missing.<sup>97</sup> This is basically because, as the ex-government official suggested, the worst among the three behaviours of ‘achieved actions,’ ‘unsatisfactorily achieved actions’ and ‘inaction’ in the Bangladeshi personnel evaluation system is ‘unsatisfactorily achieved actions.’ As the World Bank (1996: 104) similarly identifies, ‘[w]hile bureaucrats may be penalised for taking initiatives and making quick decisions, they are rarely punished for delays.’ The government recently introduced an Annual Confidential Report that comprehensively covers the performance, attitude and behaviour of all government officials,<sup>98</sup> nonetheless, in reality, poor performance is rarely punished, and disciplinary punishments such as cautions, censures, suspension and dismissal are hardly ever imposed (World Bank 1999: 17). According to a survey by the World Bank, it was reported that only 23 percent of the surveyed officials had ‘seen some officials being punished in the three months prior to the survey’ (*ibid.*). In the same way, the government does not provide any rewards for good performance (*ibid.*: 16). Thus, the Government of Bangladesh lacks any carrot-and-stick mechanisms to ensure that officials are committed to the whole policy process. This is part of the reason why the formulated policies and systems are rarely implemented and monitored.

#### **4-4-3 Political Interference**

Political factors have permeated the whole government machinery in Bangladesh. Firstly, corruption is pervasive throughout the government.<sup>99</sup> Although both Korea and Taiwan once suffered from serious corruption, they largely overcame corruption problems through strong leadership that was aware of the threat of national crises. However, in Bangladesh, political leaders have not been able to recognise that national crises certainly exist in the chronic corruption and unfavourable economic performance. This was made possible externally due to the availability of international assistance.<sup>100</sup> This was also made possible internally through the mobilisation of political support for political parties through extensively organised patronage networks.<sup>101</sup> In fact, most politicians and senior officials agreed that the recruitment of government officials is a matter of favouritism in order to extend the patronage networks of the top levels of government. For instance, as the World Bank (1999: 15) reveals, one-third of

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<sup>97</sup> One interview with a donor organisation also suggests that the Bangladeshi government is so enthusiastic about the introduction of new policies and systems just to appeal to donors.

<sup>98</sup> The personnel evaluation by the Annual Confidential Report does not reflect remuneration, but it may affect promotion (Interview with the Public Service Commission).

<sup>99</sup> Although earlier reports on good governance focused on corruption as the most disastrous phenomena, corruption is only one of the factors related to weak governance and the capacities of the government.

<sup>100</sup> It should be noted that Taiwan, unlike Bangladesh, only commenced systematic economic development when the US decided to phase out its aid to Taiwan.

<sup>101</sup> Actually political interference is not unilaterally from politicians to the administration. Rather corruption is caused by a state of interdependence between politicians and the bureaucrats.

government officials believe that ‘recruitment to Classes III and IV job employment was not based on merit.’<sup>102</sup> Corruption is also seen in public procurement. According to a survey by the World Bank (1999: 16), ‘[o]ne-third of surveyed officials believed that suppliers having connections with high-level officials enjoy an advantage when compared with those who don’t.’ Certainly the Bangladeshi government has regulations stipulating punishment for corrupt behaviour. However, the Public Service Commission also recognises that the stipulations are rather loosely regulated. It mentions that substantive regulations are supposed to be enforced by individual ministries. In addition, there are considerable incentives for business to pay much less in the form of bribes to avoid paying expensive taxes or paying back loans. With loose regulations and incentives that encourage corruption, five of the six Class I bureaucrats—as ‘a well-organised interest group’—recognise that ‘they are not punished even if they are known to be corrupt’ (World Bank 1999: 19).<sup>103</sup> In fact, a survey conducted by the World Bank (1996: xxvi) reveals that the existing Anti-Corruption Bureau was able to prosecute only 15 percent of corruption cases.

However, corruption is not the only political problem in Bangladesh. A second factor is the bipartisan political environment that causes the problem of ‘excessive democracy.’ Bangladesh has repeated changes of power due to keen rivalry between the currently ruling Bangladesh Nationalist Party (BNP) and the opposing Awami League. The rivalry between the two regimes has resulted in confrontational politics, which ultimately leads to political instability. Originally, the two parties had different ideological orientations: while the BNP traditionally had a liberal and capitalistic orientation, the Awami League departed from this with its socialist ideology. However, when privatisation became one of the most important aspects of the national economic agenda from the 1980s, there was no substantial difference in the economic agenda of the two parties in the 1990s. Currently, these two parties fiercely compete with each other for their own initiatives, rather than for economic policies as such. In order to take their own initiative, each new administration cancels the already implemented policies in mid-course, and then introduces similar economic policies.<sup>104</sup>

Moreover, whenever the ruling party changes, the bureaucrats are also replaced. This seems like the traditional model in which the spoils go to the victor. However, the problem in the Bangladeshi case is that new bureaucrats are selected not on a merit

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<sup>102</sup> Class III is equivalent to general clerks and Class IV refers to water-carriers, night guards and messengers (World Bank 1999: 11).

<sup>103</sup> Class I is equivalent to senior officials.

<sup>104</sup> This is also the case with projects for development assistance by donors. For instance, a Japanese project for a fertiliser plant construction, which had been made under a contract, was suddenly cancelled by the next administration. One business person compares Bangladeshi bipartisan political competition to competition between two patronage networks.

basis, but on a political basis. Loyal bureaucrats to the new ruling party can not only survive under the new administration, they are picked for lucrative posts. In contrast, those who are not loyal to the new party are often relegated to insignificant posts (World Bank 1999: 17–8).<sup>105</sup> In short, fierce political competition in Bangladesh has created confrontational and bipartisan politics, which has damaged not only political stability, but also policy consistency—all these can be recognised as the harmful effects of ‘excessive’ democratic changes.

#### **4-4-4 Lack of ‘Vision’ and Leadership**

The most serious reason for the long-standing failure in achieving a breakthrough in Bangladesh is a weak leadership that lacks vision. Although the radical spoils system seems like strong leadership, political leadership in Bangladesh is extremely weak in the sense of being able to promote any kind of reforms. Up to now, efforts made by donors have been concentrated on reforms in the administrative rather than the political domain. Although the Public Administration Reform Committee (PARC) was established to undertake administrative reforms, it left fundamental questions related to politics untouched. As confirmed in the case of the NIEs and Malaysia, it was the strong commitment of political leadership with vision that made any reforms achievable. Nonetheless, as the World Bank (2002: vi) recognises, all leaders in the 1990s were reluctant to carry out key reforms due to their short-term political considerations.<sup>106</sup>

#### **4-5 Successful Experience in Bangladesh: The LGED Case**

The above analysis reveals the failure of governance in the bureaucracy of Bangladesh. Yet Bangladesh is by no means a ‘hopeless’ country. It also has successful experiences that have broken the administrative impasse. This section looks at the example of the LGED.

The LGED is engaged in the maintenance of rural roads and culverts as well as other rural development projects such as health and education (LGED2002: 6). Though in general the maintenance of the infrastructure sector in Bangladesh does not work due to poor monitoring and serious political interference, the LGED performs fairly well.<sup>107</sup> As the LGED admitted in an interview, it may be subject to potentially more political interference since it deals with rural infrastructure development, which is often lucrative

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<sup>105</sup> Disciplinary action is often imposed on the politically important Class I officials. They are disciplined two times more than Class II and Class III officials (World Bank 1999: 17–8).

<sup>106</sup> The preference for short-term interests is also distinctively different from the preference of the leaders of the NIEs and Malaysia for long-term economic development.

<sup>107</sup> The monitoring system in the LGED is as follows: field-level engineers monitor road conditions and send reports to the headquarter; the headquarter registers these in a database to set priorities for maintenance.

to politicians. However, such potential for political interference has been overcome by the strong leadership of Quamrul Islam Siddique, the former Chief Engineer of the LGED. The former Chief Engineer mentions that he exercised leadership in politely listening and showing patience, modesty and self-restraint in emotional expression while under political pressure. Then he politely and tenaciously tries to explain how the LGED cannot meet the 'requests' of the politicians.<sup>108</sup>

This leadership has also created a special enclave of a working bureaucracy in Bangladesh. To improve staff motivation, the LGED repeatedly emphasises the sense of mission of individual tasks. The LGED also offers various training opportunities, including sending staff to training programmes in foreign countries.<sup>109</sup> Thus, the incentive mechanism of the LGED is neither financial nor material; it is based on rather psychological one of appealing to a sense of mission and aspirations. While it gives rewards on a merit basis, it also has rigid discipline. This means that the LGED helps to build the capacities of individual officials; it requires them in return to achieve better performance in their tasks. The LGED requires all staff to make their best efforts to fulfil their mission; as a result staff members quite often work until seven or nine o'clock in the evening.<sup>110</sup> By sharing a sense of mission and with the commitment of the top leadership to all staff members, the LGED succeeds in undertaking monitoring and maintenance activities. Together with the willingness of individual staff members to build their capacities, this ultimately results in an increase in the overall capacity of the organisation.

It should be noted that all of the features of the patient handling of political intervention, the strong emphasis on mission, and the carrot-and-stick mechanism have been created due to the strong leadership of the former Chief Engineer.<sup>111</sup> This illustrates how leadership can significantly magnify the impacts of institutional reforms. This is why no institutional reforms produce their expected impacts without the commitment of responsible leadership.

Nonetheless, the success of the LGED may have limitations. Firstly, unlike other government agencies constrained by inflexible budget expenditures, the LGED has greater financial sources provided by donors<sup>112</sup> and flexible financial sources from the ADP, which allows more room for discretionary spending. The carrot-and-stick policies of the LGED become feasible since discretion in expenditures is available to the LGED.

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<sup>108</sup> Interview with the LGED.

<sup>109</sup> In addition, the staff members of the LGED are obliged to take at least two training courses every year.

<sup>110</sup> This is very much in contrast to ordinary government officials who finish work as early as four o'clock.

<sup>111</sup> The interview with the former Chief Engineer also confirms this point.

<sup>112</sup> For instance, donors provided debt relief and financial support for staff training programmes for the LGED.



Secondly, while the leadership has certainly become an engine for the development of the LGED as a centre of excellence (COE), political leadership at the national level is still missing. To transplant the successful experience of the LGED, the government of Bangladesh needs more organisational leaders in each agency, or a top political leader. Yet, as the former Chief Engineer of the LGED recognised in the interview, the success of the NIEs and Southeast Asian economies suggests that political leadership at the national level has impacts on the transformation of the whole government machinery. In short, transferring the experience of the LGED requires a flexible budget expenditure structure and—more decisively—the commitment of political leadership.

#### **4-6 Conclusions**

This chapter examined the institutions and governance of policy co-ordination in Bangladesh. Firstly, the government bureaucracy, business associations and deliberative councils were analysed as institutions of policy co-ordination. It was confirmed that the Bangladeshi government recently introduced a policy co-ordination mechanism. To reiterate the examples here, the government has gradually established several deliberative policy co-ordination mechanisms to co-ordinate and implement specific industrial and export policies.

Secondly, the governance of government-business relationships was analysed. Despite the recent introduction of deliberative policy co-ordination, the analysis reveals that this was used merely as a legitimisation process rather than substantial policy co-ordination. The balance and qualifications of the membership were reasonably questionable. In addition, the deliberative councils in Bangladesh lack the functions of monitoring and evaluation activities. Hence, they remain as quasi-deliberative institutions.

To summarise, the governance of government-business relations in Bangladesh combines limited trust and reciprocity with limited power. That is to say, neither the government nor business have created mutual trust, and resource exchanges during the deliberative process were moribund. Although power was exercised in an extremely politicised manner, deliberative policy co-ordination fundamentally lacks visionary leadership and disciplinary action. In this sense, deliberative policy co-ordination in Bangladesh—as with other policies and institutions introduced through prior reforms—still remains a formalistic arrangement with limited substance.

Thirdly, the analysis also confirmed that these policy co-ordination mechanisms did not work adequately due to fundamental problems of governance as performed by the government. While the bureaucracy of Bangladesh has expanded unnecessarily, it has at the same time been compartmentalised in a number of ways that have hindered

inter-ministerial policy co-ordination. Arbitrary and politicised personnel transfers have impaired personnel and organisational expertise, and have also discouraged government officials from making any commitment. These factors, combined with a serious lack of monitoring activities and credible disciplinary action, further exacerbated the individual and organisational performance of the government. The analysis also reveals that the prevalent bipartisan politics has hijacked the whole government machinery, transforming it into an arena for a power struggle for patronage networks. Although the government has formulated a number of reform policies, the extreme spoils system as well as the lack of leadership has discouraged their implementation.

Fourthly, this chapter analysed the case of the LGED as a successful example. It turned out that the LGED enhanced its capacity through strong leadership, individual motivation and extensive provision of training.

To briefly summarise this chapter, the inhibiting factors in relation to effective policy co-ordination in Bangladesh are: (1) the lack of leadership for organisational innovation; (2) arbitrary personnel transfers and the lack of substantive evaluation, which have discouraged individual motivation and expertise; and (3) the pervasive incentives to promote inaction and the lack of carrot-and-stick mechanisms. These inhibiting factors have resulted in a vicious circle (see Figure 4-1). As implied in the figure, in order to break the two tracks of the administrative and political impasse, it is necessary to combine political approaches with administrative approaches. The next chapter examines the potential for a breakthrough.

## **5. Recommendations to Reinforce the Capacity for Policy Co-ordination in Bangladesh**

### **5-1 Introduction**

This chapter is to make recommendations for the capacity-building of policy co-ordination in Bangladesh. The first recommendation deals with the reform of governance of the government agencies as a whole. The second recommendation will more specifically propose the establishment of strategic government-business relationships. Thirdly, this chapter examines the Japanese comparative advantage in assisting governance reforms. As revealed in Chapter Three, Japanese government-business relationships provide a certain prototype that has been adopted widely in East and Southeast Asian economies. It is thus of significance to ask how the Japanese experience can be effective in improving strategic governance in Bangladesh.

### **5-2 Reinforcing Public Governance**

#### **5-2-1 Administrative Approach**

As already indicated in various reports on governance reforms, the public administration in Bangladesh requires a wide range of reforms in terms of incentive structures, inter-ministerial co-ordination, and carrot-and-stick mechanisms. This paper proposes four remedies to improve the administrative aspects of governance. Firstly, the personnel system should be designed to provide incentives to increase the expertise and commitment of government officials. One of the measures for this is to create specialised functional groups by ‘the clustering of ministries/agencies into functional clusters’ as the World Bank suggests (1996: xxi). For examples, they include an economic group, a social sector group, an infrastructure group, and an agriculture and natural resources group (*ibid.*). By rotating relevant posts in the same group, government officials not only widen their perspectives, but also deepen technical expertise in their fields. In addition, the government cannot only form links with the private sector through deliberative councils, but also needs to more directly undertake the special recruitment of excellent private personnel to key positions or highly technical posts in the government. The impacts of this special recruitment are multi-faceted: the government can improve the quality of policies; the private sector will share a better understanding of the policy process; and ultimately active utilisation of the private sector in policy process will increase and enrich the private personnel who are ready for policy co-ordination with the government—it facilitates the development of a wider policy community and strengthens the think-tank functions of the private sector.

Secondly, in relation to the personnel system, an effective performance-based wage

structure should be introduced. To give incentives for the achievement of good performance, the government should introduce '[t]ransparent and monitorable performance benchmarks' and '[r]ewards that are consistently and fairly given for good performance while poor performance is sanctioned' (World Bank 2002: vii). Actually, there have been a number of recommendations and reform efforts made in the history of Bangladesh. Since 1972, 16 commissions and committees have been organised and various reports submitted (Khair 1999: 63–4). However, it was only after the report entitled *Government That Works: Reforming the Public Sector* was published in 1996 by the World Bank that the Government of Bangladesh set up PARC to introduce the concept of performance-based annual reporting systems and performance standards, though these are not implemented yet (*ibid.*: 66). The report in 1996 prescribes detailed 'interim compensation' to partially introduce the concept of a performance-based wage structure. The World Bank (1996: xxx–xxxii) suggested that the government establish financial awards selectively to thousands of officials for outstanding performance. According to this scheme, for instance, the top one to two percent of excellent performers who are identified as 'Agents of Change' are awarded 12–18 months of salary.<sup>113</sup>

Thirdly, to facilitate inter-ministerial co-ordination with substantial monitoring activities, it is recommended that the Government of Bangladesh reinforce hierarchical co-ordination by establishing a responsible central agency, or, more realistically, merging and reorganising the ECNEC and Planning Commission into such a central agency.<sup>114</sup> The central agency should be staffed by a limited number of excellent top elites.<sup>115</sup> These elites are to be specially selected through large-scale competitive recruitment; if they earn the public esteem of a central agency in which a group of the best and brightest elites is concentrated, and if they are motivated by their mission to work in the national interest, it can continue to recruit excellent personnel despite their low pay (Wade 1990: 371).

The central agency is expected to play the following roles: (1) inter-ministerial

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<sup>113</sup> The World Bank (1996: xxx–xxxii) also proposed setting up 'special qualification supplements' to 'attract more highly qualified people to public service.' It also suggested establishing cost reduction awards.

<sup>114</sup> Integrating and reorganising the ECNEC and Planning Commission is a more realistic option. It has been witnessed that Bangladeshi public service has simply added a number of new key agencies and centres of excellence (COE) whenever recommendations are made by various donors and experts without any substantial 'scrapping' of superfluous agencies. As the World Bank (1996: xvi) indicates, Bangladesh has 35 agencies in the government, a doubling since independence, while South Korea has 25, Malaysia 24, and Thailand 14. Even if a new central agency is established, it should be accompanied by a scrapping and rebuilding process: similar functions in different agencies should be integrated into a single new central agency; and functionally overlapping agencies should be scrapped.

<sup>115</sup> For example, MITI had just 2,000 staff members in the 1960s (Wade 1990: 371).

co-ordination; (2) breakdown of the broad will of the political leadership into specific policies; and (3) think-tank for the Prime Minister and other ministers. As discussed in Chapter Four, there are several candidates for the position of a central agency in Bangladesh. However, none of them in reality has ever operated as a central agency. Meanwhile, individual ministries tend to promote their own interests with limited attention to the wider view and the interconnectedness of policies in different sectors (Islam 2003: 369). Thus, a central co-ordination agency is necessary to integrate and lead the perspectives of ministries along more strategic lines. The central co-ordination function should include the following functions (Islam 2003: 369–70; Wade 1990: 371–2):

- the evaluation of past and ongoing policies with an analysis of their impacts on economic growth, structural change and social development;
- the analysis of mid- and long-term perspectives on the economy to identify future challenges to the national economy and to prepare for strategic countermeasures;<sup>116</sup>
- the identification of developmental goals that are highly strategic, selective and prioritised;<sup>117</sup>
- the formulation and authorisation of development strategies and public expenditure budgets; and
- the reservation of some key policies.<sup>118</sup>

To play the above overriding roles and responsibilities, the position of the central agency should be superior to the rest of the ministries although close co-operation and consultation with other ministries are essential (Islam 2003: 373).<sup>119</sup>

Fourthly, but certainly not least, the government needs to introduce substantial monitoring activities and credible sanction mechanisms. The World Bank (1996: xxiv, 101–3) suggests that the IMED should be reinforced and transferred to the Prime Minister’s Office as a core institution for monitoring. The World Bank (*ibid.*: xxiv) expects:

IMED would then become the Chief Executive’s main watchdog for

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<sup>116</sup> Briefly, Islam (2003: 370) argues that the task of the central agency is ‘in the nature of forecasting and making projections.’

<sup>117</sup> Selectivity needs to be politically supported since it refers to differentiated promotion: selective industrial policies are expected to both start and stop promotion according to the level of international competitiveness of the promoted sectors. Political leadership and commitment are necessary to persuade and, if necessary, even go against the opposition of non-promoted business.

<sup>118</sup> Wade (1990: 372) argues that the central agency should be vested with the power of policy implementation and not delegate this to other ministries.

<sup>119</sup> As in the Korean case, Islam (2003: 373) recommends that a Deputy Minister be inaugurated to be assigned the minister of the central agency.

monitoring, and timely feedback on the performance of the entire range of the Government's development and recurrent expenditures and policy implementation.

In addition, successful reforms require 'clearly defined objectives and responsibilities, specific time-bound action plans, and performance benchmarks combined with a transparent tracking system to measure progress [as well as] [e]ffective incentives and credible sanctions' (World Bank 2002: xxiv–xxv). Although the current development discourse still seems to avoid the concept of power, it should be recognised that potential sanctions, which are exercised through power, also have positive incentive functions.

### **5-2-2 Political Approach**

The conventional governance approach is rather administrative; it avoids the political aspects of governance.<sup>120</sup> As regards the problem of chronic corruption, strict application of penalties is a necessary condition for effective countermeasures. To fulfil this condition, the World Bank (1996: xxvi) recommends: (1) setting up a powerful task force comprising government officials, politicians and leading citizens; and (2) establishing an independent standing committee, comprising judges, secretary-level officials and other respected leading citizens, to watch over the Anti-Corruption Bureau and senior officials.

A yet more serious political problem is bipartisan politics that infiltrates and debilitates all aspects of public administration. Chapter Three explained that all the countries of Japan, South Korea, Taiwan and Malaysia maintained political stability often through the arrangement of one-dominant party system and thereby guaranteed a national consensus for giving a high priority to economic development. In contrast, despite no significant differences in their economic agendas, the two political parties in Bangladesh have fruitlessly repeated confrontational politics and worsened the politico-economic conditions. Thus, both leaders of the two political parties are required to realise the current crisis-like conditions and to make their best efforts to achieve a national reconciliation and thereby divert their attention from meaningless confrontational politics to constructive national economic development. Interestingly, this idea is shared with the Bangladeshi business community as well. The FBCCI (year unknown) proposed one framework for political reconciliation by publishing its proposals as 'FBCCI Proposals to Resolve National Crises, Political Problems and Confrontational Politics towards Achieving Socio-economic Development.' The paper firstly proposed the setting of a six-month cooling-off period. During the cooling-off

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<sup>120</sup> See the critique by Leftwich (2000).

period, the government and political parties should refrain from provocative actions (FBCCI year unknown: 32–3). The FBCCI (*ibid.*) also suggests that ‘a “Parliamentary Special Committee” should be established to [...] settle any disputes that may arise in the future.’ Secondly, the Proposals recommend that a Convention for Reconciliation and National Unity be held immediately after the cooling-off period. This Convention—to ‘reach a comprehensive political settlement of [Bangladeshi] national conflicts’—is to be comprised of the following members:

- Chief Advisor of any Caretaker Government (Chairperson of the Convention);
- One Ex-Chief Justice who was not in any Government;
- Speakers of the Parliament;
- One Ex-Cabinet Secretary;
- All political parties;
- Heads of social organisations nominated by the President;
- Academicians selected by the President; and
- Professional groups selected by the President (*ibid.*: 35–6).

The Convention is expected to discuss a wide-ranging agenda, such as political reform, political party reform, a code of ethics for politicians, the judiciary, bureaucracy and business persons, anti-corruption measures, and economic reforms, including economic development targets (*ibid.*: 36–7). The Proposals by the FBCCI are realistic and constructive measures that may be feasible even in countries with bipartisan politics. As analysed in Chapter Three, around the period of democratisation in 1987, Taiwan caused bipartisan politics between the ruling KMT and the opposing DPP. Taiwan overcame this by holding a National Affairs Conference to build a consensus between the political parties on contentious political issues. It should be noted that in spite of bipartisan politics, this Conference facilitated the means by which all political parties learnt to compromise and finally built a consensus on the broad agenda for reform. Hence, similar to Taiwan’s National Affairs Conference, the Convention proposed by the FBCCI may contribute significantly where the cleavages of bipartisan politics are serious.

However, it is ultimately the awakening of visionary political leadership that puts all reform measures into practice.<sup>121</sup> In other words, without the commitment of the

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<sup>121</sup> Although this paper views the power of strong leadership as the necessary engine for the translation of national development strategies into actual policies, such power has positive impacts only when the leaders have a sense of mission towards national development. As Wade (1990: 350) argues, granting more power to the leaders of predatory states could even be ‘disastrous.’ Predation refers to the ‘efforts to maximise the resources flow under their control and erode the ability of the resources base to deliver future flows’ (*ibid.*).

political leadership, no reports or proposals will produce the expected effects. Therefore, it is impossible to avoid the question of political leadership.<sup>122</sup> In Chapter Two, it was indicated that the process of development is naturally accompanied by changes in resources distribution (Leftwich 2000: 5–6). Likewise, reforms change the availability of resources. Therefore, the process of development and reforms often meets resistance. Even the World Bank (2002: xxv) recognises that, to tackle sensitive issues, the actions of courageous, dedicated and visionary leadership are essential. Since such bold actions by the leadership may often go beyond participatory decision-making, it is by showing their commitment and vision that political leaders should be accountable to people for their decisions.

In Bangladesh, ‘excessive’ democratic changes have occurred since party members cannot say no to the decision of a political leader.<sup>123</sup> In this sense, political leaders have great potential to exert their leadership to commit to constructive reforms. It is certainly true that leadership is attended by personal character and charisma; however, it is also possible that more actors, who realise the conditions of the national crisis and the mission of economic development, can explain their vision to the top political leaders through patient persuasion.<sup>124</sup> Therefore, it is necessary to patiently and repeatedly to persuade political leaders to commit to reforms by explaining the benefits and impacts that are expected from the reforms, and what role and responsibility the political leadership has. To learn from the Korean and Malaysian cases may be persuasive in understanding how visionary political leadership has had decisive positive impacts on breaking the networks of vested interests and producing economic development. An incentive for political leadership might be that their commitment to policy co-ordination for national economic development can have the potential to increase popular support for the regime and stabilise the political environment. Political leaders may find a source of alternative legitimisation through economic development, compared to traditional mobilisation through patronage networks. These scenarios are not imaginary. Indeed, all this actually happened in South Korea and Taiwan. It seems dangerous to emphasise that the role of the government is merely to act as a facilitator without

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<sup>122</sup> It should be remembered that leadership was available to all the economies of Japan, South Korea, Taiwan and Malaysia, regardless of personal leadership such as Park and Mahathir or organisational leadership like MITI and the KMT. A similar argument is also seen in the FBCCI (year unknown: 3).

<sup>123</sup> Interviews with ex-government officials. In Bangladesh, if party members exercise a veto over their party leader, they not only lose party membership, but also their legislative seats.

<sup>124</sup> Since the available resources are limited, visions need to be specific rather than broadly inclusive to please everybody. In the case of the visions for economic development, sectoral priorities and implementation sequences should be spelled out. In addition, visions should have dynamic perspectives on economic development by considering general measures and specific sectoral selection to counter the handicaps of the economy. In short, visions should consider that although neo-classical economics claims that resources allocation for economic development should be efficient and non-discriminatory, an effective means of achieving this is to selectively promote the dynamic process of economic development.



substantial strategies and visions. To encourage commitment or ‘ownership’ by the government, certain roles, responsibilities and missions should be given to the government. The normative approach to participatory decision-making may result in the government acting as a black box. Rather, the Bangladeshi government, as well as donors, are urged to learn the positive contribution of devoted and visionary leadership to social transformation from the cases of East Asia and Malaysia.

### **5-2-3 Anti-Corruption and Capacity-Building among Government Officials**

As indicated in Chapter Four, the bureaucracy of Bangladesh has suffered from chronic political corruption. This corruption not only debilitates policy co-ordination capacities, but also undermined the governance of the whole administration, although a number of countermeasures have been proposed in various reports by international organisations and donors. This paper, however, does not propose corruption-specific recommendations. This is because anti-corruption measures against government officials often prescribe *disincentives* to engage in corrupt practices rather than *incentives* to commit to their tasks with motivation. As the case of the LGED has shown, the LGED has very clear carrot-and-stick mechanisms, but it does not necessarily have corruption-specific measures. The LGED has largely overcome corruption problems not through corruption-specific prescriptions, but by taking a broader approach, such as performance-based human resources management and strong leadership. Therefore, as already recommended, a performance-based wage structure and strong political leadership are also expected to have positive impacts on corruption issues as well.

Similarly, this paper has been rather careful to recommend the general capacity-building of government officials. It is obviously true that the co-ordination capacities of government officials are one of the necessary conditions for an effective policy process and enhanced performance, as well as institutional management. Hence it is natural that international donors have often called for capacity-building. However, this paper presents the understanding that, through the field survey, Bangladesh has been shown to be endowed with rich and *potentially* capable human resources in the government as well. Although the commitment to capacity-building is naturally important, it is primarily leadership and performance-based human resources management that effectively actualises and utilises the pre-existing endowment of capable human resources. As discussed in Chapter Four, the LGED was a successful case that awakened the potentially competent staff members through motivation, performance-based human resources management and strong leadership. In other words, the elimination of inhibiting factors to the actualisation of the capacities of government officials would have a greater impact than the generally advocated capacity-building

approach.<sup>125</sup>

### **5-3 Establishing Strategic Government-Business Relationships**

Besides the above-mentioned reinforcement of public governance, this chapter also recommends that the Bangladeshi government establish strategic government-business relationships. From the 1980s to the 1990s, international donors advocated a crude prescription for small government. However, such advocacy tended to dismiss the capacities of the government.<sup>126</sup>

The attention to deliberative policy co-ordination between the government and the private sector is significant since it may be compatible with the capacities of the government while the government is required to be small.<sup>127</sup> Thus, it would be appropriate for the Bangladeshi government to pursue capacity-building through deliberative policy-making under a rationalisation process for small government in structural adjustment programmes (SAPs). Co-operative government-business relationships have the following several merits:

1. the quality of policies is expected to be improved by incorporating the knowledge, analyses and experience of the private sector;
2. the effectiveness of policies may be enhanced by flexible policy revisions based on feedback from joint monitoring activities;
3. information of the public sector is shared with the private sector;
4. the private sector may also strengthen its capacity to make realistic policy recommendations; and
5. business participation may contribute to improving the transparency of the policy process and the legitimacy of policies to some extent.

Government-business co-operation, however, should have a strategic governance structure that combines network-like horizontal interactions and hierarchical transactions. On the one hand, network-type transactions can be seen in active resource exchanges and joint decision-making. These transactions are based on mutual trust and reciprocal behaviours. On the other hand, hierarchical transactions are found in strong leadership, the formulation of strategic visions, selective and exclusive control over membership, monitoring of policy implementation and performance, and the application

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<sup>125</sup> This paper distinguishes the general capacity-building approach and the specific capacity-building approach to deliberative policy-making, as discussed later.

<sup>126</sup> Koike (1999: 153–4) also emphasises that the improvement of policy co-ordination capacity is more crucial than mere rationalisation of the number of government agencies and officials.

<sup>127</sup> In fact, MITI is a rather small government agency in terms of the number of staff members.

of sanctions and discipline. All of these are exerted through the power of prominent actors.

Based on this broad architecture of a strategic governance structure, co-operative policy co-ordination in Bangladesh is expected to be improved as follows. Firstly, deliberative policy co-ordination should define its terms of reference (TOR). The TOR of deliberative policy co-ordination should go beyond mere policy legitimisation through *nemawashi*: the TOR includes:

1. substantive consultations, formulation of and decisions on economic policies conducted jointly by government officials and key business sectors;<sup>128</sup>
2. monitoring, feedback and evaluation of policy implementation;
3. joint co-ordination of countermeasures in an emergency; and
4. accountability for the policy process among all members of the policy community.

Government-business relationships should involve the strategic selection of interacting members strictly on a merit basis. Although the World Bank recommends the participation of all stakeholders in the policy process, it also contradictorily admits that weak policy formulation and implementation in Bangladesh are caused by time-consuming consultations and consensus-building with irrelevant ministries and the ‘participation of multiple and countervailing groups’ (World Bank 1996: 100–1). It should be pragmatically recognised that the participatory approach not only overloads the policy co-ordination process, but also obscures the strategic roles of policy co-ordination.

It is necessary for members of a strategic governance regime to be primarily selected with half of the members from cadre officials of the economic ministries, and the other half from business and industrial associations, businesses, NGOs involved in economic development, bankers, academic faculties, think-tank researchers, and scientists. Compared with the cases from East Asia, such a membership seems to be rather inclusive; however, excellent human resources in Bangladesh are more dispersed throughout the private sector. It is rather obvious that business and industrial associations and businesses should be key actors in economic policy co-ordination. Besides, Bangladesh is blessed with internationally famous and well-organised NGOs like the Grameen Group and the BRAC Group. These NGOs have rich informational, organisational and financial resources for economic development; indeed they are

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<sup>128</sup> The inclusion of policy decisions into the TOR of deliberative policy co-ordination is significant since the lack of the right to make decisions may not only limit the functions of deliberation to the mere legitimisation of policies, but also dampen incentives for the members to commit to policy co-ordination.

involved in economic activities just like business companies as well as social service delivery activities in place of the public sector. Therefore, strategic government-business relationships should integrate all these resources into joint economic development projects.

In addition, by adding the functions of a think-tank on economic policies, strategic governance should incorporate professional analyses by academia and think-tank researchers into the policy process. They are expected to provide informational and organisational resources (1) by reviewing and advising on draft policies in an independent and professional manner, and (2) by collecting and analysing reliable basic information and statistical data for policy-making.<sup>129</sup> It should be noted that while general economic policy co-ordination requires analysis by economists, highly technical industrial policy co-ordination requires the technical perspectives of academic scientists.

Political actors may also be invited to participate in policy co-ordination. Yet their participation should be in a prudent manner. If political actors are present, both the ruling and opposition parties are required to participate in the policy co-ordination process. Otherwise strategic governance will again become entangled in endless bipartisan politics. However, the presence of both parties also runs the risk that both political parties might conduct bipartisan infighting within strategic governance. It is therefore suggested that, although political actors are expected to respect deliberation in strategic governance, they should join the policy process after both political parties have reached a consensus on the economic development agenda in a Convention for Reconciliation and National Unity.

Strategic governance may involve representatives of independent media with the status of observers. If the media releases news on the results of deliberations, it gives a greater chance for more people outside strategic governance to share the outcomes of the deliberations. Meanwhile, strategic governance can also utilise frequently updated websites for information disclosure on the process and results of deliberation. Although strategic governance can involve only a limited number of actors, by disclosing and sharing the deliberations with non-member actors, the media and websites have the potential to facilitate (1) improvement of the accountability of the deliberations and (2) the positive construction of a national consensus on the direction of economic development. In addition, information-sharing also helps to broaden the policy

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<sup>129</sup> World Bank (1996: 102) indicates that the Bangladesh Economic Association and the Bangladesh University of Engineering and Technology (BUET) have a rich source of expertise. It also points out that ‘Bangladesh has recently seen the growth of “policy think-tanks” like the Centre for Policy Dialogue, and the Centre for Development Research.’

**Table 5-1: Matrix for Stakeholder Analysis in Bangladesh**

Stakeholders	Resources	Interests	Current Problems	Necessary Measures
<b>Government Officials</b>	<ul style="list-style-type: none"> <li>• Organisational</li> <li>• Informational</li> <li>• Legal</li> <li>• Financial<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Effective policy formation</li> <li>• Smooth implementation</li> <li>• Economic development</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of monitoring</li> <li>• Distrust in the potential opportunism of business</li> </ul>	<ul style="list-style-type: none"> <li>• Effective monitoring with sanctions</li> <li>• More roles for business in policy co-ordination</li> </ul>
<b>Business and NGOs</b>	<ul style="list-style-type: none"> <li>• Informational</li> <li>• Organisational</li> <li>• Financial<sup>2</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Acquisition of policy-related information</li> <li>• Access to policy loans</li> <li>• Access to the policy community</li> </ul>	<ul style="list-style-type: none"> <li>• Inferior status in policy networks</li> <li>• Weak awareness of the national mission</li> <li>• Distrust in the government</li> </ul>	<ul style="list-style-type: none"> <li>• Share of the national mission</li> <li>• More constructive roles in policy co-ordination</li> </ul>
<b>Experts</b>	<ul style="list-style-type: none"> <li>• Informational</li> <li>• Organisational<sup>3</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Technical involvement in the policy process</li> </ul>	<ul style="list-style-type: none"> <li>• Minor status in policy networks</li> </ul>	<ul style="list-style-type: none"> <li>• More significant roles in technical analyses</li> </ul>
<b>Media</b>	<ul style="list-style-type: none"> <li>• Informational</li> <li>• Organisational<sup>4</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Establishment of a connection to policy networks</li> <li>• Detailed information</li> </ul>	<ul style="list-style-type: none"> <li>• Exclusion from the policy community</li> </ul>	<ul style="list-style-type: none"> <li>• Addition of roles as a watchdog and publicity</li> </ul>
<b>Politicians</b>	<ul style="list-style-type: none"> <li>• Political<sup>5</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Engagement in the policy process</li> <li>• Popular support for their parties through economic development</li> </ul>	<ul style="list-style-type: none"> <li>• Politicisation of economic policies</li> <li>• Lack of political leadership</li> </ul>	<ul style="list-style-type: none"> <li>• Positive commitment</li> <li>• Visionary leadership with a national mission</li> </ul>

*Notes:*

- 1: Government officials may have policy co-ordination capacity as organisational resources, holistic economic information as informational resources, authority as legal resources, and preferential loans as financial resources.
- 2: Business and NGOs may have informational resources to conduct economic analyses, organisational resources, such as skills and experience, and the financial resources of their own properties.
- 3: Experts, such as academia and researchers, have economic and technical knowledge as informational resources, and highly technical personnel and facilities as organisational resources.
- 4: The media have informational and organisational resources to critically review and disseminate deliberation outcomes.
- 5: Politicians have political resources to legitimise the deliberations.

*Source:* Composed by the author.

community outside the strategic circle.

Table 5-1 is a matrix for stakeholder analysis. It analyses the relevant stakeholders in terms of their available resources, interests, current conditions, and necessary measures to realise the desirable conditions. To establish dense policy networks, strategic governance requires the combination of available resources that are dispersed among various stakeholders to promote economic development. Strategic governance may stabilise stakeholder relationships by increasing their mutual dependence on the resources of the other stakeholders. However, since the interests of each stakeholder are diverse and all stakeholders perceive different problems, any necessary measures should be tailored to individual stakeholders. Briefly, strategic governance requires the introduction of the following measures:

- Government officials should introduce more effective monitoring with sanctions as

- well as granting a greater role to business and experts in policy co-ordination;
- Businesses and NGOs should realise a national mission for economic development under a more constructive role in policy co-ordination;
  - Experts are expected to play a more significant role in technical analyses;
  - The media should play the role of watchdog and ensure publicity; and
  - Politicians are expected to display a positive commitment to national economic development as well as create visionary leadership.

In the last place, strategic state-business relationships should be equipped with effective monitoring and credible sanction mechanisms to avoid unhealthy adhesion. Such monitoring and sanctions can be applied bi-directionally: from the government to the private sector and from the private sector to the government. The institutional design should be made such that both sides are able to impose sanctions according to the monitoring of implementation and policy performance. In short, deliberative policy networks needs to be co-operative, but have to be strained.<sup>130</sup>

#### **5-4 Japan's Comparative Advantage in Assisting Bangladesh**

This chapter has already proposed recommendations for better public governance and strategic government-business relationships. It is now important to ask why and where Japan, of the donor countries, should assist. In other words, what is the Japanese comparative advantage in assistance? The most significant Japanese comparative advantage lies in assisting in the means of connecting the government to the private sector.<sup>131</sup>

A cautious approach to institutional replication often argues that the lessons of co-operative government-business relationships in Japan and NIEs cannot be transferred to other developing countries that may have different institutional environments. It is

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<sup>130</sup> In addition, donors can also introduce the mechanism of sanctions based on the monitoring of the recipient countries' performance in project management. For instance, to promote governance reforms in Bangladesh, the Japanese government should introduce performance-based assistance provision. As long as official development assistance (ODA) is disbursed from the taxes of the Japanese taxpayers, development projects should be accountable to them. As the European Commission recently shifted *ex ante* conditionality to more performance-based *ex post* conditionality (Adam *et al.* 2004: 1059), the monitoring of project performance is crucial to considering further assistance. In monitoring, donors are required to specifically monitor and evaluate the priorities, outputs and impacts of development projects (*ibid.*: 1066). The donors also need to be aware of making a bold step towards penalisation, if necessary.

<sup>131</sup> While this comparative advantage is rather external-oriented, Japan may have a contribution to make to the internal reform of bureaucracy—mission-driven bureaucracy. Japan can contribute to creating mission-driven hard-working attitudes and team-work. As the former Chief Engineer of the LGED admits, the Japanese organisation used to demand that employees work hard on their tasks. But this is accompanied by delayed rewards that are expected to be given gradually over a long period. Hence, such a skilful carrot-and-stick mechanism may help to create other LGEDs in Bangladesh.

often indicated that the current conditions in the international economy are not similar to those of the 1960s during which export markets were expanding: (1) the demand for raw materials and blue-collar labour per unit of industrial product dramatically declined; (2) the electronics revolution improved the profitability of home production in advanced countries and eroded the comparative advantage of the low-wage labour of the developing countries; and (3) these changes reduced the inflow of foreign direct investment (FDI) to developing countries (Wade 1990: 347).<sup>132</sup> With such changes, the expected impacts of NIEs-like industrial policies would have been less than those of the 1960s (Wade 1990: 348). In addition, since the experience of Japan and NIEs is institutionally demanding, their experience cannot be replicated in most developing countries where there is a general lack of basic institutional infrastructure to manage complex economic policies.

However, as Akyüz *et al.* (1999: 25) argue, developing countries should seek institutional rebuilding of the government and civil society. In particular, the cautious approach should note the case of Malaysia, which has succeeded in introducing strategic governance despite its very different institutional origins from Japan, South Korea and Taiwan.

Yet it seems that Japan is the most cautious about replicating institutions for strategic governance. Japan once had confidence in its unique policy co-ordination model in the heyday of the 1980s when Chalmers Johnson published *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925–1975*. However once the bubble economy had burst, the Japan-US Structural Impediments Initiative, the subsequent deconstruction of its own policy co-ordination mechanisms and the long-lasting economic recession from the 1990s made Japanese cynical about the strategic governance model that had facilitated its economic development.

Nonetheless it is argued that Japan has a comparative advantage in assisting the construction of strategic government-business relationships for economic development. Firstly, it should be remembered that, due to its different developmental path, Japan is the only donor country that has employed strategic governance for economic development. This governance model is not a conceptual model that is irrelevant to practical application for policy co-ordination. Notably, the Japanese model of co-operative government-business relationships was extremely influential on Park and Mahathir when they established institutional variants of strategic governance. Chapter Three also indicated that the Taiwanese government in the 1980s also learnt from the

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<sup>132</sup> Wade (1990 347) points out that the FDI of the world decreased from US\$73.4 billion in 1980 to US\$3.5 billion in 1987.

Industrial Structure Council of MITI.<sup>133</sup> When Taiwan introduced a similar deliberative council, the MOEA of Taiwan invited a Japanese advisor who had been an experienced member of the Industrial Structure Council. Thus, despite cynical views of its own model, Japan did provide the prototype of strategic governance for these successful economies. It is expected that Japan will re-appreciate the positive role of a strong mission for economic development under the organisational leadership during the Meiji Restoration period and MITI's heyday until the 1970s.

Technical assistance for the introduction of strategic governance is also highly relevant and valid for Bangladesh. Although Bangladesh has relatively rich resources dispersed throughout the public and private sectors, recently introduced deliberative councils in Bangladesh have a number of operational problems. It is thus the establishment of an institutional framework for deliberative policy co-ordination that further facilitates the exchange, integration and utilisation of such resources for national economic development. It is to be remembered here that Japan has an advantage in assisting in the establishment and effective operation of strategic governance through its dispatch of relevant experts.<sup>134</sup>

This model of strategic governance is unique firstly because it is more aggressively oriented to economic development rather than the poverty reduction approach. A former economic technocrat of Malaysia informally argues that the Japanese government should adopt more a strategic and selective approach to economic development rather than the poverty reduction approach. As he also suggests, all economic development projects need a roadmap that includes more dynamic perspectives over the medium- and long-term as well as wider viewpoints with regard to their impacts on employment, growth and exports. Hence industrial promotion should be naturally selective since only those sectors that have dynamism and wider impacts are selected as the COE.<sup>135</sup> Japan has a long tradition of selective industrial promotion under the visions of the MITI. Such experience can be utilised for the formulation of a roadmap and COE selection. Besides, strategic governance is also unique secondly because it is a more focused governance approach to economic development than the good governance approach. Membership, deliberation issues and monitoring activities are strictly related to

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<sup>133</sup> In addition, Siddique, the former Chief Engineer of the LGED in Bangladesh, also mentioned that he was heavily influenced by the Japanese philosophy and organisational leadership of the Meiji Restoration from national seclusion. He also highly appreciated Park Chung-Hee for his achievements in economic development in a short time, Lee Kuan Yew for his leadership in transforming a small country to have economically powerful status, and Mahathir for overcoming a number of difficulties (Interview with the LGED).

<sup>134</sup> In fact, the FBCCI expected Japan to offer technical assistance to make consultations more effective (Interview with the FBCCI).

<sup>135</sup> A former economic technocrat of Malaysia informally suggested that Bangladesh may select education, medical facilities, leather and leather products, commercial agriculture and SMEs as COE.



economic development. Strategic governance is not normative, but is a realistic solution for economic development through the incorporation of hierarchical co-ordination as well. Strong and visionary leadership, rigid monitoring and credible sanctions are key components of strategic governance, although they are all related to power, which is not welcomed by current development discourse.

## **5-5 Conclusions**

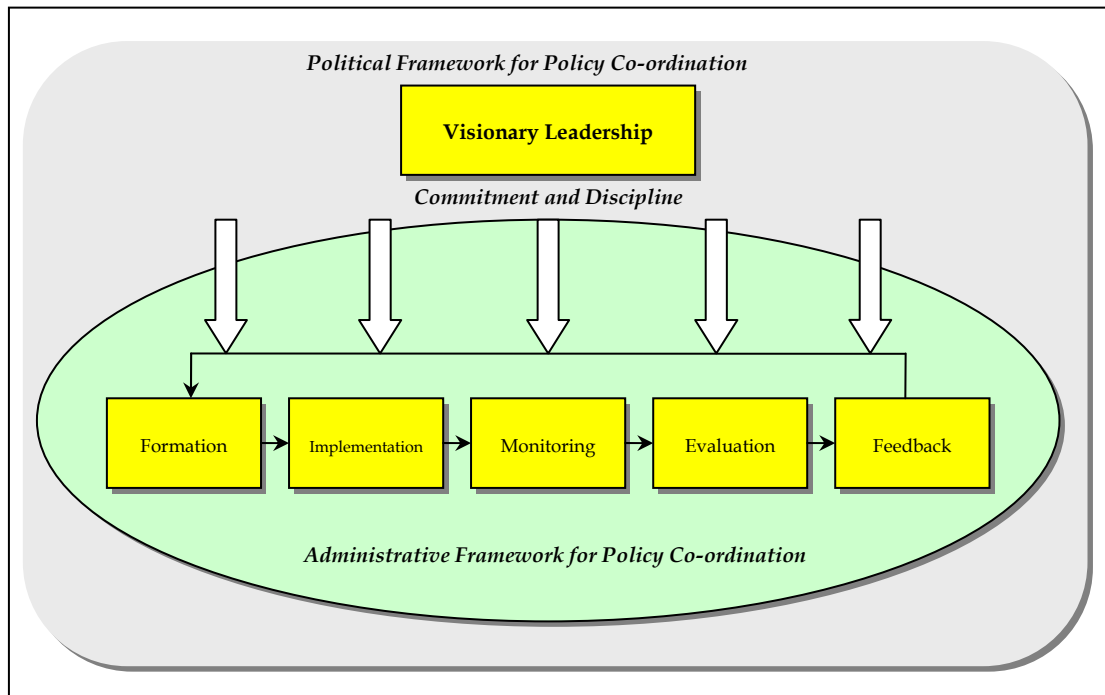
This chapter made recommendations for reinforcement of the capacity for policy co-ordination in Bangladesh. The first recommendation is concerned with rather internal or administrative governance of the government. Similar to already published reports on governance in Bangladesh, this paper has emphasised mission-driven motivation, a high level of expertise through personnel transfers to clustering ministries, personnel management on a merit and performance basis, centralised policy co-ordination by a central agency, and carrot-and-stick mechanisms. However, unlike conventional reports that adopted an administrative approach to governance, this paper has also focused on the political aspects of governance: national reconciliation of bipartisan politics, and the awakening of political leadership. This chapter gave particular emphasis to the decisively important role of political leadership, which was shown in the cases of East Asia and Malaysia.<sup>136</sup> Figure 5-1 conceptualises the two-track governance approach by showing the relationship between the administrative approach and the political approach to strategic governance. This figure illustrates that it is politics that makes the administrative framework function through the commitment and discipline of visionary leadership. Although the administrative approach to governance is helpful in improving the policy process from formulation to implementation, monitoring, evaluation and feedback, it is the political approach that sustains this administrative framework for policy co-ordination. In this sense, the internal governance of the government could also be a necessary condition for government-business co-operation to function.

Secondly, this chapter also recommended the establishment of strategic governance to improve the current government-business relationships. It was argued that strategic governance should be established specifically for national economic development by clearly defining its TOR, controlling membership rigidly on a merit basis, mutually monitoring processes and performance, and imposing sanctions for deviation and poor performance. It should be noted that attention to rigid monitoring and sanctions are again the introduction of reinforced hierarchical co-ordination. Therefore strategic governance makes government-business relationships not only co-operative, but also strained.

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<sup>136</sup> This chapter also confirmed that governance of the government should incorporate necessary hierarchical co-ordination through the exercise of power, such as by carrot-and-stick mechanisms and strong leadership.

**Figure 5-1: Concept of the Two-Track Governance Approach**



Source: Drawn by the author.

Certainly, it is true that government-private partnerships are not an objective of development, but a tool for the co-ordination of development policies. It is also true that too many requirements for complex co-ordination processes may result in wasting a great deal of time, effort and valuable resources in developing countries with insufficient administrative capacities (Ohno *et al.* 2000: 246). Yet the institutional framework of policy co-ordination matters in Bangladesh where the government has failed to utilise rich resources in the private sector.

Thirdly, this chapter examined the Japanese comparative advantage in assisting governance reform in Bangladesh.<sup>137</sup> As seen in Chapter Three, the institutional design and governance structure of policy co-ordination had more impacts on the East Asian leaders than the Japanese may generally think. The Japanese strategic governance was utilised to create institutional variants of policy co-ordination in South Korea, Taiwan and Malaysia. Hence, Japan's long experience of deliberative council operation should be more actively used in Bangladesh, which has already shown great interest in managing deliberative councils. In addition, Japan should not be rather passively learnt

<sup>137</sup> Japan is expected to reiterate and disseminate the experience and lessons of East Asia and their replicability in Bangladesh. Japan may hold various seminars on the East Asian experience targeted at government officials and business in Bangladesh. Frequent seminars may create other organisational leaders—or Agents of Change—for political and economic innovation.

its strategic governance, but more actively assist in its creation.

It is surely correct that the appropriate institutions and governance of government-business relationships may indeed differ according to the institutional environment and timing. Deliberative policy co-ordination is not always the only remedy. In fact, the recent deadlock in Japanese government-business relations illustrates this point.<sup>138</sup> However, it would not be correct to assert that the Japanese governance model is no longer valid for any other countries. The initial stage of economic development requires joint policy co-ordination and strategic resource allocation. In contrast, the more mature stage of economic development would lessen the importance of a national strategy and government-business joint projects. It should be clear that Bangladesh is located in the former stage. Although donors also advocate the significance of broad ‘partnerships’ between the government and societal actors, the Japanese strength and comparative advantage is in being able to assist in the creation of strategic government-business co-operation.

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<sup>138</sup> See also the brief analysis of current Japanese problems in Chapter Three.

## 6. Conclusions

This paper analysed the institutions and governance of policy co-ordination from comparative perspectives. It deals with the cases of Japan, South Korea, Taiwan and Malaysia to compare them with the main case of Bangladesh. Although it sounds irrelevant to compare the highly institutionally demanding East Asian economies with the strikingly different case of Bangladesh under chronic economic difficulties, the analysis found that Malaysia, with a different institutional background, has learnt from the lessons of East Asia, and even Bangladesh has shown interest in NIEs-like institutions for economic policy co-ordination. Therefore, the comparison of these cases studies is relevant and fruitful. The following is a summary of the analysis.

After describing the scope, objectives, framework and significance of the research in the first chapter, Chapter Two examined governance as a key factor in relation to the government's capacity for policy co-ordination. The good governance approach is advocated by international donors. Although it traditionally focuses on the rule of law, predictability, transparency and accountability, it has recently incorporated network-like governance by emphasising partnerships with the stakeholders. However, the good governance approach has theoretical and empirical flaws. Theoretically, the good governance approach seems to reject the concept of power and hierarchy. Empirically, the developmental states demonstrated governance through power and hierarchy. Then, by combining network-style co-ordination with hierarchical co-ordination, Chapter Two proposes a strategic governance model. A strategic governance model was tentatively defined as the governance of developmental policy networks between the government and key economic actors.

Chapter Three examined the actual mechanisms of strategic governance in Japan, South Korea, Taiwan and Malaysia. Firstly, it was shown that these countries utilised diverse institutions for policy co-ordination: central agencies were staffed by the best and brightest elites and played central roles in inter-ministerial policy co-ordination; business associations were organised to support the government's capacity for policy co-ordination; and a number of government-business meetings, including deliberative councils provided stable channels for joint policy co-ordination. Secondly, the analysis has shown that interactions between the government and business were managed, more specifically governed, by the prominent power of visionary leadership and commitment. In addition, they were also governed through operational controls over network membership and monitoring mechanisms. Although Japan and the NIEs, particularly South Korea, allocated the carrot of rent to business, this rent was accompanied by the stick of performance monitoring and evaluation. By combining carrots and sticks, rent allocation did not inhibit national economic development. In short, governance in these

countries was not participatory, but highly selective, and their government-business partnerships were not equal, but hierarchical. These features confirmed that the governance structure of the four successful economies was that of strategic governance.

Chapter Four analysed the institutions and governance of policy co-ordination in Bangladesh. Firstly, it was revealed that policy co-ordination mechanisms, for instance, deliberative councils, were only recently institutionalised. However, secondly, in spite of their recent introduction, deliberative policy co-ordination mechanisms have problems due to their limited role, imbalances and malqualification in their memberships, and the lack of monitoring and evaluation activities. Thirdly, Bangladesh still faces public governance failure. The bureaucracy is too compartmentalised to conduct inter-ministerial policy co-ordination. In addition, personnel transfers are made in a random and politicised manner; so that individual and organisational expertise has not been built up. Monitoring activities and disciplinary action are largely missing. In addition, serious bipartisan politics has infiltrated whole government agencies to expand the patronage networks of the two dominant political parties.

Chapter Five made recommendations to enhance policy co-ordination capacity in Bangladesh. Firstly, to improve the internal governance of the government, this paper emphasised the mission, motivation, personnel transfers to relevant ministries for higher levels of expertise, merit and performance-based personnel management, centralised policy co-ordination by a central agency, and carrot-and-stick mechanisms. Yet while conventional reports adopted a rather administrative approach to governance, this paper also paid attention to the political aspects of governance. That is, this paper emphasised the importance of national reconciliation of bipartisan politics, and the awakening of political leadership. Secondly, this paper recommended the establishment of strategic governance. It advised that strategic governance should be equipped with strictly merit-based membership control, mutual monitoring, and sanction mechanisms, as well as clarified TOR. Thirdly, the Japanese comparative advantage in assisting governance reform in Bangladesh was identified in its extensive experience of deliberative council management.

Thus, this paper analysed the institutions and governance of strategic government-business relationships for economic development. Unlike conventional development discourse advocating egalitarian and participatory approaches, this might be considered an elitist notion of a governance approach. However, as Lijphart (1980) argues, since excessively participatory democracy might destabilise democracy itself, it is the governing elites that are expected to play important roles.<sup>139</sup> Elite technocrats and

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<sup>139</sup> See also Yamada (2002: 38).

businesses should have prominent roles and responsibilities and be valuable resources, while their actions are expected to be accompanied by a strong sense of mission, a high level of motivation and excellent performance. The Bangladeshi case illustrates how seriously Bangladesh has been affected by the poor performance of the roles and responsibilities fulfilled by the elites, and how elite resources have not been effectively utilised. Bangladesh needs the institutional framework of strategic governance to incorporate capable elites and their substantial resources into national economic development. In addition to a reappraisal of the roles and responsibilities of the elite, this paper argues that we should not avoid politics, power and hierarchy. They are a crucial part of governance. And we should break the spell of traditional images of government failure. The government has more positive functions in the development process.

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## Appendix: Interview Schedule of the Field Survey

No.	Date/Day	Time	Organisations	Relevant Officials
1	14/09/04 Tuesday	9:10– 9:40	JICA	Mr. Arai Akio Resident Representative
				Mr. Mitsuyoshi Kawasaki Additional Resident Representative
				Mr. Tsuyoshi Kanda Deputy Resident Representative
2	14/09/04 Tuesday	10:00– 10:30	Economic Relations Division (ERD)	Mr. Iqbal Mahmood Deputy Secretary (Japan Branch)
3	14/09/04 Tuesday	17:00– 18:00	Embassy of Japan	Mr. Masahiko Kiya Counsellor
4	15/09/04 Wednesday	10:25– 11:30	Ex Governmental Official	Dr. Mizanur Rahman Shelly Advisor, JICA
5	15/09/04 Wednesday	13:40– 14:00	Ministry of Commerce	Mr. Syed Mohammad Zobaer Joint Secretary
6	16/09/04 Thursday	9:50– 10:25	Ministry of Communication	Mr. Muhammad Shahidullah Joint Chief
7	16/09/04 Thursday	10:50– 11:20	Road and Highway Development (RHD)	Mr. Delwar Hossain Khan Executive Engineer
				Mr. Md. Firoz Khan Noon Superintending Engineer
				Mr. Osamu Tsukahara Japanese Expert
8	16/09/04 Thursday	12:00– 12:40	PSC (Public Service Commission)	Dr. Dil Afroz Hque Joint Secretary
9	19/09/04 Sunday	10:25– 10:45	Board of Investment (BOI)	Mr. Mamhood Hossain Alamgir Director
10	19/09/04 Sunday	11:05– 11:50	Federation of Bangladesh Chambers of Commerce and Industry (FBCCI)	Colonel M.M. Jahangir Secretary General
				Mr. Md. Akhtaruzzaman Manju Director
				Mr. S.M. Al-Husainy Advisor
				Mr. Manzur Ahmad Director
11	19/09/04 Sunday	13:35– 14:20	Non-Party Care-taker, Government of Bangladesh 2001	Mr. A.S.M. Shahjahan Former Advisor
12	19/09/04 Sunday	15:30– 16:15	Square Group	Mr. Tapan Chowdhury Managing Director
13	20/09/04 Monday	10:00– 10:50	Planning Commission	Mr. S.A.S.M. Taifur Division Chief, Agriculture
14	20/09/04 Monday	12:05– 13:10	Ministry of Industry	Mr. Md. Abdul Motaleb Miah Deputy Secretary
				Mr. Ahmed Ali Shah Senior Research Officer
15	20/09/04 Monday	15:20– 16:15	BRAC (NGO)	Mr. Abdul-Muyeed Chowdhury Executive Director
16	21/09/04 Tuesday	10:05– 10:40	Grameen Telecom	Mr. M. Khalid Shams Managing Director



17	21/09/04 Tuesday	11:15– 12:30	National Institute of Local Government (NILG)	Mr. Azizur Rahman Additional Secretary
				Mr. Jamshed Ahmed Director
				Mr. Muhammed Mukabber Deputy Director
18	21/09/04 Tuesday	17:30– 19:00	Local Government Engineering Department (LGED)	Mr. Quamrul Islam Siddique Former Chief Engineer
				Mr. Yoshitaka Kamigataguchi Rural Infrastructure Development Advisor, JICA Expert
19	22/09/04 Wednesday	10:50– 13:50	Public Administration Training Centre (PATC)	Mr. Kazi Samsul Alam
				Dr. Mir Obaidur Rahman Member Directing Staff
				Mr. Ahab Ahmad, Rector
20	22/09/04 Wednesday	18:30– 19:40	Local Government Engineering Department (LGED)	Mr. Md. Shahidul Hassan Chief Engineer
				Mr. Saroj Kumar Sarker Additional Chief Engineer
				Mr. Md. Wahidur Rahman Superintending Engineer
				Mr. Yoshitaka Kamigataguchi Rural Infrastructure Development Advisor, JICA Expert
21	23/09/04 Thursday	10:45– 11:45	Japanese Chamber of Trade (Shokomai)	Mr. Toshiaki Shoji General Manager of Sumitomo Corporation President, Japanese Chamber of Trade (Shokokai)
22	23/09/04 Thursday	17:10– 18:10	UNDP	Mr. Mikkel Trolle Program Officer
23	26/09/04 Sunday	14:30–	DFID	Dr. Peter Evans Social & Political Governance Advisor
24	26/09/04 Sunday	16:00– 17:00	Daily Star	Mr. Zafar Sobhan Assistant Editor
25	26/09/04 Sunday	17:30– 18:00	Planning Commission	Mr. S.A.S.M. Taifur Division Chief, Agriculture

## **About the Author**

Kondoh Hisahiro, Ph.D., was a research associate of the Centre for Sustainable Development Studies, Toyo University, and is currently assistant professor of comparative politics at the School of International Relations, Tokyo International University from April 2005. He was awarded his master's degree from the School of Development Studies, University of East Anglia, UK, and his doctoral degree from the Institute for Politics and International Studies, University of Leeds, UK. His teaching responsibilities are contemporary politics, comparative politics and the comparative political economy of development. He has expertise in the analysis of institutions, governance and the economic implications of state-business relationships, particularly in the cases of countries in East Asia. Dr. Kondoh has published several articles on governance and development issues in East Asia and Africa, including papers published by internationally famous journals such as *The Pacific Review*. Besides his academic career, he has working experience of the civil service in local government and professional development consultancy. Contact address is: kondohhisahiro@hotmail.com.