

Lineages of liberalism and miracles of modernisation: The World Bank, the East Asian trajectory and the international development debate

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The crisis in East Asia has raised important questions both about the way in which the East Asian developmental trajectory has been understood and the relevance of the East Asian model to modernisation elsewhere in the world. Until recently the World Bank played an important role in encouraging the perception that the East Asian trajectory was a veritable miracle of capitalist development. More broadly, for many years the Bank has occupied a central international position in the production and dissemination of development knowledge about East Asia and the rest of the world. In concert with a number of other key, transnational regulatory agencies like the International Monetary Fund (IMF), the Bank has also been instrumental in attempting to shape the overall contours of East Asia's political economy. Yet the World Bank's influence, and its understanding of development should not be conceptualised in monolithic terms.¹

Over time the conception of development encouraged by the Bank has shifted, mirroring wider trends in the international political economy. This article begins with a brief discussion of the changes in the World Bank's understanding of development over the past 30 or 40 years. This is followed by an examination of the Bank's efforts to accommodate the East Asian trajectory within the dominant Anglo-American narrative on international development. It will be emphasised that the changes in the Bank's understanding of capitalist development in East Asia have taken place in the context of the overall transformation of the international political economy since 1945. In short, the World Bank has been a major participant in the wider reinvention of liberalism which has been central to the history of the international development debate in the Cold War and post-cold War era.² An examination of its historical role and the shifts in the model of East Asian development it has promoted tells us much about both the Bank and the wider international system of which it is an important part.

Lineages of liberalism

The World Bank and cold war liberalism

The World Bank came into existence as part of the overall Bretton Woods system which emerged from the capitalist crisis, global war and reconstruction of the 1930s and 1940s. The Bank – along with the IMF – was envisioned by the victorious allied powers as an instrument which could be used both to consolidate and manage the postwar international political economy.³ Not only was the Bank charged with providing the capital and expertise with which to kick-start post-1945 reconstruction, it was also an important component in locking

countries into a US-centred economic order – a critical consideration in the light of the emerging superpower rivalry between the USA and the Soviet Union. Indeed, it is important to remember that, particularly in the immediate postwar period, the Soviet Union was widely seen as a serious alternative to the crisis-ridden capitalist system which had been mired in the Great Depression before the outbreak of World War II.⁴ From its inception, therefore, the Bank was grounded in the wider power relations of the Cold War. This period saw the establishment of an elite liberal consensus about both the appropriate model of economic development and the best approach to the management of international economic relations.⁵ As time passed this consensus shifted, moving from what Ruggie has described as the ‘embedded liberalism’ of the Keynesian-inspired early Cold War era, to the neoliberal order that began to emerge in the 1970s.⁶

Before the 1970s the conception of, and approach to, development which emanated from the World Bank reflected the Keynesian consensus and the cold war liberalism (liberal developmentalism or classical modernisation theory) of the US political and economic elite. The overall strategy of the USA towards what became known after 1945 as the ‘developing world’ built on the experience of anti-communist reconstruction in Europe in the late 1940s and 1950s. The 1947 effort to keep Greece and Turkey from succumbing to international communism relied on both military and economic aid. After the apparent success of the economic component of the containment strategy on the eastern fringe of Europe, the Marshall Plan was launched in 1948 with the aim of facilitating the rebuilding of Western Europe.⁷ The apparent success of anti-communist reconstruction in much of Europe, and latterly in Northeast Asia, contributed to ‘the full flowering of liberal developmentalism’ in the 1960s, manifested most dramatically in the Alliance for Progress in Latin America and the US anti-communist crusade in Vietnam.⁸ These influences were readily apparent during Robert McNamara’s presidency (1968-81) of the Bank. McNamara had served as Secretary of Defense in both the Kennedy and Johnson administrations, and was one of the key architects of the Vietnam War until his resignation in 1968, when he took up the presidency of the World Bank.⁹ The overall approach of McNamara and other cold war warriors of his generation was conditioned by the idea that the poverty of nation-states in Asia, Africa and Latin America was the key to the spread of communism. Into the 1970s the presumption that there was a direct link between poverty and revolution, and that the communist threat could be eliminated via the emulation of the approach to economic modernisation believed to have been followed in North America and Western Europe, was at the heart of the dominant international discourse on development.¹⁰ Under McNamara the World Bank significantly expanded its lending at the same time as the ‘alleviation of poverty’ was promoted as a major focus of the organisation’s activity.

The Bank in the McNamara era reflected some of the optimism characteristic of the wider cold war liberalism (liberal developmentalism or classical modernisation

theory) which had emerged after 1945. For example, in the mid-1970s Hollis Chenery, the World Bank's Vice-President for Development Policy initiated a study of the Bank's record on economic development since 1950.¹¹ Although the study was prepared by an outside consultant (David Morawetz) the conclusions it drew crystallised the official viewpoint of the Bank in the McNamara era. Overall the study, like the Bank in the 1970s, took the view that on a global scale economic growth had been rapid and dramatic; however, this growth continued to be very poorly distributed. The Morawetz report was confident to the point of complacency that the eradication of poverty is not likely to be just another fad', that the 'problems of monoproducer economies' could be mitigated, that excessive concern about debt problems was misplaced, and that the dramatic growth in commercial lending in the 1970s was not a cause for concern. Only with the second oil crisis (1979-80) did the Bank express any public reservations about the international financial system's ability to recycle enough funds to maintain economic growth and systemic stability.¹² This, combined with anti-inflation policies of recently elected neo-liberal governments, such as the Thatcher administration in the UK, and the anticipation that energy prices might continue to rise dramatically throughout the 1980s, convinced McNamara that the world economy had undergone a permanent change. Once the perception of permanent change in the world economy took hold of the Bank in 1980, various other policy conclusions followed. While financial assistance to governments of developing countries had been used in the past as 'a substitute for structural adjustment', it was increasingly used to 'support structural adjustment'.¹³ Thus the changing international context allowed the Bank to use structural adjustment loans to lock recipient governments into a particular sort of politico-economic order, one that reflected both the interests and assumptions of its major sponsors.

The World Bank and the neoliberal ascendancy

In the early 1980s neoliberal governments (particularly the Reagan administration in the USA and the Thatcher administration in the UK) were in the ascendant in North America and Western Europe. The neoliberal ascendancy, however, did not flow from the inherent rationality of neoliberal policies - it was grounded in part in the apparent intractability of the economic and social problems of the 1970s. The apparent inability of the various governments in power in North America and Western Europe (and beyond) to deal with rising-inflation was a central component of the rise of neoliberalism during the late 1970s. Cold war revivalism played an equally important role in defence and foreign affairs; significantly, however, opposition to the new Cold War was more effective than opposition to neoliberal economics.¹⁴ More broadly, the emergence of neoliberalism as the dominant narrative on development was linked directly to the dramatic changes in the overall character of the international political economy in the 1980s. Neoliberalism seemed to offer simple solutions to the economic problems of the North American and Western European electorates, its programme meshing with the aims and assumptions of a complex array of

transnational forces which were the motor and the main beneficiaries of the neoliberal (and emergent globalisation) project.¹⁵

Significantly these wider shifts were marked by the end of McNamara's tenure as president of the World Bank. He was succeeded in 1981 by Alden Winship (Tom) Clausen. During Clausen's presidency (1981-86) the conception of development which had predominated at the Bank during the McNamara era was more or less erased. Clausen, whose previous position had been at the head of the Bank of America - the biggest commercial bank in the world - made it clear to the World Bank's top executives at the outset that he had no intention of maintaining his predecessor's focus on poverty alleviation. Mahbub UI Haq, a long-time Bank staffer and adviser to McNamara, suggests that Clausen, a proponent of supply-side economics, was adamant 'that the only constituency that mattered was the United States'.¹⁶ During the 1980s poverty alleviation was 'demoted to priority zero' with so-called structural adjustment policies taking its place.¹⁷ The dramatic shift in development thinking at the Bank was clearly represented by the Berg Report which was published in 1981. The official title of the Berg Report was *Accelerated Development in Sub-Saharan Africa: An Agenda for Action* and was written by Elliot Berg.¹⁸ The report relied on insights drawn from rational choice theory to evaluate the developmental record of governments in sub-Saharan Africa. Its prescriptions centred on the need for a greatly reduced role for the state in the economy and much greater reliance on the market as a means of accelerating economic activity, particularly in the agricultural sector. However, it is misleading to view the Bank during Clausen's presidency as being united around the neoliberalism reflected in the Berg Report. Under Clausen the Bank experienced greater policy fragmentation and diversity than was the case during the McNamara era.

In this period, for example, the research department of the World Bank was characterised by a particularly devout commitment to neoliberalism and an intolerance of dissent which was not necessarily shared by other sections of the Bank. After 1981 the research department's operations and activities were devoted increasingly to 'large projects designed to substantiate what everyone knew in their hearts already: that economic liberalization was right'.¹⁹ The head of the research department was Anne Krueger, whom Clausen had hired to replace Hollis Chenery, the Bank's chief economic theorist in the McNamara era. According to one insider, Krueger was not interested in debating economic policy and 'she cut off anybody who ever had any relationship with Hollis Chenery'.²⁰ Nevertheless, staff on the operational side maintained a degree of pragmatism in their overall approach and policy prescriptions. Even during the early to mid-1980s, which were by far the most doctrinaire, the World Bank did not become a neoliberal monolith, and 'for every research report vindicating the neoliberal position, one could find another Bank publication which looked more soberly at the social and technological constraints on development'.²¹ For example, the *World Development Report 1987*, which focused on trade and industrialisation, outlined an approach to economic development that was particularly adamant in

its commitment to neoliberalism,²² Four years later, however, in the 1991 *World Development Report*, entitled *The Challenge of Development*, it was emphasised that market-friendly policies - neither complete laissez faire nor interventionism - are optimal for growth and income distribution'.²³

The end of the high period of neoliberalism at the World Bank had been reached long before 1991, however, and was marked by the change of Presidents from Clausen to Barber Conable in 1986. During Conable's tenure as president (1986-91) the Bank was reorganised in an effort to make it more effective and smaller. Conable sought to reduce the organisation's 6000 employees by 10% and break the influence of powerful long-time managers, particularly Ernest Stern, the economist who 'had been the de facto power in the Bank since McNamara's retirement'. The Bank certainly was shaken up in the months after Conable first took over, but even before Conable left the number of its staff had returned to 6000 and most of the powerful and long serving 'politically attuned bureaucrats' at the Bank remained in place. For example, Ernest Stern remained at the Bank long after Conable had retired.²⁴ Nevertheless, while Conable was at the helm, the organisation's public image was seen to be more consensual than under Clausen, while poverty alleviation and the mitigation of the social costs of structural adjustment were given greater prominence. The neoliberal ideologues in the research department departed and the department itself disappeared as a separate Vice-Presidency in the reorganisation of 1987. However, as we will see, the World Bank's understanding of development into the 1990s continued to be, or increasingly became, influenced by rational choice theory (the new institutionalism and the new political economy), resulting in a highly mechanistic approach to the dynamics of political and economic change in the various countries which the researchers at the Bank sought to understand.²⁵

Despite the shifts in neoliberalism between the late 1970s and the early 1990s, the 1980s saw the institutional and discursive consolidation of market-centred ideas, something that the demise of the Soviet Union (1989-91) as the most serious challenger to the hegemony of Anglo-American-style capitalism simply served to reinforce. 'Actually existing socialism' in the Soviet Union and around the world had attempted from the beginning to 'mimic the economic achievements of capitalism', laying down objectives which capitalism was 'obviously much better equipped than socialism to achieve'.²⁶ However, the fall of state socialism by the end of the 1980s reinforced the process of neoliberal consolidation which drew considerable sustenance from the view that the collapse of the Soviet bloc was a victory for the particular type of capitalism that predominated in Britain and North America in the 1980s.²⁷ This, combined with the idea that a new international consensus on development was in place by the early 1990s at the same time as the end of the Cold War, meant, in theory, that more concessions (or at least gestures) could be made in the direction of planning and the role of government, sustainable development issues and environmental concerns. This conjuncture was encapsulated in October 1991 in an opening address to the annual World Bank and IMF meeting in Bangkok by

Conable's successor as president, Lewis Preston. In his speech the new president of the Bank asserted that the demise of the Soviet bloc had led to 'the broad convergence of development thinking which has replaced ideological conflict', while a consensus based on the free-market, a balance between the private sector and government and sustainable economic growth was spreading around the globe.²⁸ Ultimately the 1980s and early 1990s witnessed the entrenchment of what Stephen Gill describes as 'market civilization' - the transformative practices by which capitalist expansion becomes bound up with a legitimating neoliberal discourse of progress and development.²⁹ Importantly, although it is a movement which is reinforced by the application of the political power of key actors like the USA, at another level its most subtle quality has been the way in which market-mediated social relations have become integral to common sense understandings of development.³⁰

The World Bank and the international development debate

The World Bank has occupied a central position in the wider consolidation of neoliberalism, as declarations such as Lewis Preston's remind us. The Bank is significant both as the source of authoritative knowledge about economic development and because of its key role in setting the agenda in the international development debate. This flows from its possession of an unrivalled budget for research and policy-formulation capacity in comparison to any other development organisation. At the same time, the World Bank is able to attract a high degree of international media attention for its pronouncements and major reports. This 'intellectual' influence is directly reinforced by its economic leverage with governments around the world looking for investment, loans and foreign aid.³¹ The ideas that form much of the Bank's policy agenda are also produced and disseminated in part by its own think-tank. Set up in 1956, using financial support from the Rockefeller and Ford Foundations, the Economic Development Institute (EDI) instructed people from a wide range of 'developing countries' in the creation and management of projects commensurate with the Bank's overall conception of development. According to its first director, Sir Alexander Cairncross, the intention of the EDI was to ensure that by associating with and studying at the Bank, students 'would carry with them ideas that were more congenial to the Bank when they went back to their own country'. Certainly, a number of EDI graduates have achieved positions of prominence in their countries of origin. In the late 1970s Cairncross observed that EDI graduates 'more or less ran' South Korea, and in Pakistan there were 'a great many ex-EDI men who quite consciously were pulling together and having an influence on development'.³²

The USA remains the Bank's most powerful member, although its position as a Bank shareholder is greatly reduced. However, the USA still chooses the head of the Bank and it is the only country with a veto over amendments to its Articles of Agreement. Furthermore, the USA closely monitors Bank activities, and is the only Bank member to review all loan proposals in detail: officials of the Treasury

Department are in daily contact not only with the US executive director but with other Bank officials.³³ By the 1950s Washington's geopolitical goals were consistently linked to the economic and financial reforms the World Bank and the IMF demanded of governments around the world. The US government has always been candid about this linkage. As one US official noted in the 1970s, the IMF and the World Bank 'use their loans as leverage to encourage positive economic performance and acceptance of market economy principles in recipient countries'. It is clear that the USA has effectively dominated the World Bank, the IMF and their affiliates. As Kolko notes, over 40% of the World Bank's top managers are US citizens and the president has always been a US citizen (the most recent Australian-born president being something of an exception).³⁴

US influence is also grounded in the Bank's dependence on world financial markets, the central position of the USA as a global financial centre, and the closely aligned interests of key financial actors with those of US foreign policy. This influence is further entrenched in the Bank's institutionalised norms and culture. At least 80% of the economists working for the World Bank are trained in the UK or North America. Their approach and outlook, and that of virtually all of the remaining 20%, is based on the assumptions and methodologies of Anglo-American liberalism and neoclassical economic thought. Robert Wade argues that economists who do not subscribe to the main precepts of neoclassical economics are unlikely even to be employed by the Bank, while the small number of social scientists from other disciplines work for the Bank on peripheral projects and have no influence over economic policy formulation.³⁵ Interestingly, before the 1960s the operations and overall approach to development which characterised the World Bank were driven in part by the preponderance of professional engineers within the institution and their vision of development as the funding and building of physical structures.³⁶

The current dominance of neoclassical economists within the upper echelons of the Bank is reinforced by its internal review process. Within the Bank, policy documents go through a process of review and evaluation moving upwards through the numerous echelons of the organisation. Each echelon works to narrow the overall perspective. It is not just that higher levels are more concerned with the Bank's and the system's integrity than with the integrity of the research. It is also that promotion criteria for the higher levels favour people who make decisions quickly and with closure, using 'facts' selectively to support preconceived patterns and convictions. This process is complemented by a conformist culture in which the Bank's prevailing editorial line is rigidly followed.³⁷ This is especially significant given the sheer volume of the Bank's widely disseminated and authoritative research. Yet, despite the Bank's internal culture of conformity and the undoubted influence of mainstream economics on the literature that emerges from it, the Bank is not immune to external influences. Quite how potentially significant such influences can be is revealed by the shifts in the Bank's understanding of the East Asian trajectory.

Miracles of modernisation

The World Bank and the East Asian trajectory

By the 1980s, the World Bank, more than any other institution, was playing a key role in interpreting what was increasingly being viewed as the miraculous industrialisation of East Asia. Significantly, this interpretation was refracted through a pervasive framework of neoliberal ideas. The central prescription which the World Bank increasingly offered to governments in so-called developing countries was that underdevelopment was caused by excessive state intervention in the economy. It argued that privatisation and liberalisation would encourage economic growth and economic efficiency. To support their argument they pointed to countries such as South Korea, Taiwan, Hong Kong and Singapore, which they characterised as exemplars of the success of the free-market model, while pointing to the apparent failure of the public-interventionist model adopted by governments in Africa and Latin America.³⁸

The rise of the Newly Industrialising Economies (NIEs) of East Asia was consequently interpreted as a natural outgrowth of capitalist expansion. One of the best known World Bank economists to consistently articulate a neoclassical interpretation of industrialisation in East Asia has been Bela Balassa. From Balassa's perspective, comparative advantage - or the idea that countries should specialise in what they are 'naturally' best at - is a key factor in economic development. From this point of view the natural unfolding of the world economy results in the movement of national economies from the production of low technology goods to the manufacture of higher technology goods, as a particular country's comparative advantage shifts unskilled labour-intensive manufacturing to skilled capital-intensive production.³⁹ In the late 1980s Balassa argued that, with the exception of Hong Kong, the NIEs had all gone through an initial stage of import-substitution industrialisation, but in contrast to late industrialising nation-states in Latin America, the East Asian NIEs had subsequently and successfully embraced export-orientated industrialisation. For Balassa, this external orientation was a central and dynamic element of the comparative advantage framework, insofar as an external orientation facilitated the overcoming of domestic constraints, undercutting monopolistic and protectionist economic arrangements, and encouraging competition and the pursuit of technological improvement.⁴⁰ Fitting the rise of East Asia into an economic framework grounded in Anglo-American liberalism increasingly became not simply a theoretical challenge, but an inherently political exercise. Other prominent economists, operating within the ambit of Anglo-American liberalism, took pains to construct explanations that presented the success of even the most obviously state-led developmental trajectories, such as Japan, as primarily the result of market forces.⁴¹

The attempt to depict the East Asian experience as essentially a 'normal' part of capitalist development that was in accord with the precepts of neoclassical

economics was significant for several reasons. First, interpreting East Asian development as a lesson in neoclassical economics inevitably informed the policy initiatives of both regional governments and those outside agencies and actors like the Bank, the IMF and the USA, which sought to influence or deal with them. Second, it was significant because it increasingly flew in the face of an overwhelming amount of evidence detailing the attempts by various governments in East Asia to shape the content and direction of economic activity directly, rather than waiting passively for market forces to determine key economic outcomes. There is no intention here to review in depth the contending positions in this debate, nor the voluminous literature that accompanies it. Rather, it is sufficient to note that since the 1980s there has been an increasing number of 'revisionist' Anglo-American policy-orientated works which attempts to challenge the dominant neoliberal approach to economic development and emphasise the role of the state in capitalist development.⁴² This literature, and approaches to and perceptions of the East Asian experience which originate from within the region generally, bear little resemblance to the vision of East Asia conjured up by neoclassical economists and the avatars of Anglo-American liberalism. Not only does the lineage of 'Asian' economic ideas owe more to the formulations of Friedrich List than it does to Adam Smith, but there are highly distinctive regional views about the character and purpose of capitalist organisation, and the place of a more assertive East Asian region and its distinctive patterns of political and economic organisation more generally.⁴³

The World Bank and the struggle for the East Asian model

Even if the relative success of the state-led East Asian development trajectory is in question, states in the region clearly acted as if intervention was likely to be efficacious, effectively undermining both the normative and theoretical aspects of neoclassical economics. Furthermore, as we shall see, the Bank itself has come to accept that state intervention has played a key role in regional development. Thus, despite the continuity in basic assumptions, the Bank's views on East Asia and on economic development more generally, have been influenced by the wider international situation of which they are a part. This is readily apparent in the case of the now famous 1993 World Bank report entitled *The East Asian Miracle*.⁴⁴ The 1993 report was funded by the Japanese Ministry of Finance and carried out in the context of ongoing efforts by the Japanese government to get the World Bank to revise its commitment to a neoliberal model of development, and by implication, to take the Japanese alternative more seriously.⁴⁵ Thus, the *East Asian Miracle* report was a profoundly political document produced out of a complex struggle within the Bank and between the Bank and the Japanese government. While the Japanese government was not happy with the final product, the 1993 report was significant in that, for the first time in a major Bank publication, it conceded that government intervention had played some role in economic development in most of East Asia.⁴⁶

Pressure for such a concession, if not a more dramatic acknowledgment of the role of the state in economic development, had been building throughout the 1980s. Despite the growing international influence of neoliberalism, the Japanese government continued to 'intervene' in economic activity in a manner that flouted the rising neoliberal narrative. This ensured that it was increasingly subject to criticism in the context of apparently interminable trade disputes with the USA.⁴⁷ During the 1980s the Japanese government continued to direct or assist the expansion of Japanese corporations overseas.⁴⁸ In 1987, for example, the Ministry of International Trade and Industry (MITI) planned a regional industrialisation strategy for the governments of Southeast Asia, a key element of which was the allocation of 'directed credit'. At the end of the 1980s, the Japanese Ministry of Finance (MOF) set up the ASEAN-Japan Development Fund, which was administered by Japan's main aid agency and sought to provide credit to the private sector. Officials at the World Bank conveyed their concern about this approach through informal channels, but had no discernible effect. Meanwhile, in June 1989, Masaki Shiratori became the World Bank's new Executive Director for Japan. The Japanese government was the second ranking shareholder in the World Bank (after the USA) and Shiratori, a senior MOF official, was 'determined to make the Bank pay more attention to the East Asian experience' generally, rethink direct credit policies, and take the Japanese and East Asian approaches to industrialisation and development seriously.⁴⁹

The potential for increased conflict over competing visions of regional development was exacerbated by the appointment, in January 1991, of Lawrence Summers to the position of chief economist and vice-president at the Bank. Summers, a Harvard academic, was well known for dismissing Japanese economists as 'second rate'. At the same time, it was Summers who came up with the term 'market friendly', which was used to soften the overall free-market approach of the final version of the *World Development Report 1991: The Challenge to Development*.⁵⁰ Not surprisingly, the terminological change did little to mollify the concerns of the Japanese government, which continued to promote its own model of economic development using its increasing power in the Bank and the IMF as leverage.⁵¹ In an address at the World Bank and the IMF's Board of Governors annual meeting in October 1991, Yasushi Mieno, then head of the Bank of Japan, argued that the East Asian experience demonstrated the significance of government intervention. In his speech, which had been drafted by the Ministry of Finance's International Finance Bureau, he made an explicit appeal for the IMF and the World Bank to initiate a 'wide-ranging study that would define the theoretical underpinning of this approach and clarify the areas in which it can be successfully applied to other parts of the globe'.⁵² At the same meeting the World Bank's vice-president and managing director, Attila Karaosmanoglu suggested that the NIEs of East Asia 'and their successful emulators are a powerful argument that a more activist, positive governmental role can be a decisive factor in rapid industrial growth', concluding that 'what is replicable and transferable must be brought to light and shared with others'.⁵³

However, many officials at the World Bank viewed the Japanese model as a threat for a number of reasons. In the first instance, the concessionary credit which was part of the Japanese approach to development aid undermined the attractiveness of credit provided by the World Bank. Second, the emphasis on the importance of directed credit as an instrument of industrial policy which is characteristic of the Japanese approach is at odds with the Bank's overarching focus on financial liberalisation. The upper echelons of the Bank also feared that, if they put their imprimatur on the developmental state model, it would undermine the Bank's own credit rating (and therefore borrowing and lending capacity) with the international money markets and its authority in the international economic system more generally. For the Bank to change its attitude towards the Japanese model would also represent a major challenge to the USA, which has historically used the Bank in its overall projection of power and influence. From the point of view of the World Bank, the Japanese model also gives legitimacy to the 'interventionist impulses' which exist among the governments and elites of the various countries which are beholden to the World Bank. Ultimately, for those looking out on the world from the commanding heights of the World Bank, the Japanese model was a 'systemic threat' to the status quo.⁵⁴

It is not surprising, then, that although the *East Asian Miracle* report acknowledged that the state had, and could, play a role in economic development, it continued to emphasise that the 'essence of the miracle' involved 'getting the basics right'.⁵⁵ Furthermore, it continued to treat economic development as a technical policy question, in which the role of the state (or government institutions) was not seen as particularly relevant to an overall understanding of successful capitalist development, even if it was important to particular economic activities at particular times. However, even as the role of the state was being acknowledged, but downplayed, by the World Bank - to the annoyance of the Japanese sponsors of the 1993 report - the way was being paved for greater accommodation of the state-centred perspective in the context of the wider and ongoing reinvention of liberalism.

The World Bank, the state and the reinvention of liberalism

At the end of the 1980s, the Bank began to produce a series of reports in which the idea of 'good governance' was critical.⁵⁶ Again, the focus was increasingly on a search for supposedly optimal forms of economic management, rather than positing capitalism as a paradigmatic rival to a declining or defunct state-socialist alternative. Although the World Bank's conception of development in the immediate aftermath of the Cold War had broadened somewhat in the changed political context, it also began to take on an increasingly 'technical' aspect.⁵⁷ The concept of good governance which emerged in this period depicted the relationship between the political and the economic in a way which clearly reflected the influence of predominantly Anglo-American political thought and the essentially liberal notion of state neutrality.⁵⁸ As critics have been quick to point out, the Bank's interest in governance issues and its apolitical conception of the

state allowed the bank to promote market-orientated reforms without necessarily challenging established elites whose position and power might be threatened by more serious calls for political reform.⁵⁹ Nevertheless, the growing emphasis on good governance helped to pave the way for greater attention to the state. Significantly, the notion of good governance has been taken up by elites in many parts of the world, including East Asia. Tommy Koh, former Singaporean representative to the United Nations, head of the Asia-Europe Foundation and a well known advocate of Asian values, has argued that the development of a shared conception of, and commitment to, good governance would help ground wider East-West relations.⁶⁰

The overall process of revising liberalism in a way which incorporates the technocratic and elitist notion of good governance, and which accommodates the state-led development trajectory of East Asia to neo-classical economics, is clearly apparent in *The Key to the Asian Miracle* which was published in 1996. Although not a World Bank publication as such, the book was written by José Edgardo Campos, a World Bank economist and co-author of the 1993 Miracle report, and Hilton L Root an economic historian based at the Hoover Institution at Stanford University. In their book, they attempt to outline 'concrete lessons for the rest of the developing world' by examining 'the rationality of the structure and performance' of key institutions in East Asia. From their point of view, although East Asian institutions are not necessarily 'directly transferable' to other nation-states, knowing how they operate can still provide a 'guide' for other governments facing similar economic problems.⁶¹ Their analysis, which clearly reflects the influence of rational choice theory (the new institutionalism and/or the new political economy) represents the high-performing Asian economies, or HPAEs, (Japan, South Korea, Taiwan, Hong Kong, Singapore, Thailand, Malaysia and Indonesia) as variations of a generalised form of enlightened and paternalistic authoritarianism. They argue that the governments of the HPAEs were aware that successful economic development necessitated coordinating the 'expectations' of various groups. This led to the crafting of institutional arrangements that sought to distribute 'the benefits of growth-enhancing policies widely', while reassuring businesses and individuals 'that they would share the growth dividend'. In the prescriptive tone which pervades their study, they emphasise that 'sharing gave the less fortunate a stake in the economy'. This worked to discourage 'disruptive activities' and reduced 'the risk of regime failure'. Importantly, it also allowed the various governments to focus 'on promoting rational economic policies by reducing the need to constantly contend with issues of redistribution'.⁶²

The authors observe that the East Asian regimes which have presided over the successful economic growth of the past decades are regularly regarded 'as authoritarian, even dictatorial'. They argue that this perception is misleading and 'occurs largely because of the failure of Western observers to recognise in East Asia systems for ensuring accountability and consensus building that differ from Western-style institutions'. They emphasise that 'the mechanisms that

Westerners expect to see - written constitutions, elected legislators, a formal system of checks and balances - are but one set of solutions to establishing regime legitimacy and guaranteeing limits on government action'. From their point of view they have made clear that there are 'other ways of' mobilising 'public support' and 'restraining ruling cliques from overriding the economic rights of others'. Furthermore, although the different HPAEs vary significantly from each other, they 'share enough common elements to suggest a developmental model that differs from the trajectory of the Western democracies and from the autocracies of the past and present'. According to the authors, instead of behaving 'like roving bandits' the regimes of the HPAEs 'have considered the future output of society and have offered incentives to productive investment (physical and human) that are typically found only in the Western democracies'. They conclude that, while the future for the HPAEs is uncertain and the historical context (the Cold War in particular) has altered, the governments of 'developing' nations around the world can still benefit from an examination of the HPAEs as a way of finding 'their own best starting points'.⁶³

In the wider context of the 'discovery' of the state in East Asia, which is apparent in works such as *The Key to the Asian Miracle*, the process of liberal revisionism begun in the Bank's original Miracle report, has been more completely realised in *The State in a Changing World*, published with much fanfare in 1997.⁶⁴ Indeed, so significant a departure is this report from the organisation's earlier position, that it provides an obvious marker of the ongoing reinvention of liberalism in which the Bank has played an important role. *The State in a Changing World* was not simply a product of the rising economic, and therefore political, influence of the developmental states of East Asia, it was also made possible by the transformation of the international political economy itself. As has already been suggested, the dominance of capitalism as the unchallenged - by rival systemic paradigms, at least - form of global economic organisation, profoundly altered the situation in which debates about economic development occurred. Given that it was no longer necessary to justify capitalist organisation in opposition to a rival economic system, it was, perhaps, inevitable that capitalism, or more precisely alternative models of capitalism, would be the subject of greater examination at the same time as it was possible in the post-cold war era to give greater credit to the different type(s) of capitalism which had been so successful in East Asia.⁶⁵

In this context *The State in a Changing World* is a noteworthy and revealing example of the Bank's shifting position on the role of the state. Indeed, the entire report is premised on the idea that the state is not simply a necessarily important determinant of national economic welfare, but that 'its capability - defined as the ability to undertake and promote collective actions efficiently - must be increased'.⁶⁶ Clearly, this bears the hallmarks of an extremely influential strand of predominantly North American theoretical literature centred on rational choice economics and the increasingly prominent position of institutional theory.⁶⁷ What is of more general significance, however, is that although much of this literature still carries the same sort of commitment to market-determined economic

outcomes as does neoclassical economics, the report's recognition of the potential efficacy of state intervention marks a significant departure from its previous position and an overt recognition of the role of government 'intervention' in the rise of East Asia.

Although the report is at pains to describe the actions of Japan and the East Asian states more generally as 'market enhancing', it also clearly concedes that states are fundamentally implicated in defining the structure of market-mediated economic relations.⁶⁸ In other words, 'intervention' *per se* is not necessarily a problem. Indeed, 'development without an effective state is impossible' according to the report.⁶⁹ East Asia assumes a particular significance in this regard as it 'shows how government and the private sector can cooperate to achieve rapid growth and shared development'.⁷⁰ What this amounts to is an - albeit heavily qualified - endorsement of the 'Asian way' of managing government-business relations in particular and the process of development more generally. For the late-industrialising nations of East Asia, and by implication for their counterparts in the rest of the so-called 'developing world', the report concludes that the state is capable of 'not merely laying the foundations of industrial development *but actually accelerating it*',⁷¹ At the same time, the World Bank's 1997 report defines an 'effective state' in a way which bypasses the wider social context and the social impact of the developmental states in the region. Not surprisingly, as with Campos' and Roots' 1996 study, the conception of an effective state in East Asia presented in *The State in a Changing World* is grounded in an elite-centred approach to political and economic change which implicitly, if not explicitly, endorses authoritarianism.⁷²

Nevertheless, *The State in a Changing World* represents something of a watershed for the Bank and reflects a shift in neoliberalism the significance of which is not yet clear. While the type of development knowledge produced by the World Bank has been influenced by a growing literature on the importance and role of institutions, it is also clearly influenced by wider forces in the international political economy. The direct and increasing influence of the Japanese government on the one hand, and what had until recently been the remarkable rise of East Asia more generally on the other, has clearly been reflected in the type of development knowledge produced at the Bank. The crucial question for the future, however, is whether this new-found enthusiasm for the state will survive the sudden collapse of the region into economic chaos. The history of the Bank has demonstrated that its position is likely to be determined by the shifting contours of the international political economy of which it is an integral part. The dominant economic discourse on the regional crisis attributes the apparent fall of East Asia to precisely the sorts of 'cooperative, relations between business and government that the World Bank had so recently begun to endorse'.⁷³ Rather than being seen as a source of effective planning and economic development, the governments of East Asia are now routinely associated with cronyism, corruption and inefficiency.

Ironically, having brought itself to concede that 'the state' (albeit a generally abstract and nonspecific one) can play a critical role in accelerating development, the Bank is now faced with the prospect of seeing this model become increasingly discredited. This does not mean, however, that the Bank's position will simply revert to the model of development, and the free-trade understanding of the East Asian trajectory, it championed in the early 1980s. Significantly, during the current crisis there has been a marked divergence between the approach taken by the Bank and that of its sibling, the IMF, which has taken a much more prominent role in attempts to manage the crisis.⁷⁴ While these differences should not be exaggerated, and there is no suggestion that the Bank is not supportive of the general trend towards market-orientated reform and the pursuit of more 'transparent' economic relations in the region, nevertheless, the Bank *has* questioned the IMF approach. The standard IMF crisis-management toolkit of fiscal stringency, reduced spending and the like, has caused massive social dislocation, of which the Bank - or more accurately, its current president, James Wolfensohn - has been a significant critic.⁷⁵ It is important not to read too much into the actions of one individual, no matter how senior in the Bank hierarchy, but Wolfensohn has also been an outspoken critic both of the way the Bank itself has operated and of its alienation from those whom it is supposedly intended to help. However, given the Bank's track record, we should be sceptical about the latest president's rhetoric of 'people first'.⁷⁶ In the short term Wolfensohn may have given the Bank's senior managers a shock, by forcing them actually to go into the field and examine the impact of the Bank's policies and prescriptions, for example.⁷⁷ But it is extremely doubtful that such measures will alter the overall path of an organisation like the World Bank, which is profoundly implicated in the technocratic and elitist conception of development that remains the dominant international approach to development on the eve of the new millennium.

Conclusion: lineages of liberalism and miracles of modernisation

The 1997 crisis in East Asia has seriously undermined the region's credentials as the site of an economic miracle and has had a dramatic impact on the post-cold war international political economy. As with the end of the Cold War, the end of the East Asian miracle has precipitated important changes in the contours of global capitalism. And as with the end of the Cold War, the possible end, or stalling of the East Asian miracle will undoubtedly lead to a great deal of revisionism on the part of those who had previously seen it as a potentially universal key to economic development. Between the 1970s and the second half of the 1990s the debate about the causes of, and the lessons which can be extracted from, the successful industrialisation of a growing number of countries in Northeast and Southeast Asia occupied a key position in the wider international development debate. During this period some of the most influential interpretations of East Asian industrialisation, which represented the East Asian trajectory as a miracle of modernisation, were linked to the wider rise of neoliberalism in this period. This was readily apparent in the interpretation of the

East Asian miracle specifically, and capitalist development more generally, offered by the World Bank, arguably the most prestigious and one of the most powerful producers of international development knowledge. Taking the dramatic events of 1997 as a crucial turning point, this article has provided a brief overview of the relationship between Anglo-American liberalism and East Asian dynamism over the past 30 years or so. Ultimately, it was emphasised that, in the context of the shifting contours of the international political economy and important changes to the dominant international discourse on development, the World Bank played a crucial role in domesticating the East Asian Miracle to the dominant liberal narrative of progress and in facilitating the wider reinvention of liberalism in the post-1945 period.

Notes

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1 Critics often provide a relatively fixed conception of the type of development model being promoted by both the World Bank and the 'West' more generally. For example, see A Escobar, *Encountering Development: The Making and Unmaking of the Third World*, Princeton, NJ: Princeton University Press, 1995, p 224. For a discussion of Escobar's book see M T Berger, 'Post-cold war capitalism: modernization and modes of resistance after the fall' *Third World Quarterly*, 16(4), December, 1995, pp 717-728.

2 Central to the shifting liberal narrative of international progress are assumptions about the sanctity of private property, the superiority of gradual or evolutionary political, economic and social change, the equation of democracy with elections and parliamentary government, and the assumption that free trade (*laissez faire*) is a superior mode of economic activity and organisation. Of course, the relative emphasis which has been placed on free trade, and the actual implementation of *laissez faire* policies have fluctuated dramatically over time. As Immanuel Wallerstein has noted 'not only is the capitalist system not properly described as a system of free enterprise today, but there never was a moment in history when this was a reasonably descriptive label. The capitalist system is and always has been one of state interference with the 'freedom'

of the market in the interests of some and against those of others.' 'Capitalists seek to maximize profit on the world markets, utilizing whenever it is profitable, and whenever they are able to create them, legal monopolies and/or other forms of constraints of trade.' I Wallerstein, *The Capitalist World Economy*, London: Cambridge University Press, 1980, pp 121, 149. See also O Handlin, *Truth in History*, Cambridge: Harvard University Press, 1979, pp 181, 189-192.

3 R Gilpin, *The Political Economy of International Relations*, Princeton, NJ: Princeton University Press, 1987.

4 E Hobsbawm, 'Goodbye to all that', in R Blackburn (ed), *After the Fall: The Failure of Communism and the Future of Socialism*, London: Verso, 1991, pp 115-125.

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6 J G Ruggie, 'International regimes, transactions, and change: embedded liberalism in the postwar economic order', *International Organization* 36(2), 1982, pp 379-415.

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According to Pakenham, President Kennedy was convinced that 'economic and social progress' under the leadership of the USA would dramatically increase the possibility of North American-style political and economic patterns taking root in Latin America and beyond. R A Pakenham, *Liberal America and the Third World: Political Development Ideas in Foreign Aid and Social Science*, Princeton, NJ: Princeton University Press, 1973, pp 69-70. See also M T Berger, *Under Northern Eyes: Latin American Studies and US Hegemony in the Americas*, Bloomington, IN: Indiana University Press, 1995, pp 66-97.

9 R S McNamara, *In Retrospect: The Tragedy and Lessons of Vietnam*, New York: Vintage, 1996.

10 Pakenham, *Liberal America and the Third World*, pp 52-53; and I L Horowitz, *Beyond Empire and Revolution: Militarization and Consolidation in the Third World*, New York: Oxford University Press, 1982, pp 76-77.

11 D Morawetz, *Twenty-Five Years of Economic Development 1950- 1975*, Baltimore, MD: Johns Hopkins University Press for the World Bank, 1977.

12 World Bank, *World Development Report 1980*, Washington, DC: World Bank, 1980, p 3.

13 For a good background analysis of the move to Structural Adjustment Loans (SALs) and Sectoral Adjustment Loans (SECALs) see P Mosley, J Harrigan & J Toye, *Aid and Power: The World Bank and Policy-based Lending*, London: Routledge, 1991, Vol 1 (*Analysis and Policy Proposals*), pp 21-23, 27-61. See also Mosley, Harrigan & Toye, *Aid and Power*, London: Routledge, 1991, Vol 2 (*Case Studies*).

14 J E Cronin, *The World The Cold War Made: Order, Chaos and the Return of History*, London: Routledge, 1996, pp 177, 185.

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21 Mosley, Harrigan & Toye, *Aid and Power*, Vol 1, p 24.

22 R Wade, 'Japan, the World Bank, and the art of paradigm maintenance: the East Asian miracle in political perspective', *New Left Review*, 217, 1996, p 5.

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- 32 Cairncross, cited in Caufield, *Masters of Illusion*, pp 62-63, 196-197.
- 33 Caufield, *Masters of Illusion*, p 197.
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