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A Tale of Two Tigers? Growth, public policy and regional models in Ireland and Malaysia

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> *Critical explanations of the Celtic Tiger and, more generally, or Ireland's development, adopt a wider theoretical approach than do the mainstream explanations…They usually straddle the distinction between economic and social life which was seen to divide the disciplines of economics and sociology. Furthermore, they tend to adopt a more global perspective…* (Peadar Kirby, *The Celtic Tiger in Distress: Growth with Inequality in Ireland*, 2002:89)

> *[I]n the Malaysian context, as indeed elsewhere in Southeast Asia, it is no longer easy…to distinguish between 'rent seeking' and true productive capitalism, between pariahs and entrepreneurs or between patrons and clients…A form of capitalism is emerging in Malaysia that is nonetheless remarkably dynamic, vibrant and resilient, despite its unorthodox origins. [A]n attachment to…direct contrasts between dependency and self-reliance, and between rent-seeking and true productive capitalism, as well as to such discrete categories as state and capital…obscures Southeast Asian [capitalism's] distinctive and evolutionary character* (Peter Searle, *The Riddle of Malaysian Capitalism: rent-seekers or real capitalists?* 1999:1,12)

> *The great success of the Irish economy since the mid-1980s has been based therefore on the social embeddedness of economic action, not on the operation of theoretically free markets.* (Séan O'Ríain, '*Soft Solutions in Hard Times*'2004)

Introduction: governance or politics?

What exactly constitutes 'good governance' in a highly globalized economy? Developmental state theory suggests that high-growth "tiger" economies have "developmental" features and capabilities that other states lack, allowing them to govern the market and strategically promote capitalist development. This paper engages in a comparative analysis of the developmental state in Ireland and Malaysia. It presents an overview of development policies in two "tiger" economies – Ireland in the European region and Malaysia, in the Southeast Asian region. It compares the role of the two developmental states in directing economic policy and structural transformation and examines how their development policies are socially embedded. The comparative study of these two cases is located within a broader framework of critical global political economy. Aside from questions of developmental effectiveness, the key analytical question is about developmental inclusiveness –what is the nature of the developmental state's social contract. Furthermore, it asks how the nationalist developmental social contract has been impacted by regional and global reconfigurations of recent decades.

Much of the literature on developmental state has grown from the need to refute neoliberal policies that naturalize free market ideology and advocate less state intervention. This paper does not engage in debating with the neoclassical straw man. It takes a constructivist view of the state as a key agent directing capitalist transformation through active political, social, financial, taxation and industrial policies. However, the discussion here also seeks to denaturalise cohesive capitalism and the "embedded autonomy" of the developmental state. It critically interrogates the extent to which to the developmental state is democratic or sustainable and discusses problems of elitism, exclusion, marginalization and repression that may characterise the social contracts of developmental states. The paper presents stylized contrasts between European and Asian models, and between bureaucratic and network models. It also questions the socio-political inclusiveness or exclusiveness of these models, contrasting the Irish model of neoliberal populism with the Malaysian model of authoritarian populism. It draws on these contrasts in order to explore the potentials and pitfalls of different strategies of developmentalism, in face of globalization's challenges.

The discussion of the developmental state needs to answer to the critical challenge posed to development theorists by Dudley Seers more than a generation ago: to 'dispel the fog around the word "development" and decide more precisely what we mean by it' (1979: 190). Seers challenged development economists to first ask what had happened to poverty, to inequality and to employment and to conclude that development was not really happening if one or more of these three areas had disimproved, even if economic growth had taken place (*op.cit*: 192). The label "developmental" is given to states that have successfully directed or managed industrial transformation and sustained economic growth. Despite an increasing acceptance of broader and more holistic conceptions of development in many areas of development studies, the developmental state literature places relatively little emphasis on issues of state performance in relation to basic dimensions of poverty reduction, employment and inequality, health and welfare provision and educational and political participation.

The discussion of governance should not avoid fundamental questions of politics and sociology – how states themselves are politically constituted and how they structure and accommodate social and political demands. It is perfectly reasonable to pursue conventional questions of how states become capable and effective in governing the economy - mobilizing capital, promoting exports and nurturing links with industries. However, questions about the political and social constitution of the economic sphere also need to be raised. How growth itself connects to the problems of inequality, marginalization and exclusion of specific social groups need to be brought back in more seriously into the developmental state debate.

Colonial development –Ireland and Malaysia

As the work of Chalmers Johnson (1995; 1999) and Atul Kohli (2004) have shown, colonial heritage and nationalist strategies are crucial aspects of the developmental state. Developmental states are products of their particular histories, and are implicated in wider processes of historical change on a regional and world scale. What we know today as "Ireland" and "Malaysia" products of historical incorporation into British colonial political economy and the developmental regimes in both countries express a combination of structural continuity and adaptation as well as evidence of dynamic structural transformation in the postcolonial period.

The colonial relationship between England and Ireland is longstanding and complex. Following a wave of medieval invasions and conquest that pitted Irish kings against English conquerors, Ireland was colonised by English settlers practising the feudal-manorial system. Ireland became part of "an ascending English project" as it became incorporated into the Atlantic economy under the control of a developmentalist coalition of expansionist English merchants and the English state. In the 16th century, the plantation system was imposed on lands seized from rebellious Irish leaders. Following the Protestant Reformation in England, the colonization of Ireland manifested as sectarian discrimination, exclusion and repression of the majority Catholic population under Protestant domination. Ireland was officially part of Britain from 1801-1921, and therefore an "internal colony" during this period (Hechter, 1975).

Anti-colonial nationalism and republicanism developed in Ireland at the end of the 18th century. In 1790, the United Irishmen attempted to establish an Irish Republic with equal citizenship for Catholics and Protestants, but their rebellion was defeated in 1798. Ireland subsequently became divided along sectarian lines into 'two nations'. The population grew rapidly, sustained in part by the nutritious and productive potato, introduced during the 18th century. However, in 1845 potato blight struck, with disastrous consequences of malnutrition, disease and emigration, halving Ireland's population.

During the 19th century, Ireland became an agrarian export economy, sending grain, butter, cattle and linen to England, while indigenous industrialization was stifled and peripheralized (O'Hearn 2005). The economy developed unevenly, with a strong contrast

between the wealthier and much more industrialized North and the more traditional, agricultural and poorer rural South. British power began to decline in Ireland after 1870, as Irish independence and land movements gained strength. The 1879-92 Land Wars marked a major change in social structure as tenant farmers won the right to purchase their tenancies. In effect, the class structure changed from colonial tenant farming to a nation of mainly small landowners (O'Hearn 2002: 114).

During the 19th century, anticolonial and nationalist resistance increased, centred upon idealised visions of rurality and the revival of Gaelic Catholic culture. As the Irish Catholic Church became dominant, it also became the main provider of social welfare and education. The Protestant minority who predominated in the Northern counties resisted the imposition of Catholic religious and cultural order. Competing demands to retain the Union with Britain and to establish an independent Catholic state led to the sectarian partition of Northern Ireland and the Free State. Partition caused bitter internal conflict and civil war and resulted in the division of Ireland into the more industrially developed Northern Ireland which remained part of the United Kingdom and predominantly agricultural Free State. O'Hearn contends that Ireland in the early twentieth century was by European comparisons, a highly impoverished agrarian region with very little industry, and highly dependent on Britain as its export market.

The Malay archipelago was integrated into world mercantile trade well before European hegemony, due to the importance of the Straits of Malacca as a maritime trade route between India and China and the Malay Sultanates evolved during the 15th century within these trade networks. The Sultanate of Malacca was conquered by the Portuguese in 1511 and ceded to the Dutch in 1641 before being acquired by the British along with the other Straits Settlements, Penang and Singapore in 1824. The British extended their indirect rule during the 19th century and began to develop larger-scale colonial exports. Colonial immigration and racial "divide and rule" policies fundamentally changed Malayan society as the colonial export economy developed. Large-scale tin mines and rubber plantations were developed and British investors displaced the power of smaller scale Chinese capitalists who had predominated in mining and plantation agriculture in the eighteenth century (Reid, 1997). Immigrant labour from China and India were the preferred workforce for the booming colonial economy of mines and plantations. The indigenous Malays proved difficult to proletarianize, and the British retained legitimacy for their indirect rule by "protecting" the Malay rulers and their subjects, who were retained as a rice-farming peasantry. At the time of Independence in 1957, the Malays formed a bare 50% of the population, with Chinese making up 37% and Indians 11% of the population.

Independence and industrial policy

Decolonization and the search for national autonomy drove early industrial policy in both countries, but to different extents, and with different outcomes. Both countries practiced nationalist import-substitution strategies with varying consistency and success, whilst

also seeking export-led industrialization based on foreign direct investment from the 1950s onwards.

Self-sufficient industrialisation was already a major aim of nineteenth century Irish Republicans, who drew strongly on the nationalist economic policies of Henry Carey and Friedrich List. "An enduring aspect of Irish campaigns for autonomy was the desire to develop industrially and commercially, which was driven by the understanding that such development continued to be limited by English rule and the interests of English capital within the Atlantic economy (O'Hearn, 2001: 108). Irish nationalists were positively disposed to American influence and had few objections to the emergence of US economic power or its objective to displace Britain as the pre-eminent world power. Strong cultural and political Irish-American ties have remained to this day. The US is perceived as a counterbalance to English (and later European) power and Ireland has continued to look to the US as a financial and political supporter of Irish self-determination.

After the birth of the Irish Free State, nationalists focused on 'de-Anglicization' and cultural 'development' through the reclamation of lost Gaelic language and culture. Ireland was not a modern industrial economy and the indigenous capitalist class was small and fragmented. Most of the industrial development, principally the textile and shipbuilding industries, were concentrated in the North, which remained part of the UK after Partition. The independent South retained a few manufacturing industries, mainly specialising in food and drink. Most firms were very small, and the few large manufacturers such as Guinness were subsidiaries of British based companies. Approximately half the population were engaged in agriculture and most of the industries were involved in processing agricultural products such as food, drink and footwear. The new government faced high unemployment, emigration and a worldwide economic recession. However, the State received crucial support from the Catholic Church which had expanded during the nineteenth century. The Church underpinned the ideological, moral and cultural vision of the states, while also providing education, welfare and social services that the state would have found it hard-pressed to provide (Inglis, 1998).

Popular pressures grew for a nationalist economic and political regime during the 1920s. The nationalist Fianna Fail party came to power under the leadership of Eamon de Valera in 1932, promoting autarkic economic self-sufficiency and indigenous industrial promotion. The regime immediately faced "economic war" with Britain as the latter levied punitive duties on Irish agricultural exports. When trade relations were restored in 1938, the outbreak of World War II led to further restrictions on exports and industrial inputs for industrialization were in short supply. Protective tariffs were inplace for some goods, but O'Hearn argues that they were not implemented as systematic developmental goals, rather as individual political favours at the request of Irish industrialists, reflecting the fragmentation of the industrial sector. The state set up several state monopolies in alcohol, sugar, electricity, air transport and shipping, but these also lacked consistent support, as powerful factions in the bureaucracy were opposed to them (O'Hearn, 2001: 116). Domestic capitalists were reluctant to invest in Ireland, preferring to reinvest their profits in British financial markets (op cit.: 119). Hence the nascent capitalist class was

highly fragmented: "…Dublin vs Cork, city vs, country, large vs. small, producers vs. suppliers, etc…Irish capital, then was hardly a united front acting in its recognised class interests" (op.cit: 120, 121). Internal disagreements also within the government between expansionist developmentalists and fiscal conservatives in the Department of Finance. The latter opposed active industrial policy on the grounds that it would cause inflation. Irish imports from the US increased during the 1940s and 50s and Ireland's economy incurred large dollar trade deficits. The economy became highly dependent on emigrant remittances, which made up nearly half of its annual income in the 1950s.

The advent of Marshall Plan catalysed a transition from import-substitution to export-led industrialization. Free trade was the main condition required to qualify for European Reconstruction Funds, which were extended to Ireland for mainly political reasons - to consolidate a stable, non-communist free-trading Europe under US hegemony. Despite protests from domestic capitalists, Ireland shifted decisively towards export-led industrialisation and foreign investment policies by 1956-57 as part of an emerging European project.

Malaya developed a colonial export economy very rapidly at the end of the 19th century. By the 1920s, it had become the most profitable of Britain's colonies and had a substantial export economy and capitalist infrastructure, though only 8% its output at Independence consisted of manufactures (Ahn 2001: 428). Following occupation by Japan in 1942-45 Malaya returned to British rule. The Malayan Emergency followed, a massive British military campaign to protect British economic interests and destroy Communist forces. Organised labour and left-wing politics were comprehensively repressed during this period and this period left a legacy of colonial "Emergency Powers" which were subsequently redeployed by the developmentalist regimes of Tun Abdul Razak and Mahathir Mohamed in the 1970s and 80s (see Means, 1991).

Independence was granted in 1957 and power was handed to an elite coalition, the Alliance Party with three main ethnic components, the politically dominant Malay United Malays National Organisation (UMNO), and two subordinate parties representing non-Malay capitalists, the Malaysian Chinese Association (MCA) and Malaysian Indian Congress (MIC). There was a strong identification of ethnicity with economic class and occupation, but the consociational political bargain cemented the acceptance of Malay political dominance by non-Malays, in return for citizenship (Jomo, 1986). This structure effectively consolidated a united ruling postcolonial elite across ethnic groups, whilst maintaining and politicising ethnic divisions, and kept colonial economic structures intact.

Postcolonial economic development took the form of mainly *laissez-faire* economic policies up to the end of the 1960s. Some import-substitution was sponsored by small and medium scale Chinese Malaysian capitalists, while state bodies promoted processing and manufacturing based on Malaysia's primary commodity exports. This phase of "private" import-substitution was fairly low tech and successful, producing goods such as food products, clothing and plastics which found a suitable and growing local market. High commodity prices led to an economic boom in the 1950s and 60s, with average GDP

growth of 5.8% between 1957-70 and 7.8% between 1971 and 1980 (Jomo 1990: 10). British interests continued to dominate in mining, plantation, finance and export trade, owning and controlling somewhere between 65% and 75% of export trade (Puthucheary, 1960:85-6). The government introduced some tariff protection for "pioneer industries" in 1958, but did not discriminate against foreign capital, offering foreign investors national treatment. Further economic diversification took place as the discovery of new petroleum and gas deposits allowed the development of a national petroleum monopolist, Petronas, in the 1970s.

Despite favourable economic performance, ethnic and political tensions worsened during the 1960s. Singapore, Sabah and Sarawak joined the federation, forming Malaysia in 1963. The Malaysian political system had to accommodate conflicting demands from the indigenous majority, the Malays and those of the non-Malays who played an essential role in the modern economy. Malay political power drove increasing demands for cultural and economic hegemony, while non-Malays protested on grounds of equal citizenship and protection for minority language and education rights. The predominantly Chinese state of Singapore, led by Lee Kuan Yew's Peoples Action Party was unable to accommodate the provisions for Malay "special rights" and this led to the expulsion of Singapore in 1965.

Race riots took place in the capital, Kuala Lumpur following elections in 1969. While the Alliance coalition prevailed, Chinese opposition parties had gained ground in the city . There were confrontations between supporters of the Chinese opposition parties and Malay pro-government demonstrators, leading to ethnic rioting, looting and burning of Chinese shops and houses and 178 official deaths, mainly Chinese (Means, 1991: 7-8). A state of Emergency was declared and a new political era began under the leadership of Tun Abdul Razak. This took the Malay nationalist development programme proposed by Malay "ultras" like Dr Mahathir more seriously. The ruling political coalition was widened to co-opt some of the opposition parties and the Constitution was amended to allow wide-ranging authoritarian powers and to limit political freedoms.

Malaysia's NEP

In 1970 the New Economic Policy (NEP) was launched with the twin aims of "eradicating poverty irrespective of race" and "restructuring society to reduce an eventually eliminate the identification of race with economic function". The NEP policies set Malaysia apart as an ethnically redistributive developmental state, which uses capitalist economic growth to fulfil the political objective of giving the Malays (*Bumiputras*) their "place in the sun", as expressed by Mahathir Mohamed in his polemic tract, "*The Malay Dilemma*"(1970). The state assumed a high degree of executive dominance and gave itself widespread powers to contain and control dissent, while expanding its technocratic role, and creating and enlarging a number of powerful public bodies to enhance Malay participation in the economy.

Public development expenditure increased about tenfold between 1966 and 1981, with increasing proportions dedicated to corporate restructuring efforts (Jomo, 1986: 266) and

government employment doubled (Searle, 1999: 60). The most important aspects of the restructuring policy were Malay human resource development (i.e enhanced education, employment and promotion opportunities) and wealth redistribution to achieve 30% Malay ownership of corporate equity by 1990. Education spending increased significantly to become the largest item in government expenditure by the late 1980s, with a major bias towards tertiary education (Jomo, 1986: 266). This resulted in rapid progress in promoting Malay (Bumiputra) representation in key professions such as medicine, law, engineering, accountancy, architecture, veterinary science, surveying and dentistry (Jomo 1994: 12), but also involved somewhat inefficient investments in overseas tertiary education, leading to "brain drain" (Ismail Salleh and Meyanathan, 1993:25).

Since a Malay capitalist class had not yet emerged, state enterprises were the main vehicle for achieving the goals of the NEP. The state established Pernas, a corporate vehicle to indigenize key sectors starting with insurance and construction, then engineering, trading, real estate and securities. Pernas acquired controlling shares in domestic and foreign banking, mining and plantation corporations and was also involved in major technology joint ventures. Pernas divested 11 of its most profitable companies to another body Permodalan Nasional Berhad (PNB). PNB was established in 1981 to acquire corporate equity, to be sold on at cost to individual Malays through the National Unit Trust Scheme (Amanah Saham Nasional, ASN), with a guaranteed return to shareholders of 10% per annum. This was a "unique plan that…kept state managers in control of the companies, redistributed the profits to the wider Malay community and kept shares in Malay hands" (Searle, 1999: 63). By 1990, around 45% of eligible Malays owned ASN shares, however, the benefit was clearly to a small minority of richer Malays who held large amounts of shares. In addition to these schemes, the restructuring goals of the NEP were also furthered by the State Economic Development Corporations (SEDCs) and the Urban Development Authority (UDA) which provided incentives, capital and premises for Malay enterprises. The UDA also developed its own property conglomerate, Peremba, which became an important training ground for emerging Malay corporate capitalists (ibid. see also Gomez, 1994, Gomez and Jomo, 1997). Oil and gas revenues, as were the mobilization of institutional savings (e.g. The Armed Forces Savings fund, Pilgrims Savings Fund and Employees Provident Fund) were both important sources of finance and major players leveraging corporate restructuring after 1970.

The 1975 Industrial Coordination Act was a further vehicle for politically controlling the growth of Chinese business and promoting Malay capitalism. The ICA meant that all manufacturers with more than 25 employees had to be licensed and getting the license involved meeting the 30% Malay equity requirement. The Foreign Investment and Capital Issues Committees gained similar regulatory control over large firms investment and equity issues, enforcing the 30% equity redistribution to Malays. These licensing restrictions led to the development of "Ali-Baba" arrangements between nominal Malay licensees and Chinese capitalists (Means, 1991: 313)

For reasons analogous to the Irish openness to US capital, Malay economic nationalists were also very open towards foreign capital, seeing it as a sort of buffer against the

interests of domestic Chinese capitalists (Jesudason, 1989; Searle, 1999: 33). The growth of Malay economic nationalism did not completely alienate the indigenous Chinese sector or foreign capital. Free Trade Zones with a number of generous incentives were established in 1971 and foreign investors were granted export promotion incentives such as investment credits, tax exemptions, and credit subsidies (Ismail Salleh and Saha Devan Meyanathan: ix) as well as "one stop" administration services by the Malaysian Industrial Development Authority, MIDA (Ahn 2001: 429-30). The Malaysian Chinese capitalist response was first to establish similar vehicle to Pernas to consolidate Chinese political business in 1977, Multi Purpose Holdings (Mulpha). While Mulpha eventually failed in the late 1980s, other Chinese capitalists were able to form successful capitalist alliances with key Malay political capitalists. As a whole, Chinese capitalists did not decline under Malay economic nationalism, nor could they be simply considered "pariah entrepreneurs" who had to operate outside the political system. Instead, many prospered as Malay economic nationalism transformed into corporate capitalism (Khoo, 1999). Chinese capitalists adapted and formed new alliances within Malay-dominated political capitalism. According to Searle, "the most striking feature of the new Chinese groups were the extent to which their capital was integrated with Bumiputra capital and the interdependence of that relationship" (1999: 248). The analysis of Malaysian business groups shows that economic nationalist policies have actually resulted in an erosion of ethnic exclusivity and identity as shared capitalist goals and have built up an unorthodox, but vibrant and resilient amalgam of state and capital, ersatz rent seekers and genuinely innovative and productive capitalists.

Malaysia is idiosyncratic in implementing an ethnic growth pact designed to redistribute capitalist ownership and participation to the Malays, the politically dominant, but historically economically marginalized, ethnic group. This has led to a political-business complex dominated by the ruling party, UMNO and blurred the distinctions between business and politics (Gomez, 1994; Gomez and Jomo, 1997). Despite questions over the exact statistics, it appears to have largely achieved its ambitious goals to restructure corporate capitalism to benefit Malay business. In Searle's analysis, this has not led to straightforward corruption, if one could call that, even though it is certainly crony capitalism. While "predatory" rentier capitalists exist, he also notes the evolution of "transitional capitalists" and genuine, dynamic Malay entrepreneurs. Corporate capitalism in Malaysia depends on strong links to the ruling party, large borrowings and speculative investments which are dependent on high growth rates. Malaysia's ethnic policies have not only led to the development of a parasitic or dependent Malay capitalist class. While some individuals and groups have remained in the parasitic mode, others have evolved and developed beyond the networks of state and party patronage that initially sponsored them, to form genuinely developmental networks and promote genuinely adaptive and innovative activities.

Malaysia clearly differs from Ireland in being a larger and resource rich country, which has been able to develop a broader capitalist economy that relies on both inward investment from multinationals to develop manufactured exports, principally electronics, while also intensifying exports based on primary commodities and mining such as oil palm, petroleum, natural gas, timber, rubber and tin. Ireland is resource poor and its

developmental network state has focused on human capital formation and encouraging strategic innovation clusters, mainly in the IT and pharmaceutical sectors, with inward investment primarily from the US-based multinationals. It also benefits form long-standing and close political and cultural ties with the US, due to the long history of Irish emigration to the US.

Prelude to high growth – return to the market and regional incorporation

Both Malaysia and Ireland's economies have arguably been export-orientated since their incorporation into a transnationalised regional world order in the 19th century. The two economies are small and by both history and necessity very open and globalized, with both countries having more than their fair share of foreign direct investment. It is sometimes claimed that Ireland is the most globalized economy in the world and a test case for globalization (Smith, 2005:2).

The importance of regional arrangements to the development paths of both tiger economies problematizes the methodological nationalism of the developmental state approach. A comparison of emerging regional arrangements in Europe and Asia shows the impact of regional hegemonic and contender strategies on the success of the developmental state. The comparison of an European and an Asian tiger allows us to compare and contrast the role of Asian and European regional developmentalism. It might be expected that the European project has had a much stronger and more directive influence on Ireland's developmental policies, compared to the Japanese regional strategy and the somewhat weaker role of the Association of Southeast Asian Nations (ASEAN) in Malaysia's case. The role of the Japanese developmental state in promoting the "flying geese" model of regional industrialisation supported the rapid development of Malaysian manufacturing. Japan is a late-industrialising "contender state" leading the development of national industrial activity, but allowing its leading firms such as Toyota and Mitsubishi to create a regional socialisation of labour. National policies requiring technology transfer, local content quotas and local or regional linkages were not incompatible with the Japanese project of transnationalization, integrating production chains through the "flying geese" pattern of country development. Thus Malaysia being targeted for certain products like word processors and fax machines, Indonesia for plastics and textiles and so on (van der Pijl 2006: 308).

Ireland embarked upon an ambitious worldwide effort to attract US multinationals to locate offshore production when it joined the European Economic Community in 1973. Ireland offered free access to the European market as long as the activities produced value added within Europe. Ireland policies towards multinational were extremely liberal, including tax holidays, tariff exemptions for inputs and exports, tax-free repatriation of profits and no linkage requirements. O'Hearn points out that the Irish government's blind faith in foreign investment led it to favour the MNCs enormously with tax holidays, subsidised interest rates and capital grants. These attractive incentives, low regulation and a cheap, English –speaking labour force enabled Ireland to attract US multinationals, to produce soft drinks, computers, drugs and medical devices. However, "this ensemble of

policies paralleled the unstrategic protectionism of the 1930s insofar as general incentives were extended to attract a class of investors, without much attention to controlling or channelling their actual activities toward any long-term developmental purpose" (O'Hearn 2001: 142). O'Hearn convincingly explains that Ireland's developmental path was largely subject to its ability to "hook on" to outward movements of capital by the leading Atlantic power (op cit.:145). Unlike earlier British-led Atlantic hegemony, which had caused the effective de-industrialization of Ireland, dependence on US based transnationals resulted in a transformation of industry. However, while this led to export growth, it failed to replace the employment that it displaced or lead to genuine economic growth. Ireland's liberalisation led to the marginalisation and whittling-down of its indigenous industrial sector. While exports grew consistently from the 1960s to the 1990s, and foreign investment mainly continued to flow into Ireland, it failed to generate development in terms of employment creation or rising standards of living. In the 1980s, there was unprecedented economic stagnation as manufacturing employment actually declined, and per capita GNP failed to grow. Transnational operations were less labour intensive, and transferred the developmental effects outward.

1980s - Structural crisis, recovery and re-incorporation

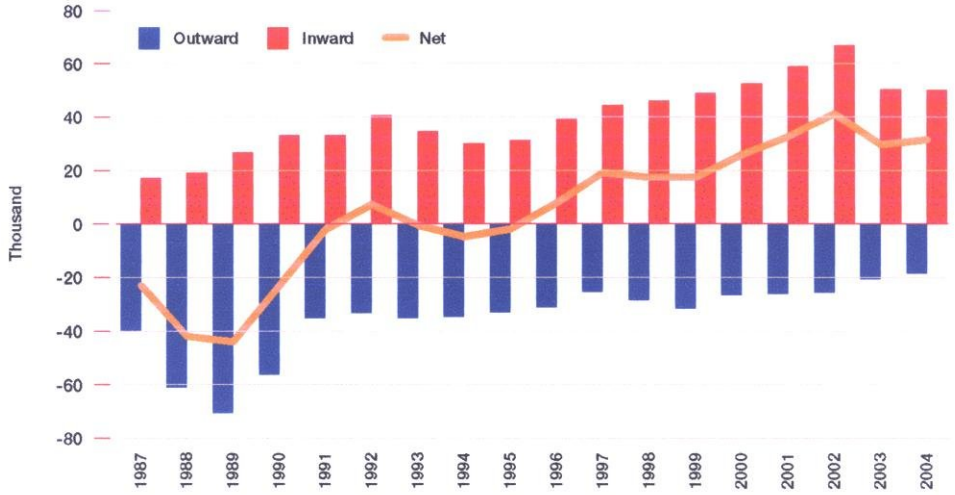
In the 1980s, both Malaysia and Ireland faced structural crises. Mahathir Mohamed became the Prime Minister of Malaysia in 1981 and led Malaysian development for more than two decades with a distinctive personal style and vision (Khoo, 1995). Mahathir had adopted "Look East" policies to emulate Japan and Korea's developmental state efforts. Heavy industrialization was promoted, including steel, automotive, paper products and petrochemical production by creating the Heavy Industries Corporation of Malaysia (HICOM). The flagship project was the Malaysian car, Proton, which was joint venture with Mitsubishi, though inefficiencies and insufficient demand rendered the project a loss-maker until the 1990s. The poor performance of HICOM was exacerbated by worsening macroeconomic conditions, declining terms of trade and fiscal deficits through the 1980s.

The Malaysian economy entered a recession in 1985/86, registering negative economic growth rates of around 5% for two years, while its imports bill increased and the balance of trade deteriorated. The economic downturn and its effects on highly leveraged political business conglomerates also gave rise to corruption scandals and political challenges that were met with increasing political repression, assault on democracy and a crackdown on civil society throughout the 1980s (Means 1991). Mahathir pushed Malaysia towards a phase of adjustment and liberalization from 1986 and many of the NEP requirements were relaxed or put in abeyance, and privatization was strongly promoted (Jomo, 1994). State expenditure was restrained and a new emphasis placed on growth and efficiency, with more generous incentives under the 1986 Promotion of Investments Act. Malaysia reduced outstanding public and private debt to manageable proportions and foreign borrowing was reduced in favour of foreign equity funding (somewhat reversing the restructuring of the 1970s and early 1980s). Domestic demand became more important when the economy recovered in 1987. The inflow of FDI into Malaysia in the late 1980s

differed markedly from that of the 1970s which had been dominated by Japanese and US FDI. In the late 1980s, a new wave of FDI started to come from Taiwan (Ismail Salleh and Shah Devan Meyanathan, 1993: 13). This investment followed the profile of Taiwanese development in targeting SME (small and medium sized enterprises) involved in electronics manufacture and components, with more backwards and forwards linkages.

In Ireland in the early 1980s, growth rates were low and negative and unemployment increased, reaching a historical high between 1985 (20%) and 1991 (21%). This led to around one in ten of the population emigrating between 1982 and 1993 (Courtney, cited in O'Hearn 2001: 159).

Fig: Irish net migration 1987-2004.

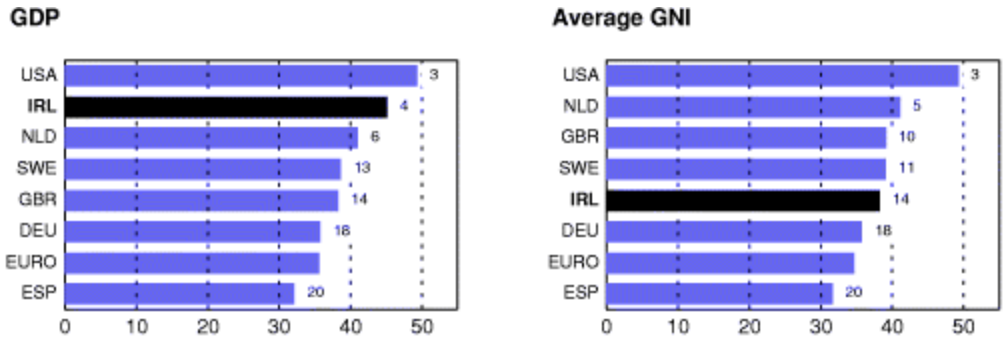


CSO, Population and Labour Force Projections

Source Forfás ACR 2005

After the period of stagnation from the mid 1960s and the end of the 1980s, the Irish economy grew faster than any other developed country. By 2004, Ireland had the fourth highest GDP in the world, though its GNI per capita ranking was just below average for an OECD economy. Ireland's GDP-GNI differential is mainly due to the practice of transfer pricing by multinational corporations (O'Hearn, 1998: pp79-82). With a low standard rate of corporation tax (12.5%) and even lower effective rate of 9.4% after exemptions, Ireland provided the cheapest tax regime in Europe, where corporation tax rates are typically 30%-40%. O'Hearn suggests that Irish GDP growth was "phantom growth" (1998:58-90), while Allen (1999) uses the example of the Coca Cola factory in Drogheda, which turned $400 million in profit, while employing only 200 workers. Allen is highly critical, arguing that this high profitability is not the result of extraordinary productivity, but the outcome of transfer pricing.

Box: Comparison of Ireland's GDP and GNI with selected OECD countries
Thousands of euros per capita, 2004; ranking shown out of 26 OECD countries



Source: OECD Economic Survey of Ireland, 2006

In Malaysia, economic recovery occurred after 1986 and a new phase of rapid growth and development was ushered in by Mahathir's Vision 2020, which envisaged that Malaysia would be a "fully developed nation" by the year 2020. The Malaysian economy grew at rapid rates of over 8% until the Asian Crisis of 1997-8. After two years of economic contraction, Malaysia's economy again recovered.

The Europeanization of Ireland

Joining the European project entailed Ireland's transformation from a nationalist, but incoherently protectionist to an extremely liberal free-market economic regime from the late 1950s onwards. Yet there were additional dimensions of Europeanization that counterbalanced this liberal market tendency with social market measures, support for agriculture, re-regulation and the introduction of new levels of administrative complexity. It is estimated that European level decision making influences around 60% of domestic legislation and all member states are subject to a process of Europeanization. While there is a debate on what Europeanization means exactly, fundamental processes of integration have developed, affecting policy, politics and polity (McGowan and Murphy, 2003: 183, 185). The European Economic Community treaty was first signed by six European governments, France, Germany, the Netherlands, Italy, Luxembourg and Belgium to create a common market in the 1950s. Ireland delayed joining until 1973 as it was tied to the United Kingdom. Europeanization has proceeded with a succession of treaties: the Single European Act (1987), the Maastricht Treaty (1997), the Amsterdam Treaty (1999) and the Nice Treaty (2003). These have established a single market with free movement for goods, services, capital and people as well as a supranational political system comprising the European Commission, European Parliament and European Courts. Since the 1990s it has been recognised that the rather top-down "Monnet method" of policy direction has been replaced by a more permeable system of inter-governmentalism.

Ireland's entry into the EEC was premised on maximising European budgetary support and strengthening the Common Agricultural Policy. Ireland has arguably occupied the

position of the "EU's favourite child" (McGowan and Murphy, 2003: 199). Though this status may have diminished with recent European enlargement, Ireland has been a pro-active supporter of European integration. Public opinion has been consistently pro-European on economic issues, although it tends to be Euro-sceptic on security policy. Ireland has been a significant net recipient of EU agricultural subsidies and typically defends the continuation of agricultural transfers. Irish farmers enjoyed increased prosperity under CAP provisions, which increased real agricultural prices by at least a third during the mid-1970s, and raised farmers purchasing power by more than 40% (Fitzgerald 2000: 114-5).

EU Structural Fund and cohesion fund grants provided the investment in infrastructure and rural development that would otherwise have been neglected, given the shortage of public funds and fiscal restraint of the 1980s. These EU grants counteracted the contractionary domestic policies of strict debt control and public spending cutbacks as the Irish state received transfers to the tune of around 20% GNP, mainly in the form of investments in infrastructure.

In late 1980s, the EU moved towards the idea of "Europe of the regions", giving priority to "less developed" regions. The emphasis is on integrated multi-sectoral development, partnership, participation and subsidiarity.
Community and area based schemes harnessed EU the structural funds to deal with unemployment and social exclusion. "Clearly, direct payments prevented widespread poverty among farming households" (O'Hara and Commins: 342). Thus EU funding created a new kind of politics which encouraged people to look both below and beyond the state (Laffan: 2000: 140). The plurality of EU mechanisms and subsidies enabled a wide range of concerns to be addressed through decentralized rural development, while promoting social inclusion and regional development (O'Hara and Commins, 2006).

EU structural and cohesion funding might also be interpreted as increasing embeddedness, while decreasing state autonomy since EU funds were being redirected towards more dispersed instead of more centralized goals.

European accession also enabled Ireland to resolve its major problem of social division and to move away from "two nations" sectarian thinking. Alternative identities were enabled by Ireland joining the European Community and the realization that the unresolved conflict in the North was in itself creating barriers to social progress. Europe has provided alternative 'post nationalist' values and identities to modernizers, that are more economistic, secular and more pluralist.

Developmental network states – social partnership and industrial transformation

O'Riain credits the institutional transformation of the Irish state with the emergence of **new state-society alliances**. The institutional embeddedness of the Irish state took the form of a much more wide-ranging social contract than that of an East Asian authoritarian developmental state. The state did not only strengthen its linkages to the

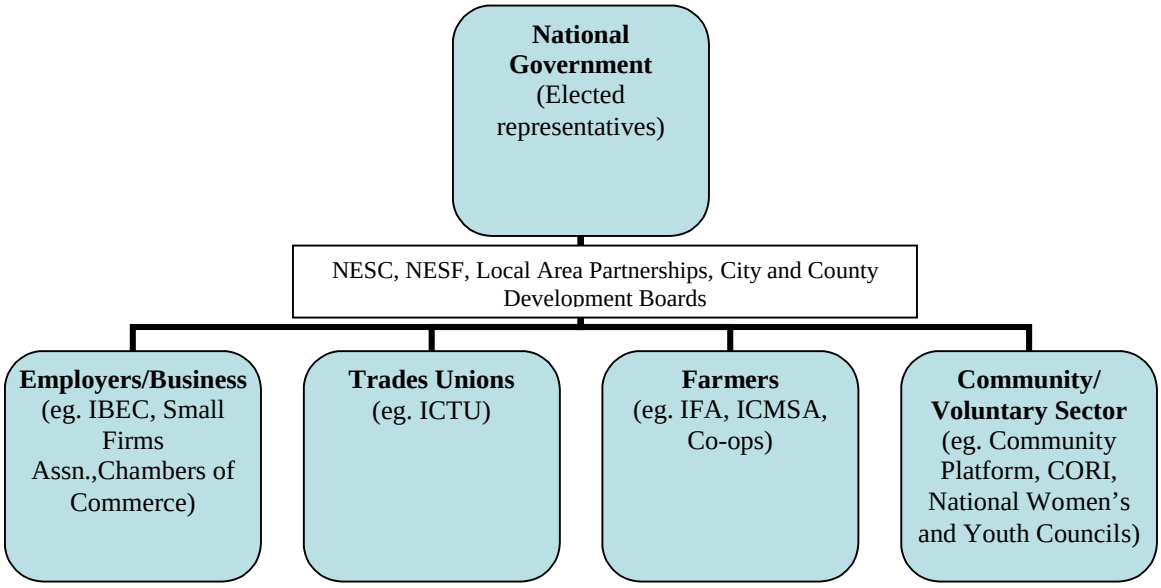
industrial sector, it also diversified its industrial development agencies, created new institutions of social partnership and deepened its connections to the European Union (O'Riain, 2004:10)

Following the arguments of Bob Brenner and Manuel Castells, O'Riain argues that the forces of globalization mean that states must now pursue a more flexible and decentralized model than that provided by a centrally negotiated national development coalition (2004:4). O'Riain suggests state developmentalism may take different forms and that the developmental network state (DNS) differs fundamentally from the developmental bureaucratic state (DBS) typified by the East Asian model. His study of Celtic Tiger Ireland provides a case-study of the DNS model and also a nuanced reading of the dilemmas involved in following such a model: "the multiple state-society alliances of the DNS lead to uneven development and internationalization of society with growing inequality, generating political tensions with which the fragmented state structure cannot deal effectively". O'Riain's conclusion is that the continued survival and prosperity of the DNS depends on the ability to socially re-regulate international, national and local institutions (8). The current political system and social contract, a dubious mix of neoliberalism and populism is always under the threat of the Polanyian paradox – markets are socio-political creations, but the freeing of markets creates the conditions whereby free markets destroy the institutions that support them (11).

Since 1987, the government of Ireland has managed many of the dilemmas of development using the model of **social partnership** to create a consensus about economic and social policies. It takes the form of a negotiated agreement, typically lasting three to five years. Social partnership in Ireland emerged in the 1980s as a response to crisis of debt and development. Three original 'pillars' - employers associations, Trades Unions and farmer associations formed an agreement with the government to deal with the problems of national debt, economic stagnation and high unemployment leading to mass emigration during the 1980s. In 1987 the first partnership programme, the Programme for National Recovery created a consensus for neo-liberal economic policies to cut social spending and limit wage rises in order to address the problem of debt.

In 1997 a new 'pillar' was added to bring the Community and Voluntary Sector into the consensus. The National Economic and Social Council and National Economic and Social Forum broaden out the participation in the consultation process, as do Local Area Partnerships and City and County Development Boards.

Fig: Irish Social Partnership Structure



There are contrasting views on Irish corporatism and social partnership, from the more traditional institutional perspective (Hardiman 2006) to left-critical views that see it as a form of co-optation into neo-liberal forms of market governance (O'Hearn 2001, Kirby 2002, Allen 2000), even to the point of being fundamentally anti-democratic (O'Cinneide 1998). Adshead (2006) points out that state-centred analysis is an insufficient framework for understanding social partnership processes, proposing instead a more complex set of categories on two axes: horizontal (community, voluntary and civil society participation civil society) and vertical (multi-level state governance) Despite numerous critiques and unfulfilled expectations, even critical voices (Larragy, 2006) find that social partnership has significantly moderated neoliberal policies by placing unemployment and marginalisation on the partnership agenda. Partnerships have encouraged localization of development, and 'democratic experimentalism' though the state and global financial flows have greater determining power than most of the groups.

Social transformation, poverty and exclusion in the developmental state

Malaysia and Ireland make interesting case-studies of developmental states because besides the ability to sustain economic growth and structural transformation, both states claim to have success in bringing about growth with improved equity and poverty reduction. This next section critically discusses these claims surrounding growth, poverty and exclusion, since they are at the centre of any analysis of social embeddedness.

The Irish economic commentator, journalist and television presenter David McWilliams has popularised the "Wonderbra economics" thesis that Irish development has led to greater equality and prosperity:

> *"The vast majority of us are climbing the social ladder at a rate not seen anywhere in Europe for the last forty years. We are now a middle-class nation….We have been condensed into the middle class at a rapid rate, as if a great designer has squashed the Irish population into the centre. But not only have we been squeezed together, we have experienced the social equivalent of the Wonderbra effect. We have been pressed into the middle and lifted up, allowing us to display our impressive material cleavage"* McWilliams, The Pope's Children 2005: 17

Yet at the very same time, other empirical data point in the other direction. The government's economic think tank, the ESRI finds that income and wage inequality has increased quite dramatically, suggesting that inequality increased during the Celtic Tiger era.

For Allen (1999) social partnership reflects a myth of a classless national community that is far from the reality in Ireland. The wage restraints put in place by the partnership process were offset by tax reductions. However he argues that the overall partnership arrangement works with the tax regime to benefit multinationals and the wealthy, putting an unfair burden on the majority of workers. The wealth created by productivity gains went disproportionately to the richest section of society in the form of profits, interest and rent. Wages, pensions and social security payments did not increase as fast as profits, so in relative terms, the majority of the population actually lost out. The social spending cuts in the 1980s led to the stunting of public services such as education, health, transport and housing. Even as the economy boomed in the 1990s, budgetary restraint lessened, but the lack of investment in public services had led to enduring problems of "infrastructure bottlenecks" such run-down and crowded schools, traffic jams, and long hospital waiting lists.

Table: Ireland: changing factor shares of non-agricultural income 1987-97

	1987(%)	1992(%)	1997(%)
Profits, interest, dividends, rent	31	36	41
Wages, pensions, social security	69	64	59

Source: CSO National Income and Expenditure, cited in Allen (1999:45)

The facts is that inequality has increased somewhat in the Celtic tiger, though absolute poverty and "vulnerability" have decreased. The less radical authors (e.g.Whelan et al. 2006) argue that inequality is not really a problem as long as the levels of absolute deprivation are falling. Wider social problems and issues have undoubtedly entered the partnership process since the end of the 1990s. Long-term unemployment and poverty have been highlighted to a greater extent in the more recent agreements and a wider range of members and interest groups have been included in the bargaining process

The Malaysian developmental state can be said to have substantially delivered on its promises of redistribution with growth in the 1980s and 1990s thanks to high economic growth rates. Malaysia's average annual GDP growth rate between 1970-80 was 7.6%. The growth rate slowed to 5.1% from 1981-85 and was almost nil in 1986-87. However, from 1987 a growth rate of almost 9% was maintained until 1997. The incidence of poverty declined from 49% in 1970 to about 11.1% in 1995. Access to higher education, especially through quotas and government scholarship schemes improved, particularly for Malays, enabling the fast rise of Malays into the professional, technical and managerial sectors. The Malay share of corporate equity rose from 1.5% in 1969 to 20.5% in 1995. And 'there is no disputing that a multi-ethnic middle class of substantial size has emerged' (Loh, 2002; 42, citing Abdul Rahman 1995 and others).

> "Ironically the NEP which was an ethnic-based affirmative action policy, facilitated the transition from the discourse of ethnicism to the discourse of developmentalism. For the new bumiputera middle and business classes developed an appreciation not only of the NEP developmentalist (interventionist) state, they began to valorize the sustained economic growth upon which the success of the NEP was predicated as well. This there was not too much cause for alarm when the government, in a bid to stimulate the economy after the short and severe recession of the mid-1980s, began to deregulate the economy and introduce privatization policies. Indeed this turn to the market led to the consolidation of that earlier phase of growth and to further expansion of the middle and business classes, both *bumiputera* as well as non-*bumiputera*. (Loh 2002: 42)

In Malaysia, the problem of inequality has been defined as an inter-ethnic problem. Malaysia has shown a good record of poverty reduction, from 49% described as officially poor in 1970, to just over 5% in 2000, though again the focus is on absolute poverty, rather than inequality. This is an impressive developmental achievement, however the government has lagged behind on implementation of poverty reduction policies, compared to its efforts in corporate ethnic restructuring (see Jomo 1997, Henderson et al 2002). Development appears to have become increasing uneven, with rural-urban disparities increasing. Inequality increased in the 1950s to 1970s, decreased in the 1980s and increased again in the 1990s. Inequality is worse within ethnic groups than across the groups, with Malays having the worst levels (Henderson et al: 3). Poverty is a "sensitive issue" in Malaysian politics and there is a relative absence of data and a lack of a clear understanding of poverty, at least partly due to a "politics of poverty information". Despite overt policy goals and an effective and interventionist state, policy formulation seems dissociated from the poor (op.cit: 13). It is arguable that Malaysia's good performance on poverty reduction is more due to full employment and rising wages than to the government's policies to eradicate poverty under NEP and NDP. Institutional weakness in dealing with poverty and the lack of a robust civil society (due to authoritarianism) are major challenges to economic governance in relation to the poor.

Comparative tigerhood and developmental state theory

The comparative approach tries to uncover the keys to success or failure in driving economic transformation by comparing countries with varying records of developmental success. The developmental state thesis attributes tiger performance to judicious state intervention, and the presence of socio-political institutions that are both capable and effective at directing economic growth. Developmental state theory is typically used to describe the experiences of "late industrialisers". While the classic cases are east Asian, developmental state theory has also been applied to Austria and Finland which have state-led corporatist arrangements instead of the ideal-typical one-party Asian state (Vartianen 1999). It has been applied to France, since it has an elite bureaucracy with "good connections and interventionist tools" to do state economic planning and public industrial policy (Loriaux, 1999: 240-1) and Ireland (O'Hearn, 1998, Kirby 2005)

Developmental states such as Japan, South Korea, Taiwan, and Singapore are usually contrasted against "ineffective", "corrupt", "predatory" or "parasitic" states, such as Zaire or Nigeria. Semi developmental states such as India or Brazil are considered uneven performers and are placed somewhere imbetween (Evans, 1995; Kohli, 2004). Kohli trichotomy of ideal types – neopatrimonial, cohesive capitalist and fragmented multiclass states, corresponds to the predatory, developmental and imbetween categories. These theories are strongly rooted in the dualistic tradition of modernization theory, where cause and effect are circular. Predatory states are thus because their extractive behaviour undercuts capital accumulation. This predatory behaviour is explained as the result of personal ties taking precedence over collective goals, which represents a failure of "bureaucratic rationality".

Developmental states are thought to possess bureaucracies with a strong sense of corporate coherence, which Evans calls "autonomy". Evans suggests that developmental bureaucracies are "embedded" in society through political negotiation. He defends the developmental states against the darker side of Weber's bureaucratization thesis, the "iron cage of bureaucracy" by suggesting that they are capable at resolving collective action problems and "add value" to state decisions through political negotiation:

> *'The internal organization of developmental states comes much closer to approximating a Weberian bureaucracy. Highly selective meritocratic recruitment and long-term career rewards create commitment and a sense of corporate coherence. Corporate coherence gives these apparatuses a certain kind of "autonomy". They are not, however, insulated from society as Weber suggested they should be. To the contrary, they are embedded in a concrete set of social ties that binds the state to society and provides institutional channels for the continual negotiation and renegotiation of goals and policies. Either side of the combination by itself would not work. A state that was only autonomous would lack both sources of intelligence and the ability to rely on decentralized private implementation. Dense connecting networks without a robust internal structure would leave the state incapable of resolving "collective action" problems, of transcending the individual interests of its private counterparts. Only when*

embeddedness and autonomy are joined together can a state be called developmental (1995:12).

Both Ireland and Malaysia can be seen as developmental or cohesive capitalist states that have practised judicious state intervention at some points, but state intervention at other points seems to have been quite injudicious, even harmful to some fractions of domestic capital. Neopatrimonial behaviour in the case of Malaysia is highly bureaucratised. It does not seem to run conclusively counter to effective capitalist development. The "embeddedness" of the bureaucratic-developmental alliance is channelled through ethinc political bargaining in Malaysia, and through the social partnership process in Ireland.

Chang (1999) outlines some of the necessary functions of the developmental state: centralized coordination, including planning and promotional activities such as the provision of financial incentives, a "vision" that mobilises development, construction of new institutional vehicles, and a governance structure capable of managing conflicts. The developmental state must be able to "…create and regulate the economic and political relationships that can support sustained industrialization" and it must take long term growth seriously, politically managing the economy to ease the conflicts inevitable during a process of such change and engaging in institutional adaptation and innovation to achieve those goals" (in Woo-Cumings, 1999: 29)

The problem of authoritarianism

Developmental states have to be either especially consensual or authoritarian since they need to be able to co-opt or suppress the demands of conservative interests that might block change, (e.g. Myrdal 1968), while controlling the redistributive demands of labour and other social groups.

The darker side of the theory of the developmental state lies in the possibility that a direct causal connection exists between the state's developmental character and the degree of authoritarianism exercised by that state. Developmental state models "come dangerously close to a defence of fascism" (Johnson,1999). While Johnson denies that there is a **necessary** connection between authoritarianism and the developmental state, he notes that

> *"authoritarianism can **inadvertently** solve the main political problem of economic development using market forces – namely how to mobilize the overwhelming majority of the population to work and sacrifice for developmental projects. An authoritarian government can achieve this mobilization artificially and temporarily, but it is also likely to misuse this mobilization, thereby making it harder to achieve in the future" (53, my emphasis)*

Woo-Cumings contrasts the developmental state model against the model of European social democracy: 'Unlike the northern European welfare states, the protective gaze [of the developmental state] has never been downward, toward the downtrodden, but upward toward the privileged, to help big business compete more vigorously in the global marketplace. (1999: 30)

Meanwhile Evans notes that his own formulation of embedded autonomy is partial and potentially politically unstable precisely because it is partial. Even the "successful" case of Korea may have undercut its own political foundations and will require the reconstruction of state-society relations

> *In the original formulation, embedded autonomy implied dense links not with society in general, but specifically with industrial capital. From the point of view of other social groups, it was an exclusionary arrangement. Could embeddedness be built around ties to multiple social groups? Comparative evidence shows that sometimes it can be. One way of reconstructing state-society relations would be to include links with other sectors of society such as labour, the agrarian sector, or consider the model of European social democracy. This would yield a broader based embeddedness that would be more robust in the long run (1995:17).*

The specifics of social embeddedness in Ireland and Malaysia have led to fundamental questions about both the inclusiveness and the durability of the developmental state. The state must manage globalization and adapt its nationalist politics and policies in order to maintain economic growth, but also social cohesion.

Regional forces have historically played a very significant developmental role in Ireland's case, but its regional position is changing as it has made the transition from being a poor beneficiary to a rich member state in the new and much enlarged Europe. In Malaysia's case, the question is whether the ethnic redistribution model can continue to fit with globalization and growth.

Malaysia confounds the modernization thesis that democracy advances with development. In fact, its period of high economic growth has coincided with a transition **from** democracy. For some observers this represented the rise to prominence of a specifically "Asian" developmental alternative which might even function as an alternative for western thinking – "..a kind of winning combination of economic dynamism, political stability, social discipline, social conservatism which the 'west' needed to arrest its 'decline' or to achieve economic prosperity without disharmony' (Rodan 1996 cited in Loh and Khoo 2002: 3).

From the neoclassical straw man to contested development

At a CAPORDE session in 2006, John Toye described development as a "conative" or **intentional** process of striving and trying. What are the means and ends of development? Developmental state theory mainly assumes that 'development' is synonymous with economic growth and industrial transformation. I suggest that we could alternatively begin by considering 'development' as an **emergent** and **contested** concept – in the cases of Ireland and Malaysia, the creation of employment and of a Malay commercial and industrial class might be seen as the driving development goals. The choice of cases here is meant to suggest that it can be fruitful not to separate the "developed" from the

“developing”. The problems of growth, structural change and transformation apply equally to the ongoing structural transformation and socio-political constitution of the so-called ‘developed’ countries in the face of the challenges of globalization.

Cumings (1999:63) is critical of Orientalist analyses that set the Asian developmental states apart. Like Chang and Reinert (2007), Cumings sees the developmental state as a variant of an European continental tradition of state-directed development. States differ in their “capacities” have sometimes have a (difficult to specify) “autonomy”. Cumings notes the fundamental theoretical problem involved in separating state and social structures and in specifying the extent to which and the conditions under which state preferences are autonomous, since the social contract or “reciprocal consent” is often assumed, but not explained. He is right in asserting that the Orientalist trope underlies this lack of questioning. In order to escape the Orientalist trope, we must relocate the debate about the developmental state within the broader debate about the links between development and democracy and specifically, the social contract and the nature of citizenship.

In much of the developmental state literature, the argument is somewhat circular and it is always couched in terms of development and never democracy: what distinguishes a developmental state is a high and sustained economic growth rate and high growth rates are taken as proof of the state’s developmental character. Yet ultimately, development must be concerned with the **connection** between economic improvement and social progress, however, the “policy lessons” have mainly focused on trying to explain economic growth in relation to industrial transformation. There appears to be somewhat less interest in the connection to social progress, and to understanding forms of social progress in themselves, let alone the political form of consent or conflict management.

The “state” represents the historical crystallization of diverse social and political forces. The exact nature of state autonomy and social embeddedness varies a great deal across different cases and across time. A dualist classification of state institutions and policies into “good/ developmental” versus “bad/non-non-developmental” has only limited analytical power. It begs a deeper analysis of the specific economic, political and social drivers of developmental policies, as well as their impacts, especially in terms of social and economic inclusion and exclusion of advantaged and disadvantaged classes and ethnic groups.

Even within the European model, we could see a stylized contrast between two different models for a high income society like Ireland - the “**Atlantic model**” and the “**European social model**”. These two models present different conceptions of citizenship and the contrast between them parallels the choice between *Boston or Berlin?”*.

The “**Atlantic model**” of development is characterized by lower degrees of government intervention, low taxation and privatization of social provision. This model is associated with higher levels of income, but with higher social inequality found in the USA, and to a lesser degree in the UK.

> "The simplest difference between the USA and Europe is that we have welfare states. They do not. Citizenship in Europe includes **social citizenship**, i.e. that cluster of rights to education, health, social security that have been traditionally justified as necessary in order to make political citizenship a reality. Such rights can be justified as end in themselves, or as necessary preconditions for effective political citizenship. They are however, rights with the implication that they cannot be taken away and they are therefore enforceable"
>
> *James Wickham (2002)'The End of the European Social Model Before it Began'*

Wickham writes that the 'density of rights and obligations in Europe means that Europeans are of necessity more entangled in the state than Americans' (2002: 3). He explains that citizenship within the European social model produces more entitlements, however these entitlements are balanced with duties and obligations - for example the right to social welfare is usually tied to the obligation to look for work. People who are out of work are better treated in the European social model than the Atlantic model, which has lower wages and uses relatively harsh "workfare" programmes to reduce unemployment. The contrast between these two models is of course an oversimplification. There are many varieties of arrangements. While it is associated with the Atlantic model, the UK has a comprehensive National Health Service, which all citizens are entitled to use. The Scandinavian social democratic model is highly egalitarian and uses high taxation to fund relatively comprehensive and high quality social services. The German corporatist model employs the method of "co-determination" to give workers a substantial say in economic decisions affecting them.

Developmental state theory holds that state interests are not reducible to either class or politics ("party"). The state is seen as having force in its own right and the nature of this force varies according to the state's particular "capacities". However, the nature of those capacities appears in most of the analysis to be a black box. The assertion that the state just somehow "represents" social relations is a somewhat hollow characterisation of political processes and forms, and, as Cumings notes, a truism. Attempts to "bring the state back in" to development theory merely drag in a black box without checking inside (cf Cumings 1999: 62,65). A web with no spider is the "one grand amalgam" of state, society and culture, an enveloping natural phenomenon and an inescapable force (69). It is not clear about where state structures leave off and social structures begin – the politics of consent is not comprehensible – we can't even see the web (1999: 65). Cumings is scathing about the literature that renders the politics of East Asian states inscrutable, yet so thoroughly different, thus avoiding proper comparisons about power and politics. This is undoubtedly a variety of Orientalism, and one that conveniently avoids the fact that the state is the result of class and interest group conflict.

Malaysia does not conform to the Asian Tiger template for a number of reasons. It is far less culturally and politically homogenous than Taiwan or Korea. The dominant political force in the twentieth century was ethnicism. From 1957- 1069 this was politically institutionalised as consociationalism – ethnic elite bargaining, but this broke down after riots in 1969. An effective coup by the Malay nationalist "young turks" replaced

consociationalism with Malay pre-eminence under the ruling party UMNO. The Mahathirist period of the 1980s saw this ethnicism begin to moderated by the demands of corporate capitalism (Khoo 1999), and this led to the increasing predominance of utilitarian goals and the instrumental "politics of developmentalism" in the 1990s (Loh and Khoo 2002: 20), as well as a struggle to co-opt and control the rising popular power of Islamism. Ethnic and cultural liberalization accompanied globalization and privatization and the end of the 1990s saw the rise of a multi-ethnic oppositional coalition, the Barisan Alternatif (ibid.).Francis Loh (in Loh and Khoo 2002: 19-50) contends that developmentalism emerged in Malaysia as the cultural consequence of the dirigiste developmental state.

Loh notes the parallel development of dirigiste developmental states and the growth of individualism and mass consumerism which correspond to a form of "privatized freedom". The concept of the political stakeholder is displaced by the consumer and corporate shareholder, the latter demonstrable by the rapid growth of the Kuala Lumpur Stock exchange and the increasing involvement of Malaysian citizens of all ethnic and class backgrounds in the stock market. The Malaysian mass-media are both politically influenced and self-censoring, but also highly commercial and 'have become virtual organs of the government on the one hand, and of advertising copy on the other' (Loh 47-8). Protests are mainly about individual consumer well-being – such as hikes in road tolls, electricity or telephone charges. There is little sustained political support for campaigns against political scandals and corruption, human rights abuses or media control. (49)

Processual theories of recombinant governance

It is fairly obvious that the developmental state thesis cannot yield a one-size fits all theory of the state, since the countries that provided the original model differed so widely in their structures and strategies of governance. Their institutional and structural properties were very heterogenous and the nature of state-society relations also differed (cf Pempel 1999: 149). Pempel's contrast of Japan, Taiwan and Korea show that while all three could be said to possess strong states, the specific structural underpinnings of that strength were disparate. Furthermore, they possessed quite different financial structures and employed different state strategies. That should not be surprising since they were quite different sorts of states, differing in political constitution and orientation and in size. From the Malaysian perspective, the authors of the "Lessons of East Asia" policy paper for the World Bank (Ismail Salleh and Saha Devan Meyanathan, 1993) concluded that there is no uniform East Asian model for economic success. The tentative "lessons" that emerged from comparative analysis were that that policymaking should be pragmatic, non-ideological and reversible and that important institutional features seemed to include leadership, the role of the state and the nature of the bureaucracy.

A more dynamic and processual view of the state is provided by neo-institutional theory of "recombinant governance" (Crouch 2005), theories of the state as an adaptive process that sees the role of the bureaucratic elite within the specifics of context. Hayward and MacCarthaigh (2007) similarly apply a "recycling" model of political adaptation to the Irish state: '[T]he endurance of the state arises from its inherently adaptive nature…the

importance of context, the role of the governmental elite and the significance of processes rather than institutions or structures in politics places this model in a broadly constructivist framework. In [the recycling model of political adaptation], the state embodies continual processes of 'recycling' in which history, present and future merge in both ideational and pragmatic terms. These processes encompass three areas of statehood: definition, representation and participation. (Hayward, 2007: 6, 8-9). O'Riain's account of the Celtic Tiger is a "flexible developmental state" or "developmental network state" and Searle's characterisation of Malaysian capitalism and the evolution of Malay and Chinese capitalists as somewhere between ersatz and genuinely both differ from the East Asian archetypal bureaucratic developmental state or predatory neopatrimonial states.

A meso level political economy approach such as regulation theory may provide some assistance. Jessop, a key regulation theorist, characterises the state as "a sum of a number of relational strategies" (or in other words a Gramscian field of hegemony and counter-hegemony). Regulation theory fails to satisfy Cumings but as a heuristic approach, such meso-level approach allows us to look at and compare the state as both an arena of, and the result of, class and interest group conflict. Regulation theory looks at a wide range of institutional factors and social forces directly or indirectly involved in capitalist development. Regulation theory studies the economy in an inclusive sense (or integral in a Gramscian sense: xvii), integrating political economy with an analysis of civil society and it is interested in things like collective identities, shared visions and values, norms and conventions, and ways of working such as networks, procedures and modes of calculation (Jessop 2001: xi, xv). Another benefit of this broad school of thought is the attention paid to the articulation of national with international and transnational forces, structures and processes (eg Overbeek 2000, van der Pijl, 1984). There are also similarities with the critical international political economy approach to globalization (eg Cox, 1987)

Conclusion: Global Challenges

The two case-studies considered in this paper, Ireland and Malaysia, represent examples of successful industrial transformation, growth and in some ways genuinely broad-based social transformation since the 1960s. However, they are also both very open, highly globalized economies and that openness is a source of risk and vulnerability, placing definite limits on the nationalist model for economic growth. The Asian Crisis of late 1997 reversed a decade of high economic growth for the East Asian economies, including Malaysia. Although Malaysia's economy recovered after two years, the crisis has led to a more general questioning about the sustainability of the development model. In Ireland, pundits are noting that the "curtain may be falling" on Ireland's boom as foreign direct investment has declined, and the annual growth rate has slowed to a forecast of 3% in 2008 (Tansey, 2007).

The difficult questions that arise for the developmental state are those that surround the regional and global constraints as well as the distributional and socio-political implications of the developmental state. In both Malaysia and Ireland, inequality has

grown between social classes, though education has expanded in a fairly inclusive manner and absolute poverty has been significantly reduced. While there are arguments that all have benefited in the "tiger economies" driven by the developmental state, significant regional and social disparities remain both country cases, accompanied by concerns about the nature of social exclusion and the effectiveness of governance.

Unlike the European Union, the flying geese arrangement was not really analogous in political or economic depth to the process of institutionalised regional integration represented by the European project and the model presents less promise as a socially of politically cohesive development project. In any case, as van der Pijl (2006) explains, the flying geese pattern of Japanese investment and technology transfer was scattered by the Asian crisis of 1997-8. This represented a switching point when "Western capital was allowed to breach the barriers imposed by state-monitored economies of the Japanese type (van der Pijl 2006: 308).

In the Malaysian case, Chinese capital plays a complex role that will become greater as China continues to expand as the new workshop of the world. Economic development in Malaysia has always been underpinned to some degree by flexible glocal networks of Chinese capital. The rise of China as a global power, has refocused attention on the real and potential role of transnational Chinese capital, which can both complement and detract from national developmentalist strategies. The balance of national and regional interests becomes more complex in a globalized scenario, and especially so in the more open economies. The exclusion of the poor and the demands of the growing middle class put pressures on the programme of economic development as a nationalist project.
The global crisis of overproduction, underpinned by low wages and export success of the Asian economies, most especially China, "a big goose somewhere in the middle, struggling to move up in the flight" (van der Pijl, 2006: 318) is also a major challenge and will plays a major part in determining the choices of the smaller geese like Malaysia.

The financialization of the world economy has led to new risks of instability and to a new rivalry between productive and speculative activities. The liberalization of lending in the 1980s led to the rise of financial speculation as a rival capitalist activity to manufacturing. This was one of the reasons for the Asian Crisis. Malaysia was extremely successful in attracting investment, but in the 1990s, money was not invested so much in export industries, but in property speculation and the buildup of an asset bubble. Real estate soaked up 25-40% of bank lending and when Western lenders became uneasy about the levels of indebtedness, they withdrew capital, causing the Asian crisis.

The sustainability of rapid growth trajectory is a key concern. Both countries have adopted market-oriented solutions based on foreign investment. The major question is whether economic transformation can continue. In the case of Ireland, some indigenous industries, especially the software sector and cultural industries grew and deepened, becoming more sophisticated and internationally competitive (O'Riain, 2004: 9; Low, 2005) and both countries are orienting themselves towards becoming knowledge economies.

Table 1 Comparative statistics Ireland and Malaysia

	Ireland	Malaysia
Population 2006	4.2 million	26.6 million
GDP per capita (US$PPP,2004)	38,827	10,276
GNI per capita 2001 2006	23,030 45,580	3,460 5,490
Av. Annual GDP growth	(1990-99) 6.9% (2001-6) 5.3%	(1990-97) (2001-6) 4.7%
HDI score/ranking 2004	0.956/ 4 (1975: 0.813)	0.805/ 61 (1975: 0.616)
%Population below national poverty line/ regional average	7% ('consistent poverty') 2005 (EU average 16%)	5.1% (2002 est.)
Inequality –Gini index	34.3	49.2
Social welfare expenditure (%GDP)	10.2%	2.9%
Health expenditure %GDP 2003	Public 5.8% Private 1.5%	Public 2.2%, private 1.6%
Education expenditure 2002-4 %GDP	4.3%	8.0%
Highest tax rate corporate	13%	28%
Highest tax rate income	42%	28%
Corruption TI score	7.4	5.0
Corruption TI overall ranking	18	44
Corruption TI regional ranking	12	10
Military spending (est. 2005)	0.9%	2.3%
Manufactures Exports (%, 2004)	86	76
High-tech exports (% 2004)	34	55

Sources: World Development Indicators 2006, Transparency International, UNDP Human Development Report 2006, Combat Poverty Agency, CIA World Factbook, Department of Statistics Malaysia, Central Statistics Organisation Ireland

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