PATRON-CLIENT NETWORKS AND THE ECONOMIC EFFECTS OF CORRUPTION IN ASIA

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Published in *European Journal of Development Research* June 1998 **10 (1)**: 15-39.

Abstract

Corruption is likely to be widespread during the early stages of capitalist development when capitalists enjoy low legitimacy and states face excess demand for the rights and resources they allocate. Yet the economic effects of corruption have differed greatly across Asian countries. The paper argues that the differential economic performance of developers is related to the types of patron-client networks within which their corruption has been located. The type of patron-client network determines the types of rights exchanged through corruption and the terms of these exchanges. The article compares patron-client networks in the Indian subcontinent, Malaysia, Thailand and South Korea. Such an examination helps to explain why in some countries corruption has attended rapid growth while in others it has implied transfers which are very damaging for growth. This provides a more nuanced understanding of the causes and effects of corruption which must precede the construction of appropriate institutional and political responses.

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Corruption has been associated with very different economic effects across Asian countries. In some North East Asian countries such as South Korea, widespread corruption has accompanied decades of very high growth. In others, such as the South Asian countries of the Indian subcontinent, corruption has been associated with relatively low growth. In a third group of countries in South East Asia, high levels of corruption have been associated with moderately high long-run growth rates. These differences could be the result of differences in underlying rates of growth. On the other hand they could also be the result of corruption having *differential* effects across countries (while their underlying growth rates can, of course, vary as well). Economic theory has identified a number of factors which could explain differences in the economic effects of corruption. However economic explanations have given little attention to differences in the political power of the groups competing for resources allocated by the state. This paper argues that the distribution of political power is revealed in differences in the structure of patron-client networks across countries and these can be important for explaining the differential effects of corruption. The bargaining power of patrons and clients can explain differences in the rights and resources which they exchange (often in corrupt transactions). This in turn can contribute to our understanding of the differential effects of corruption. We will examine the patron-client networks linking states and competing groups of clients in the Indian subcontinent, Malaysia, Thailand and South Korea and investigate the ways in which the structure of these networks can determine the economic effects associated with corruption in those countries.

Section 1 explains the structural pressures resulting in significant degrees of corruption in virtually every developing country. One reason why it has been difficult to allocate resources in developing countries in ways which are always strictly legal is that for a wide range of critical rights any state allocation would be perceived to be illegitimate. Economic development is characterised by the creation of new wealth-owning classes. The rights which underpin the emergence of these classes are by definition new and not widely perceived to be legitimate. The underlying problem of course is that in developing countries the result of these early developmental allocations are widely and correctly perceived to have consequences for generations to come when new classes stabilise. As a result many decisions made by states concerning the allocation of these critical rights cannot easily be made through strictly legal frameworks simply because a transparent allocative rule is often impossible to agree on. Thus even in countries where rapid growth takes place, there has been a tendency for state allocations to be not fully exposed to public scrutiny and so susceptible to corruption. The interesting question is why some countries were more effective in generating growth despite these problems while in others wealth was transferred

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to relatively unproductive groups. Section 2 summarises a number of explanation offered by economists and develops one which has not received much attention: the relative political power of the different groups of clients demanding rights (and resources) from patrons in the state.

Section 3 compares several key differences in the patron-client networks in a number of Asian countries to show how differences in the distribution of power implicit in these networks may explain differences in the types of rights created and allocated by the state and thereby differences in their economic performance. In the South Asian countries of the Indian subcontinent, the patron-client networks reveal the substantial political power of clients from intermediate "non-capitalist" classes. Attempts to accommodate the demands of these intermediate classes has resulted in interlocked patron-client transactions involving bureaucrats and politicians on the one hand and capitalists and non-capitalist clients on the other. These interlocked exchanges have meant that the rights created or allocated by the state became locked into enmeshed networks and were not easy to subsequently re-allocate. This in turn resulted in structural sclerosis. In contrast, in South Korea, patron-client exchanges were almost entirely insulated from the demands of intermediate classes because of the historical weakness of intermediate classes in that country. Politicians and through them the bureaucrats allocating new rights to capitalists could extract substantial payoffs from industrial groups. But here the networks through which these exchanges were organised allowed the re-allocation of these rights. This in turn created strong incentives for the state to re-allocate rights and resources in ways which maximised long-run growth.

South-East Asian countries present a number of interesting variants which in different ways resulted in more dynamic economies than in South Asia despite the presence of large intermediate classes and more complex patterns of patron-client exchanges than in South Korea. Malaysia inherited a large class of individuals whose demands could potentially have resulted in patron-client exchanges of the Indian variety. However, in Malaysia the clear ethnic division between intermediate classes who were largely Malay and a capitalist class which was initially largely Chinese paradoxically allowed the construction of a structure of patron-client exchanges which allowed fairly rapid growth. Instead of many decentralised patron-client exchanges between many different patrons and groups of clients, the ethnic redistribution adopted by the New Economic Policy in the seventies allowed a centralised sharing of rents in Malaysia. This served to prevent structural sclerosis from developing along Indian lines.

Thailand provides yet another South-East Asian variant. Here Chinese capitalists were well-integrated into local political elites and an ethnic-based patronage politics along Malaysian lines did not emerge. Instead, the relatively well developed capitalist class took over patronage networks themselves. They became the patrons "buying off" the demands of potential clients from amongst the aspiring intermediate classes and using this political power to bargain for resource allocation to their particular faction. The role of capitalists in Thai politics is apparent in the exceptionally large number of capitalists (by developing country standards) involved in Thai electoral politics. Here we have yet another structure of patron-client exchanges which allowed a relatively decentralised type of capitalism to thrive. These explorations suggest how the location of corrupt transactions within specific structures of patron-client exchanges can help to make sense of differential economic performance.

It may be utopian to believe that the transition to capitalism can be entirely just. Yet unless the transition process is widely perceived to be just, it is difficult for it to be organised in a legally regulated way in an open polity. External pressure to tackle corruption may help development only if such pressure contributes to the legitimisation of the processes through which capitalism is being created. On the other hand, it is very likely that anti-corruption strategies may sometimes make the problem of organising internal political stability more difficult during processes of capitalist transition which could in turn prolong instability and the perpetuation of underdevelopment. The issue of corruption thus brings to the fore the limits of attempts to establish high standards of justice in the transition to capitalism in the absence of any global political commitment to equitably share the costs of structural change.

1. Corruption in Developing Countries

It is not very useful to quibble over formal definitions of corruption. Most usually corruption is defined as the violation of the formal rules governing the allocation of public resources by officials in response to offers of financial gain or political support [Nye 1967, Khan 1996b]. However it is defined, corruption appears to be endemic in developing countries and indeed there are systematic reasons why this should be the case. Accumulation and the allocation of public resources in developing countries very frequently involves changes in established property rights and institutions or the creation of entirely new ones. To put it simply, the state is allocating rights and resources at a time when a new capitalist class is emerging. Given the long-run and even inter-generational consequences of these allocations, there are huge incentives to dispute, contest and attempt to change all such allocations.

For these processes *not* to involve corruption, the allocation and creation of these new rights would have to follow strict rules so that particular individuals could not change these allocations by bribing. The problem is that any such rules would themselves have to be publicly set up. Given the post-colonial political settlement in most developing countries, it is unlikely that explicit rules which aim to create new capitalist classes could be set up in such a way as to enjoy widespread legitimacy. If we recognise that what is happening in developing countries is the creation of new classes by the allocation and stabilisation of new rights, it is easy to appreciate the substantial difficulties in following a transparent and accountable route to the construction of capitalism even if developing country leaders had always been minded to follow such a route.

Suppose we were to try to construct a set of transparent and legitimate rules through which capitalist property rights were to be created. On the one hand, the *supply* of the resources through which the emergence of the new class is being encouraged is severely limited in developing countries. This is a manifestation of underdevelopment and poverty. On the other hand, there is likely to be a very great *demand* for access to these resources so that particular individuals can join this emerging class. Anti-colonial struggles mobilised large multi-class populist alliances in many developing countries and post-colonial states could not explicitly formulate rules of allocation which appeared to leave any of these groups out of the contest. Constitutions and laws enshrined principles of allocation which were egalitarian and fair at a time when underlying resource constraints made following such principles extremely difficult. The large gap between demand and supply has often meant that the actual allocation of property rights often failed the principles of allocation which the law set out. Very great incentives were created for corruption. This was as true for the allocation of land, credit or licenses to emerging industrialists as for the allocation of irrigation water or credit to emerging capitalist farmers.

The contest over public resources is particularly severe because the early beneficiaries of these contests are winners in a game of class evolution which is likely to have consequences for generations to come. In many cases, the individuals who succeed in establishing themselves at this critical stage only do so as a result of a great deal of good fortune, political connections, some initial wealth or corruption. None of these characteristics can legitimise the large differences in income and wealth which subsequently emerge. Given the inherent unfairness involved in these processes it has been relatively easy to organise opposition to these characteristics of the development processes in most developing countries. Opposition has typically been organised by members of emerging middle class groups who have been left behind in the development process and is therefore more intense in societies where these groups are better organised and entrenched.

Paradoxically, the opposition of these groups has often resulted in a second set of structural pressures generating high levels of corruption in developing countries. The opposition of organised groups has often had to be bought off by payoffs from existing elites or directly from the state to the most troublesome or vociferous opponents in an attempt to "purchase" support or legitimacy. This type of corruption is more overtly political in motivation as opposed to the corruption which results from the excess demand for publicly allocated resources and rights. Here the state allocates resources to those with the greatest ability to create political problems rather than to those who have the greatest ability to pay (see Khan 1996a for a discussion of the significance of the distinction). Political corruption too results in surreptitious transfers because (in most cases) payoffs to opponents in proportion to their ability to make trouble could not by its nature be publicly recorded in the budget.

This is the general background against which we need to examine the evolution of patterns of corruption in Asian countries. The approach in this paper will be to locate the processes of corruption in the context of the very different routes through which classes and property rights have been evolving in developing countries. We argue that by so doing we are better able to account for the differences in the apparent effects of corruption across countries. The processes of accumulation have been quite different across Asia. The rights which were being created for emerging capitalist classes and the terms under which these rights were being created differed greatly. Since the social utility of property rights depends quite a lot on which rights are created and the terms of their creation it is not surprising that the processes of corruption in these countries were associated with a very wide range of economic performance. To say this is not to justify corruption even under those conditions where it was associated with rapid growth. Rather it is to point out that corruption can have much more damaging effects in contexts where it is associated with growth-retarding patterns of accumulation. It is also to point out that corruption is often integrally linked with the political processes through which capitalism is being constructed rather than simply being an excrescence which can be easily excised.

The literature on corruption has been concerned from the outset with whether corruption was beneficial or harmful and under what circumstances. However, the circumstances were typically so broadly defined that in effect competing models appeared to show that corruption was likely to be either generally harmful or generally beneficial. For instance, in an early contribution Leff [1964] argued that corruption was likely to have beneficial effects in developing countries suffering from restrictive private monopolies and state intervention. By allowing entrepreneurs to side-step restrictive rules, Leff argued that corruption could result in more efficient resource allocation. Since virtually every developing country could be described as having restrictive rules in key sectors as well as private monopolies, Leff's argument suggests that corruption could be generally beneficial in a large number of countries. In fact, in the African countries Leff was particularly interested in, the beneficial effects of corruption were least in evidence.

In contrast, Myrdal [1968] argued that the possibility of corruption may induce bureaucrats to deliberately introduce legislation which created new obstacles. Myrdal's argument anticipated some of the rent-seeking literature to come in the seventies and eighties. Since bureaucrats can always create new possibilities of extracting bribes by creating new restrictions, Myrdal, and the rent-seeking literature generally is suspicious of *any* corruption. This type of argument suggests that in general corruption signals harmful rent-seeking by state officials who have deliberately created value-reducing restrictions whose effects leave society worse off. This approach too cannot do justice to the widespread evidence of substantial corruption in many developing countries which enjoyed high rates of growth. Indeed historical evidence suggests the presence of widespread corruption in the currently advanced countries at an earlier stage of *their* development. The gradual reduction of corruption in the successful developers may have been the *result* rather than the precondition of successful development.

Clearly we need to have an analytical framework which allows corruption to have different effects in different countries. If indeed corruption has a uniform effect (whether good or bad) everywhere, this should be the conclusion reached at the end of a process of evaluation and analysis rather than a presumption made at the outset. If on the other hand, corruption can have variable effects, identifying these differences could be of great policy importance. Even if all corruption is equally undesirable on moral grounds, the differences between them in terms of their *economic* effects may inform the direction of policy and institutional attention. Two sets of observations constitute the starting point of our enquiry: i) the association of corruption with poor performance in the South Asian countries and ii) the comparatively much better performance of East and South-East Asian countries despite the prevalence of substantial corruption there.

Informal journalistic evidence suggests that corruption has been widespread in virtually all developing countries. This view is corroborated by the subjective responses of foreigners who have done business in these countries. These responses are summarised in the *Business International* corruption index which is reported in Table 1 for our sample of countries for the period 1980-83. Table 1 shows that for this group of countries, the extent of corruption correlates very poorly with economic performance. The differences between subjective corruption indices ranging from 6 to 4 are not necessarily significant but the table does suggest that over the relevant period, very corrupt Thailand did not perform significantly worse than apparently less corrupt South Korea and probably better than less corrupt and more resource-rich Malaysia. As a group, these countries combined good performance with high levels of corruption. The South Asian countries fit more closely with the perception that corruption is associated with poor performance. But even here, more corrupt Pakistan appears to have performed somewhat better than less corrupt India.

Table 1 Corruption and Economic Performance

COUNTRY	CORRUPTION INDEX 1980-83 (10 = No Corruption, 0 = Maximum Corruption)	GDP Growth Rates 1970-80	1980-92
Malaysia	6	7.9	5.9
South Korea	5.7	9.6	9.4
India	5.25	3.4	5.2
Pakistan	4	4.9	6.1
Bangladesh	4	2.3	4.2
Thailand	1.5	7.1	8.2

Source: Mauro [1995], World Development Report [1994].

Some of these differences in performance between these countries may be accounted for by variations in economic variables such as investment rates. However, we will concentrate on factors which may explain why corruption is itself associated with differential effects across countries.

2. Some Determinants of the Effects of Corruption.

The overall economic effect of corruption can be broken down into two components. The first is the economic effect of the bribe. The resources transferred in the bribe itself often results in a reduction in social value and is therefore an economic cost for society. In theory, however, bribes could be pure transfers which simply redistribute wealth but keep total wealth unchanged. In this rare case the bribe itself may be costless for society. In the more usual case, bribes from industrialists or other social actors to state officials represent a social cost of variable magnitude as social wealth is reduced to a greater or lesser extent. This is typically the case if the bribe-giver would otherwise have invested the bribe in production whereas the transfer to the official typically results in consumption with possible value-reduction for the economy over time. This is the first effect of corruption which is the effect of the flow of resources from social actors to state officials shown by the higher arrow in Figure 1.

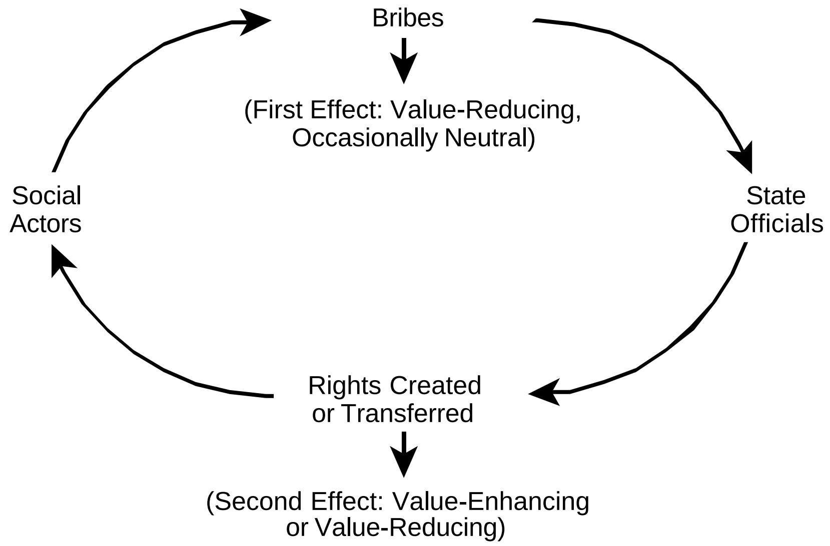

Figure 1 The Two Economic Effects of Corruption

The second effect of corruption is the economic consequence of the new rights or reallocations of rights brought about by state officials as the quid pro quo of the bribes they have received. This is the effect of the rights created or transferred by state officials in response to the bribe which is shown by the lower arrow in Figure 1. This part of the analysis is much more complicated as it is not always the case that the changes brought about as a result of or in association with corruption are always value reducing for society (Leff's argument was a simple version of the value-enhancing possibility). There is also a problem of choosing the benchmark quite carefully (the structure and allocation of rights which would have existed *in the absence* of corruption) to judge this effect correctly [Khan 1996b]. Clearly Figure 1 is a simplification of the possibly complex flows of bribes and payoffs from social actors to state officials on the one hand and flows of rights, subsidies and allocations of public resources from officials to social actors on the other. We examine some of these complexities in greater detail later.

The overall effect of corruption is the joint effect of the direct implications of the bribe and the effect of the rights created or transferred as a result. Differential effects across countries can be due to differences in either or both of these effects [Khan 1997]. In some cases corruption may be damaging mainly because the bribes are large or may have particularly damaging effects on the economy because of lost opportunities for investors or the use made of the bribes by recipients. In other cases the significant negative effect of corruption may be due to the types of rights created, who they are created for and the terms under which they are created. The patron-client networks which we will concentrate on in this article have implications for the effects of corruption particularly because of their role in determining the second effect, that is in determining the types of rights which are created or transferred through corrupt transactions.

Patron-client networks describe a set of transactions which may overlap with and yet are analytically distinct from corruption. Patron-client relationships are repeated relationships of exchange between specific patrons and their clients. A number of features distinguish patron-client exchanges from other types of exchange. First, such exchanges are usually personalised. They involve an identifiable patron and an identifiable set of clients. Entry and exit is considerably less free compared to normal market transactions. Secondly, the exchange is between two distinct *types* of agents, distinguished by status, power or other characteristics [Schmidt et. al. 1977 in particular Landé: xiii-xxxvii]. Typically the superior member is the patron and the inferior member the client. Clearly a wide range of exchanges in developing countries between state officials and privileged groups of clients can be described in these terms. Nevertheless, the power or status of the patron can vary across a broad range and these differences may be important for understanding the types of exchanges taking place within different patron-client networks [Khan 1996a,b]. It is this insight which makes patron-client networks interesting for the study of corruption. The type of network can give us critical additional information about the types of rights being transacted and the terms on which these transactions take place. Some characteristics of patrons and clients which are likely to influence the economic implications of the transactions are easily dealt with by economists, others are less simple to model.

i) **Objectives and Ideologies:** Economists normally assume that actors in state and society will want to maximise value for themselves. At the very least, they will want to maximise value for someone. In fact both state officials and social actors may be motivated by ends which are primarily non-economic such as race or ethnicity. To the extent that transactions between patrons and clients reflect such non-economic goals, economic value may obviously not be maximised [North 1981, 1995].

The objectives of state officials and social actors determine their goals while their ideologies (shared assumptions about how the world works) influence the ways in which they attempt to achieve them. Exchanges within patron-client networks can only be value-maximising if the partners to the exchange want to achieve value maximisation for themselves or at least for others. It is not necessary that they be totally motivated by value maximisation as long as a substantial part of decision-making is motivated by it. If transactions are value-maximising for individuals they may also, under certain conditions, be value-maximising for society. On the other hand, transactions which are not even value-maximising for the transactors are very unlikely to be value-maximising for society. Apart from being motivated (to a large extent at least) by economic value-maximisation, it is also necessary that the participants have ideologies which enable them to learn rapidly so that they do not hold on to beliefs about causes and effects which do not stand up to repeated experience. North [1995] has recently stressed the importance of ideologies and learning processes in explaining differences in performance across countries. Ideologies could therefore have some role to play in explaining why both corrupt and non-corrupt transactions within patron-client networks may differ across countries. While ideologies and learning processes may be important it is likely that their importance has been exaggerated in some recent work [Khan 1995: 79-85].

ii) **Numbers of Clients:** The numbers of potential clients of each type can affect their success in organising collective action in bargaining with patrons. If small groups with specific interests are more successful in organising collective action, they may bribe or lobby more effectively than bigger groups and indeed the rest of society [Olson 1965, 1982]. This could result in rights being created to favour small groups even when they are value-reducing for society as a whole. However, small numbers are only part of the story. In most developing countries, resources have to be directed to and rights created for small numbers of emerging "capitalists". But in fact their expected advantage in lobbying or bribing due to their small numbers is often over-ridden by the bargaining power of other groups such as the urban middle classes or rich peasants whose power is often based on their *large* numbers. Thus while numbers are important, their effect on bargaining power is more complicated than is suggested by the simplest interpretations of Olson's model.

iii) **The Homogeneity of Clients:** This too may determine the chances of successful collective action by different groups of clients. More importantly, the homogeneity or otherwise of particular groups may determine the relative transaction costs facing state officials or political patrons in collecting bribes from that group. If some clients are relatively easy to transact with (say because they are of the same ethnic group as the patrons), the latter may prefer to deal with them even if others may notionally have been willing to pay more. Thus for instance the relative homogeneity of small groups demanding value-reducing rights may be successful while less homogenous larger groups demanding value-enhancing rights may fail. The relative transaction costs of dealing with different groups of clients may be relevant for explaining some outcomes of patron-client exchanges in developing countries [Khan 1997].

iv) **The Institutions through which Patrons and Clients Interact:** These include in particular the institutions of the state through which patrons and clients negotiate and carry out exchanges. Institutions can influence both the "demand" for new rights (the flow of bribes to state officials) as well as influencing the "supply" of rights (the flows of rights from patrons to those offering bribes). On the demand side, institutions may allow or prevent particular groups of clients to compete for new rights or resources. They also describe the rules of the game which define how clients who bribe can expect their chances of winning to change as a result. These institutional features determine the magnitude of the bribes offered by particular groups of clients demanding particular rights or re-allocations of rights [Mueller 1989: 229-235]. On the supply side, the degree of fragmentation of institutions may determine how easy it is for different patrons to coordinate their transactions. A failure to coordinate may sometimes result in lower valued rights being created even though patrons might collectively have extracted bigger bribes by collectively creating higher valued rights [Rose-Ackerman 1978, Shleifer & Vishny 1993]. Institutional structures can thus play an important role in determining the outcomes of patron-client exchanges.

v) **The Relative Political Power of Patrons and Clients:** The potential role of relative political power in determining the types of rights transacted between patrons and clients has not been adequately recognised in the literature. The relative political power of clients determines the *type* of payoff they can offer to the patron. If clients are politically weak, the patron is likely to extract the maximum *economic* payoff from the client in the form of a bribe commensurate with the right being created or transferred. At the other extreme, if the patron is politically weak, the client may instead be offering political support rather than an economic payoff. The payoff to the patron in this case is not just the value of the bribe paid to state officials and politicians but also the political support (or absence of political opposition) which is often also offered [Khan 1996a, 1996b]. We argue that a critical factor determining differences in the rights which are transacted between patrons and clients in different settings is the relative power of competing groups of clients and their patrons in the state.

One reason why political power has received little attention from economists is that it is relatively difficult to define. Steven Lukes distinguished between power defined as a *collective capacity* which he called power$_1$ and power defined as an *asymmetric relationship* between individuals or groups which he called power$_2$ [Lukes 1978: 636]. The first type of power is relevant when we want to discuss power as a transformative capacity. However, for our purposes, the relevant notion of power is power$_2$ in Lukes' terminology. Power$_2$ determines whether clients are able to bargain a more or less attractive deal with their patrons. Udehn [1996: 150] suggests an even narrower version of power$_2$ which he calls power$_3$ which he defines as the capacity of some actors to reward and/or punish other actors. Power$_3$ and its determinants may be most relevant for looking at differential bargaining outcomes within patron-client networks. The determinants of power$_3$ determine the extent to which clients are able to inflict political costs on patrons if they are ignored. The greater the power of clients in terms of the second and third definitions, the more likely is it that patrons will be offering powerful groups of clients rights in exchange for political support rather than economic payoffs.

Differences in the power of specific groups of clients across countries may then be important for understanding differences in the bargains they are able to strike with their patrons. It may determine whether patrons are primarily motivated by economic or political considerations when negotiating with clients. When clients lack political power in the form of power$_3$, patrons can focus on economic considerations alone. Other things being equal (the factors discussed earlier), a patron allocating a right will prefer to allocate or create rights for clients who add the most value. This is because these clients will in principle be able to offer the biggest bribes. In contrast when clients have the power to disrupt or otherwise impose political costs on patrons, purely economic considerations are not enough. We have elsewhere described the costs which clients can threaten to impose as *transition costs* [Khan 1995: 81-83]. To avoid these costs, rights may be created for or allocated to clients on the basis of their relative power to disrupt. Thus this type of power may have implications for the rights which are created through patron-client transactions including those involving corruption.

3. Corruption and Power in Patron-Client Networks.

Exchanges within patron-client networks are in reality much more complex than the neat bilateral exchanges shown in Figure 1. While some of these complexities may be usefully abstracted from, others are critically important for picking up economically relevant differences in a comparative analysis. In particular, the position of different types of clients and actors within the state and their bargaining relationships need to be identified even if in a highly simplified way in different contexts. Nevertheless, the basic format of the implicit exchanges outlined in Figure 1 can still be used to keep track of what is going on in transactions involving several groups of patrons and clients.

In what follows, we identify what we think are several key features of exchanges within patron-client networks in several Asian countries. The characteristics identified are based on the work of political scientists and political economists and refer to exchanges which may be described as typical of those countries without suggesting that these are the only types of patron-client exchanges occurring. We then identify why these patterns may be relevant for understanding the economic performance of these countries, and therefore the economic consequences of the associated corruptions.

i) **South Asia.** Despite important differences between India, Pakistan and Bangladesh there are substantial similarities in the predominant types of corruption observed in these three populous South Asian countries. The basic patterns of subcontinental corruption were described by Wade in his classic studies of corruption in the irrigation bureaucracy of a South Indian state [Wade 1984, 1985, 1989]. The distinguishing characteristic of corruption in the Indian subcontinent is the close intermeshing of economic and political calculations in exchanges between patrons and clients at different levels.

A number of factors have contributed to the evolution of complex networks of interlinked exchanges in the Indian subcontinent. The factor which is probably the single most important one for the exchanges which concern us is the political importance of intermediate classes in the Indian social structure. Important groups of clients in the Indian subcontinent have been drawn from these intermediate or “middle” classes. Often the professional members of these groups have been recognised as equal members of the dominant class coalition in India, along with capitalists and landlords [Bardhan 1984]. However, for our purposes it is useful to distinguish between the capitalist members of the dominant coalition and the much larger non-capitalist section which consists of emerging middle class groups, the educated sections of the population, both employed and unemployed and others who use political power to get access to resources. The importance of these non-capitalist intermediate classes in the subcontinental political space far outweighs their numbers which in any case would run into many millions.

The relevant power of this latter group is very largely the third type of power discussed earlier. It is a power which is based fundamentally on their organisational and political ability to disrupt and challenge the legitimacy of patrons who fail to deliver [Khan 1989]. This is reflected in a state tradition of rapid and ongoing accommodation and incorporation of emerging intermediate groups even while fairly ruthless suppression appears to be taking place. One of the most important mechanisms of incorporation is the transfer of surpluses to these classes through patron-client exchanges, some of which are perfectly legal (such as subsidies) while others are corrupt and involve illegal transfers of resources or the transfer of resources which were illegally generated.

Both Pakistan and India and subsequently Bangladesh inherited the effects of a deep-rooted anti-colonial political mobilisation which empowered their emerging "middle classes". They inherited a tradition of political activity on the basis of a wide variety of emotive symbols including language, caste and religion and these patterns of mobilisation were widely accepted as legitimate in the post-colonial society. Politics based on these symbols has not enriched the vast majority of the populations of these countries but *has* enabled successive layers of emerging middle class groups to get access to public resources on the basis of their ability to organise much more numerous groups below them. Those amongst the intermediate classes who happened to be in power found it necessary to organise transfers to the most vociferous of the excluded groups in ongoing processes of accommodation and incorporation.

What is important is that a large part of the transfer (whether legal or illegal) from patrons to intermediate classes of clients has been based on the political bargaining power of these pyramidally organised groups of clients. These transfers in turn have had to be financed and patrons had to find the resources for such transfers either in general taxation or through exchanges with other groups of clients. The inadequacy of general fiscal resources is an important part of the reason why we observe a complex intermeshing of political and economic exchanges in patron-client networks in the Indian subcontinent. Political elites have often found the resources with which they "finance" their political survival in their economic exchanges with other groups of clients, in particular the slowly emerging class of industrial capitalists. This is an important factor explaining the dense structure of interlinked economic and political exchanges which Wade identified but did not adequately explain. Political "corruption" led to economic corruption as each group of politicians organised their own networks of resource collection and distribution.

The interlocked networks based around each political faction in turn have had important implications for the rights which are created or allocated to capitalists and which in turn have implications for long-run performance. Capitalists too are rational political actors and in a context where no political actor or bureaucrat is able to operate without satisfying their constituencies, it has been relatively easy for capitalists to ensure that they too were funding powerful constituencies so that their interest in leading the easy life could not be challenged. As a result, the politicians and bureaucrats who have organised their political survival through such localised arrangements are often unable to change the structure or allocation of rights to capitalists even when this would raise value. The difficulty of *changing* the structure of rights because of such interlinked patron-client exchanges thus serves to block structural change and productivity growth when growth requires the creation of new rights or the re-allocation or alteration of existing rights.

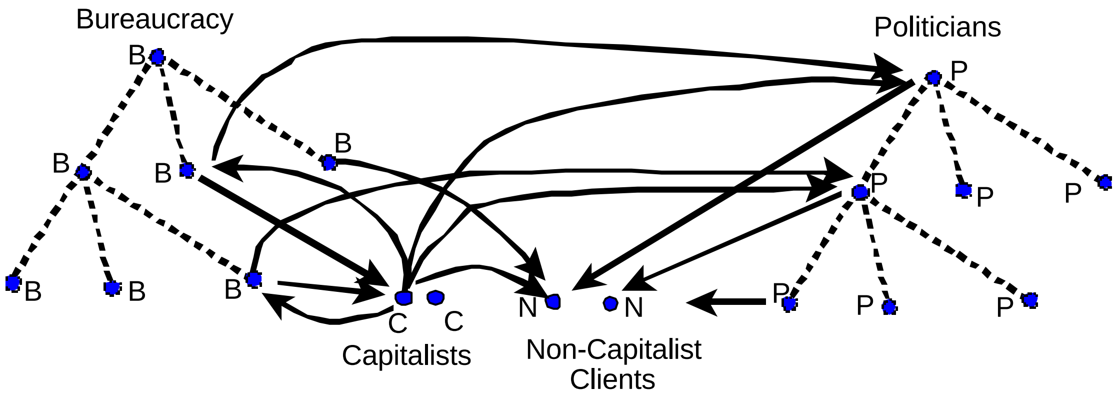

Figure 2 Flows within Patron-Client Networks in the Indian Subcontinent

Figure 2 shows the potential complexity of the flows of resources between patrons and clients in the political context typical of most South Asian countries. Bureaucrats and politicians constitute two parallel hierarchies and at each level bureaucrats or politicians may be patrons for lower level colleagues or for groups elsewhere in society. For simplicity Figure 2 only distinguishes between two social groups, the capitalist and non-capitalist clients of the state, the latter being the intermediate classes discussed earlier. The most successful non-capitalist clients often become political leaders or even capitalists over time. The most distinctive feature of these patron-client exchanges are the transfers going from politicians at different levels to different groups of non-capitalist clients. The quid pro quo from these clients to the state is not shown in Figure 2 because it is typically not an economic payoff but rather a "payoff" in the form of political quiescence or support.

The resources for the economic payoffs to the intermediate classes come from the rest of society in the form of taxes or transfers from other groups of clients. If we look at the nodes representing the "capitalist" clients of the state, we see a number of transfers going the other way, this time from these clients to patrons in the bureaucracy and in the political structure. Emerging capitalists are willing to make these transfers to politicians and bureaucrats because they too are often receiving subsidies, allocations of valuable property rights or at the very least the protection of their property rights. Emerging capitalists in both India and Pakistan have received large subsidies and were allocated scarce resources such as land, credit and foreign exchange on a preferential basis. This was justified by the claim that these were transfers which would induce industrialisation or agricultural growth which in turn was perceived by the respective states as essential for the survival of the economy and of their country's sovereignty. The kickbacks from industrialists have in turn been an important source of finance for the political survival strategies of subcontinental politicians.

While the networks of corruption and political payoffs in India have often been commented on, the economic implications of these complex networks has not been analysed. An important consequence was that allocations of rights and subsidies which were to create a new capitalist class rapidly got embroiled in the networks of transfers which maintained political stability. As a result, any particular allocation proved very difficult to change once it had become established as change provoked opposition from many different quarters. Economic allocations to particular capitalists were soon difficult to separate from the political payoffs to the non-capitalist clients who had been accommodated through interlocking transfers. The eventual result was the emergence of persistent subsidies for poorly performing industries and sectors which were difficult to change in response to performance failures or changes in technology and markets.

This result was common to both India and Pakistan in the sixties and beyond despite the institutional and policy differences between Nehru's Five Year Plans and Ayub's authoritarian industrial policy. Declining economic performance combined with a sustained growth in political demands from emerging middle classes led to dramatic political crises in the Indian subcontinent. These twin features characterised the dismemberment of Pakistan in 1971, ethnic violence in post-1971 Pakistan, deep-seated political instability in Bangladesh and the growth of centrifugal political forces in India as linguistic and regional forces gathered strength in the seventies and eighties.

ii) **South Korea.** The revelations of corruption in South Korea which have begun to emerge in the nineties suggests that corruption in North East Asia has probably been as extensive in terms of the relative magnitudes of the transfers as it has been in South Asia. On the other hand, the pattern of resource flows appears to be both different and simpler. This seems to have been particularly the case in the early days of industrial policy in the sixties [Kim 1994: 59-70, Kong 1996]. There is evidence, however, that political power has become more dispersed over the eighties resulting in more complex patterns of transfers [Ravenhill 1997]. The broad features of the South Korean case suggest a much higher degree of concentration of political power which allowed the political executive to extract rents from beneficiaries of new rights without having to make political side-payments to non-capitalist clients to anything like the extent which we observe in South Asia.

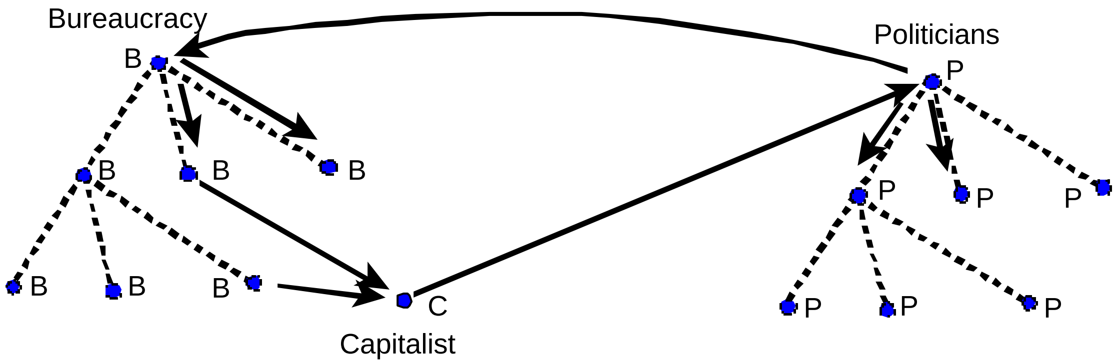

Figure 3 Flows within Patron-Client Networks in South Korea

Figure 3 is a simplified picture of resource flows within patron-client networks in South Korea. Given the lesser importance of non-capitalist clients of the state in this case, we simplify by excluding non-capitalist clients from the figure. This outline is consistent with Amsden's [1989] account of the flows associated with industrial policy in South Korea and is in its main features corroborated by a number of subsequent observers [Kim & Ma 1997]. The main features of the state-society transfers taking place were first the transfer of large subsidies from the state to emerging capitalists. These are shown by the arrows from different sets of patrons in the bureaucratic apparatus to specific clients in the industrial sector. We now also know that there were in exchange substantial kickbacks from these favoured industrial groups to the political leadership as rents from the growing industrial sector were re-distributed to the political leadership and through this route to bureaucrats as well [Kong 1996]. The revelations of the last two years suggest that part of these rents were later distributed in a relatively orderly fashion down the higher levels of the political and bureaucratic hierarchies.

The centralised rent collection and distribution of industrial rents by the peak political leaders created powerful incentives to allocate and create rights in ways which maximised these rents over time. Rents are maximised *over time* if growth is maximised. This is simply saying that the economic ability of investors to pay bribes is proportional to the productivity of the investor. Recalling the factors considered in Section 2, in the absence of a short time horizon or other constraints on allocation, even politicians or officials who are merely concerned with maximising bribes over time will allocate rights or subsidies in such a way as to maximise growth. This involves making sure that the most productive entrepreneurs are favoured and the less productive ones are weeded out. The top politician in the South Korean state was able to operate in this way because the political bargaining power of unrelated individuals to bargain for payoffs was virtually absent during a critical phase of the country's development when key property rights were being established and developmental resources were being allocated for rapid industrialisation [Woo-Cumings 1997]. The absence of a powerful intermediate class which could demand payoffs from the state at this critical stage of industrialisation can in turn be traced to Korea's social history and the nature of the Japanese colonial impact which prevented these classes from developing or consolidating [Kohli 1994].

iii) **Malaysia.** The South-East Asian countries provide interesting intermediate cases. Unlike South Korea and Taiwan with their fairly exceptional social structures formed under the Japanese colonial impact [Kohli 1994], the South East Asian countries were closer to the South Asian pattern. Although less powerful and entrenched than in the Indian sub-continent, emergent middle classes in these countries possessed a greater ability to organise political opposition and thereby demand political payoffs compared to their North Asian counterparts. The political and institutional responses in these South East Asian countries show a wide range of variation in terms of the patterns of political side-payments organised to maintain political viability. Malaysia and Thailand provide two interesting contrasts to the South Asian case. In both these countries political payoffs and corruption were very important but did not prevent rapid accumulation and growth.

Malaysia inherited an ethnic problem which could have spelt disaster. In the sixties it possessed an enterprising capitalist sector based on small scale trade and production but this sector was dominated by ethnic Chinese capitalists. An emerging Malay middle class was increasingly willing to use its political muscle to organise the Malay majority to get a larger share of the pie for itself. Luckily for Malaysia, the co-incidence of ethnic identities with class ones to some extent helped the organisation of political payoffs in a centralised way. The orderly solution to the legitimation problem emerged as an unintended consequence of the 1969 riots and the adoption of the New Economic Policy. The political bargain between patrons in the state and politically powerful claimants for resources was resolved through centralising the demands of the emerging Malay middle classes in an ethnically aligned political system. This allowed the state to organise political transfers centrally without constructing decentralised and interlocked exchanges between competing groups of political factions, their intermediate group clients and particular subsets of capitalists. The de-linking of political payoffs from economic corruption allowed in turn a greater degree of rationality in the allocation of subsidies and the protection of capitalist property rights than was possible in the Indian subcontinent [Khan 1997, Jomo & Gomez 1997].

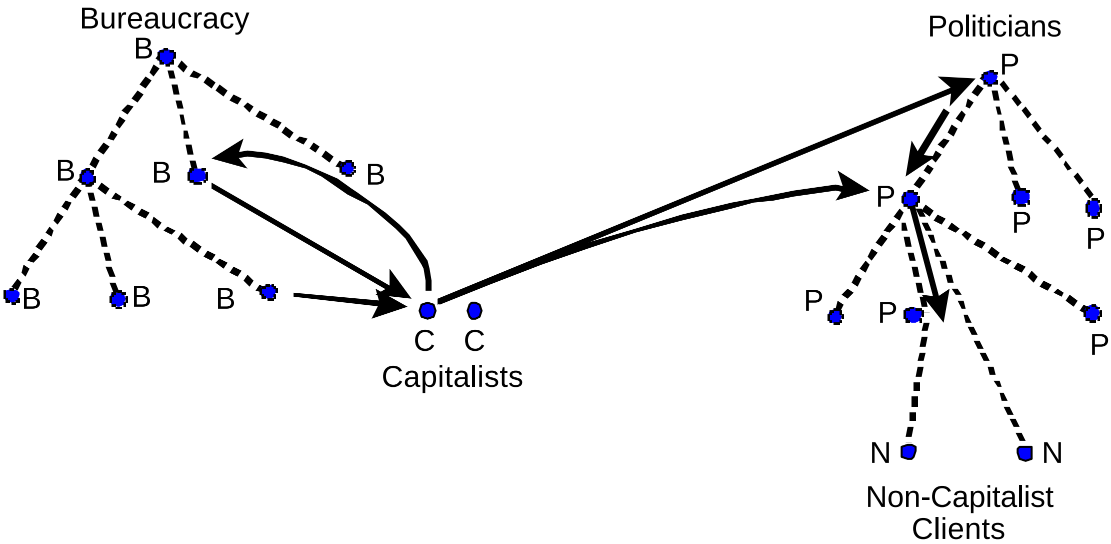

Figure 4 Flows within Patron-Client Networks in Malaysia

The characteristic features of the economic flows between patrons and clients in post-1969 Malaysia are shown in Figure 4. The most important transfers are shown in the arrow from the (largely) Chinese capitalists to the political leadership of the Malay party UMNO which dominated the political system. These transfers included both taxes and illegal extractions. The rents extracted were then centrally distributed through the political apparatus to the non-capitalist clients of UMNO shown by the arrows cascading down the political apparatus to non-capitalist clients. In return domestic capitalists received protection and increasingly, assistance for moving into high technology industries through the provision of good infrastructure and the negotiation of backward linkages between the state and the multinationals operating in Malaysia. These quid pro quo payoffs to Malaysia's capitalists were typically not large explicit subsidies (as in South Korea) but they were nevertheless of economic significance and are shown in Figure 4 by the arrows from the bureaucracy to capitalists. The distinctiveness of this system compared to the South Asian system was that rent extraction from the Chinese capitalists was centralised and initially at least, direct links between particular capitalists and political factions in the Indian manner did not exist. This has changed to some extent over time as the Malaysian economy has grown and with it the political power of competing Malay factions within UMNO. But the picture sketched above is reasonably accurate for the late sixties and early seventies when Malaysia began its economic takeoff.

One feature which distinguishes Malaysia from the South Asian countries and partly explains why Malaysia's clientelist politics was able to coexist with a more dynamic and competitive capitalist sector is that country's vast resource wealth. This allowed the distribution of political payoffs to the emerging Malay middle class on a big enough scale to keep them satisfied. It is doubtful whether the small productive sector in any of the post-colonial South Asian countries could have transferred rents to the state for centralised distribution on a scale which would have satisfied all the demands being made. On the other hand, the bi-polar ethnic dimension of the conflict in Malaysia helped rather than hindered the construction of an efficient solution to the clientelist problem. It allowed the construction of a fairly explicit and centralised "tax" system which taxed capitalists for the benefit of emerging intermediate groups. The language of ethnic deprivation allowed a high proportion of these exactions to be legitimised and therefore organised through centralised and legal party and state structures without secret deals and personalised bargains. This is consistent with the observation that Malaysia is the least corrupt of the group of countries shown in Table 1 according to subjective corruption indices. A non-ethnic and purely welfarist argument for transfers would not have been equivalent because it would have required that the bulk of the transfers went to the poorest groups in Malaysia and not necessarily to the leading factions of the intermediate classes who had the greatest political power. Given this problem facing a purely welfarist argument, it is difficult to imagine an equivalent ideology in India which could have served to justify a similar centralised transfer from capitalists to the leaders of India's contesting and diverse intermediate groups.

The accommodation of the Malay intermediate classes through the centralised collection and distribution of rents prevented the build-up of dense localised networks of exchanges between patrons and clients along the Indian pattern. This in turn allowed the structure of rights and subsidies allocated by the state to remain relatively fluid and allowed structural change without insuperable resistance being offered by large collections of localised intermediate groups. This fluidity has undoubtedly decreased somewhat over time as factions of intermediate groups within UMNO have become more powerful over time and have established decentralised alliances with large Chinese capitalist groups [Jomo & Gomez 1997]. Secondly, by satisfying the Malay intermediate classes through rent transfers from Malaysian Chinese capitalists and by deploying natural resource rents, the Malaysian state could offer multinationals locating in the country a credible level of security for property rights and profits which was untypical by developing country standards. This too proved to be of great importance in encouraging relatively high-technology firms to locate in Malaysia in the seventies and late eighties and engage in backward linkages with Malaysian firms.

iv) **Thailand.** In contrast to Malaysia, the Chinese capitalists of Thailand were much more ethnically integrated with the Thai middle class. The Malaysian pattern of patron-client exchanges which separated political from economic exchanges along ethnic lines could not therefore emerge in Thailand. Thailand was also different from all the countries discussed so far in not having experienced direct colonial occupation and rule. The absence of anti-colonial mobilisations explains why the political leadership of its emerging intermediate classes appears to have been weaker compared to the Indian subcontinent or even Malaysia. On the other hand, its intermediate classes were not as atomised as they were in South Korea which was subjected to Japanese colonial strategies. Unlike South Korea where Japanese land reform displaced rural power blocs, Thailand had powerful networks of rural politicians who had to be accommodated at a much earlier stage of development. Thus despite its differences with India, it is quite possible that decentralised networks of patronage may have developed in Thailand to meet the political demands of powerful and largely rural clients. Instead, over the last twenty years Thailand seems to have witnessed a gradual taking over of localised political networks by local capitalists.

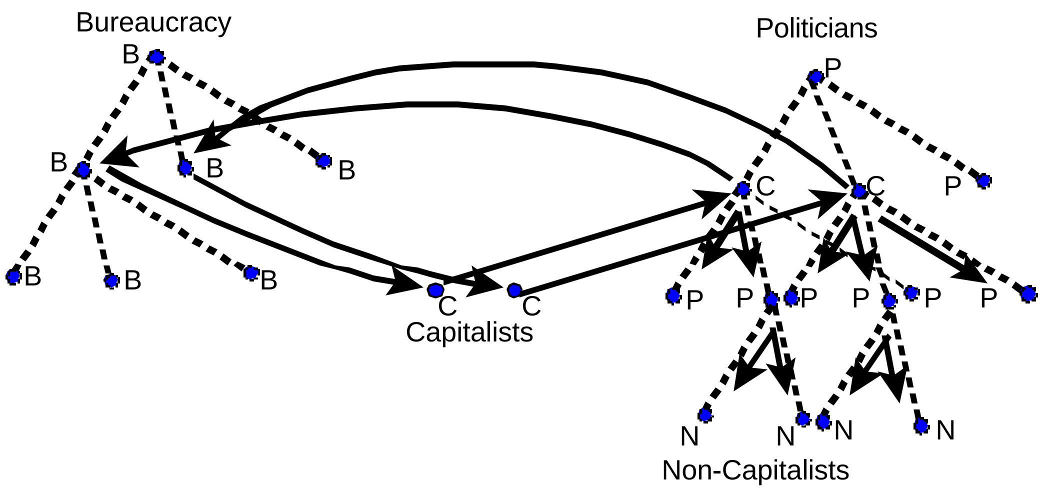

Figure 5 Flows within Patron-Client Networks in Thailand

The key arrows in Figure 5 are the ones showing transfers from capitalists to political factions which allowed many Thai capitalists (almost uniquely in the Asian development context) to take over and run their own political factions. Thailand has the highest number of businessmen in parliament in the region [Sidel 1996]. The most important feature distinguishing the Thai political system has been the ability and willingness of its capitalists to buy their own political factions. Control over their own factions has not only given Thai capitalists places in parliament. It has also given them the political power to directly gain access to favoured subsidies and the allocation of rights, for instance in the form of franchises and licenses [Doner & Ramsay 1997]. Uniquely perhaps in Asia, the political power of Thai capitalists frequently places them in the position of patrons within their own patron-client networks. While Thai capitalists like their counterparts in the other Asian countries have had to make transfers to the political system as part of the maintenance cost of their property rights, their payoffs were managed by the "private" political networks which they controlled.

The Thai pattern of patron-client exchanges (both legal and illegal) has also had identifiable and important effects in Thailand. The fact that Thai capitalists have been directly involved in the protection of their property rights meant that resources were not centrally controlled or allocated by the state to quite the same extent as in the other countries. As a result Thai capitalism has been based on the acquisition of relatively small scale technology with property rights over these assets being protected in a decentralised way by this type of political corruption and patron-client exchanges.

The number of capitalists going into the political fray in Thailand has also been large, a result of a long history of accumulation by small-scale immigrant Chinese traders many of whom became extremely wealthy over a long period of time. This has ensured vigorous political competition between capitalists for the spoils of power which has prevented the political system from being monopolised by any particular capitalist faction. Instead there has been vigorous competition for entry into markets through political competition between competing factions in the parliament and the bureaucracy. Though the political costs of this competition have been high in the form of rampant corruption and political instability, the long-run economic performance of Thailand has been relatively better than that of its South Asian neighbours. If political stability does not collapse entirely, long run economic growth may eventually make it possible to attenuate the worst effects of Thai political corruption through constitutional and political reforms.

Conclusions

The proposition discussed in this paper has been that the existence and effects of corruption cannot be properly studied outside the context of capitalist accumulation and the political contests which it faces from other emerging classes in the surrounding social milieu. Economists have typically examined the economic incentives promoting corruption while leaving to political scientists the task of analysing its political roots. This paper argues that the forms of economic corruption and their effects are closely tied to the forms of political corruption. This approach raises fundamental dilemmas for policy approaches to corruption. The public face of corruption is clearly unacceptable and in the long run it may destroy the limited legitimacy of some developing country states. On the other hand, the visible face of corruption is often an integral part of processes of accumulation and social compromise which are no less ugly in themselves.

Capitalist accumulation in its early phases creates new classes of privileged property holders whose justifiable claim to be in this position instead of many other potential contenders may be very limited. The contests they face from emerging middle classes may be difficult to deal with other than through political side-payments. These side-payments are in turn difficult to organise publicly and from funds which are open to public scrutiny except to a limited extent in rare cases such as Malaysia where a convenient legitimising ideology for such transfers can emerge. This is because while the demands of the intermediate classes may be perfectly understandable and may occasionally be considered legitimate, they may nevertheless be difficult to justify on welfare grounds in the face of widespread and much more serious poverty. Yet payoffs to some members of these classes may be a necessary part of the social compromise through which the process of transition is negotiated. Thus corruption of different types may emerge in these contexts as part of a range of exchanges which makes these systems work despite the obvious economic costs which we can identify by looking at parts of the system in isolation.

Drawing the line between "acceptable" types of accumulation in early capitalism and "unacceptable" types is never going to be easy. The more interesting question is to distinguish between situations where corruption has impoverishing effects from those where corruption allows rapid growth. We have argued that there are good reasons why corruption in South Korea may not have been that damaging for growth. While there may be other reasons for South Korea's performance as well, our argument suggest that we do not need to rely entirely on these compensating factors to explain why this economy performed well despite the presence of substantial corruption. In fact a fair amount of corruption was involved during the transitional phases of all countries. The real issue is why the transition process is blocked in some developing countries as in South Asia. Here we have argued that the *patterns* of corruption may be integrally implicated which are in turn determined by the distribution of power between the state, capitalists and intermediate classes. The economic (as opposed to moral) problem is not corruption *per se* but the political structures which generate growth-retarding corruption. This analysis suggests that anti-corruption strategies which are concerned with the possible effects of corruption on development have to explicitly identify the underlying political problems. If corruption is politically generated and if the political structure of societies determines the economic effects of the ensuing corruption, in countries where development is blocked the only long run solution may be to provoke a sustained public discussion of such arguments so that new political arrangements can eventually be constructed.

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