Chapter 5
Boundaries of Nationalism Under Globalization: Reviewing Developmental State Building in Malaysia and Ethiopia

Yusuke Takagi and Boo Teik Khoo

5.1 Introduction

The 'East Asian developmental state' has been for some time a source of interest and inspiration to different regimes and leaders in different parts of the developing world. In Malaysia, for example, former Prime Minister Mahathir Mohamad (1981–2003)[1] constructed a variant of the so-called 'East Asian developmental state' to drive an ambitious program of economic transformation. In Ethiopia, too, former Prime Minister Meles Zenawi (1991–2012) attempted to implement economic policies along a similar state-guided trajectory of development.[2]

The determination of Mahathir and Meles to promote state-led paths of development was most clearly expressed in a time of crisis and was coincidentally recorded by the same author, Joseph Stiglitz, then the chief economist of the World Bank (Stiglitz 2002). The crucial moment for Malaysia was the East Asian financial crisis of 1997 when Mahathir, alone of the leaders of affected countries, declined to seek the assistance of the International Monetary Fund and chose instead to confront the global financial markets. There is comparatively little on Meles's policies of development that put Ethiopia at odds with the IMF when the former rejected the latter's prescriptions, accidentally just before the onset of the East Asian crisis.

[1] After Malaysia's fourteenth general election of May 9, 2018, Mahathir became Prime Minister again.

[2] Meles Zenawi was the acting President of the transition government from 1991 to 1995 and the prime minister from 1995 to 2012 when he died at his office.

Y. Takagi (✉) · B. T. Khoo
National Graduate Institute for Policy Studies (GRIPS), Tokyo, Japan
e-mail: y-takagi@grips.ac.jp

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Their ‘uncooperative’ stances under crisis and the outcomes they wrought can raise important questions for any review of the developmental state, because both leaders were open to foreign investment, transfer of technology, and interfacing with private multinational corporations and international financial institutions. And yet, they were not blind followers of the so-called Washington Consensus. How should we understand the nature of their leadership? Must such ‘uncooperative’ responses as those demonstrated by Mahathir and Meles be evidence of parochialism, if not xenophobia? How far can economic nationalism go when domestic markets have become integrated with international ones? What are the boundaries for independent state initiatives vis-à-vis global markets and international financial institutions?

Malaysia under Mahathir and Ethiopia under Meles were far apart in space, history and political economy. Yet the leaders shouldered similar basic responsibility to achieve economic development in multi ethnic society. They were in power for more than two decades as the leaders of political coalitions. Their economies experienced rapid growth under their leadership and they did not hesitate to articulate their national aspirations. Mahathir enunciated his Wawasan 2020 (Vision 2020) while Meles prepared a series of developmental plans some of the core ideas of which had evidently been explored in his draft master thesis on economic development. Mahathir’s Malaysia and Meles’s Ethiopia sought to remake their economic structures in the mold of developmental states. Neither of them was a clone of the East Asian developmental state and they both sought international partners to develop their economies. But they also differed from their Northeast Asian predecessors in timing and historical conditions when they held to the feasibility of occupying the commanding heights of the economy via state intervention in an era of globalization.

This chapter offers some insights into developmental state building by comparing Malaysia and Ethiopia’s trajectories of development, and the specific tasks undertaken by Mahathir and Meles, not least when their stances differed from those of the IFIs or the global markets. Our principal objective is to explore comparatively the capacities of the political leadership of new developmental states to control their paths of economic transformation in an age of globalization. While their concerns with national economic development bore basic similarities, Mahathir and Meles had to approach developmental state differently because of the contrasting political contexts in which they pursued their visions of the future. There may be an unanticipated convergence here: the ‘Look East’ policy that Mahathir enunciated for Malaysia in the early 1980s resonates in 21st century Africa although the gaze may not fall on Japan or South Korea this time but China.

This chapter begins with a review of academic literature and theoretical debates on the developmental state, with a focus on understanding how the vision of a strong leader can shape the character of such a state. Subsequent sections will separately focus on the development records of Mahathir’s Malaysia and Meles’s Ethiopia up to 1997 and beyond the East Asian financial crisis. Here, the discussion turns to the different financial crises they faced that led Mahathir and Meles to adopt policy stances that risked confrontation with the IMF and the global financial markets. Subsequent analysis concentrates on various points of commonality between the Malaysian and Ethiopian experiences. These included nationalism which found powerful but different socio-political manifestations owing to variations in the class and ethnic divides of their respective societies, the frameworks of government-business relations, and extents of cooperation with international players.

5.2 Developmental State Building: Regional Contexts and Leadership

Developmental state is a dynamic concept to appreciate multiple paths to development as well as the roles of visionary leadership to go beyond the status quo.

At first, the concept of developmental state was invented to understand deviant model of political economy. Before Chalmers Johnson introduced the developmental state as a concept to explain a heterodox model of political economy, observers of the Japanese economy were divided between regarding it as a market economy or a command economy (Johnson 1982). Johnson argued that Japan had a 'plan-rational' economy that could be distinguished from the USA's 'market-rational' economy and the Soviet 'plan-irrational' economy. In a plan-rational economy, policymakers could maximize backward advantages in the process of catching up, because they could learn from the experience of the leading developed economy. In Johnson's classic study, the bureaucrats of Japan's Ministry of Trade and Industry (MITI) were the symbols of learning for policy-making. Johnson's insights and Japan's impressive economic achievements stimulated academic debates over the role of the state in economic development. In the World Bank's study of the so-called 'East Asian Miracle', those who supported a strong role for the state, were said to form a 'revisionist school' (Amsden 1992; Wade 1990; World Bank1993).

Scholars appreciate the concept of developmental state because it allows them to capture the specific nature of Japanese economy which deviated from both capitalist and socialist models. As Johnson (1982) traces, the MITI learned from the failed experiences of the laissez-faire economy before the war and the command economy during the war and tried to find a third way by combining market economy with coordination mechanism such as administrative guidance and deliberation councils.

Those who study economic development in Southeast Asia also discuss institutional changes that boosted their economies (Suehiro 1998). While the Japanese MITI promoted local businesses through various policy tools, the counterparts in Southeast Asia promoted economic reform to invite foreign direct investment. In Thailand, for instance, Field Marshal Sarit Thanarat toppled down Luang Phibunsongkram with a coup in 1957 and established a series of economic institutions to industrialize its economy in cooperation with technocrats who had studied abroad and were conscious about macroeconomic management. Compared with the other capitalist economies in the region, Malaysia joined the club of developmental regime relatively late. Prime Minister Mahathir, who had declared the Look East policy in 1981 when he came to power, announced the Vision 2020 ten year after to accelerate economic transformation of the country as he envisioned (Khoo 1995, 2005).

In African studies, not a few developmental economists including Joseph Stiglitz begin to show their interests in the concept of developmental state (Noman et al. 2012). While they criticize a one-size-fits-all strategy such as a policy package imposing good governance everywhere, they argue for the learning, industrial and technology (LIT) policy which they developed based on the industrial policy in East Asia. Besides, it is worth mentioning that they differentiate the developmentalist state from the developmental state to highlight the efforts by Indonesia, Malaysia and Thailand which are part of the high performing Asian economies but are often neglected in the literature of traditional developmental state. In the developmentalist states, political leaders strive for economic growth through various types of LIT policy. There are indeed several pioneering efforts by African political leaders to learn from East Asian experience. Some labor union leaders in South Africa invited Alice Amsden, who had established her fame by her seminal work on the economic rise of South Korea (Amsden 1992), when they prepared for the manifest of the African National Congress in their preparation for the elections in 1994, although they failed to convince other leaders within in the ANC (Mine 1996). Botswana is an interesting case to see actual developmental state making in Africa (Taylor 2005). The country succeeded in avoiding the resource course and achieving miraculous growth based on its diamond production thanks to determination of leadership and constructive relationship between the ruling party and bureaucracy.

The concept of developmentalist states resonates with the discussion about ideational dimension of developmental regimes in Southeast Asian studies. In developmental regimes in Southeast Asia, we can observe shared belief for development, or so-called growth-ideology, with which political leaders rearrange the institutions for socio-economic policy making (Suehiro 1998). In the context of the Cold War, they avoid policy package that might resonate with class struggle. They therefore did not explicitly highlight social policy but promote economic development in general, though they actually promoted social policy to mitigate the class struggle. They worked for transformation of national economy so that they can mitigate class divide within the country.

We cannot, however, take it for granted that every political leader seeks for economic growth. They may be busy for exploit resources at the sacrifice of national development, which may result into a predatory state (Evans 1995). Not as worse as the predatory state, some political leaders may be trapped in specific interest such as his or her own ethnic group. In search for the growth-ideology in the government, we should find political leaders who consider national agenda which might go beyond economic dimension of governance. Moreover, the growth-ideology is one of national agenda, which can cover broader issues to govern the nation. Under which condition, the political leader commit himself or herself with the growth ideology?

In the following sections, we will trace the development of the political leadership of Prime Ministers Mahathir of Malaysia and Meles of Ethiopia. They were the heroes in a series of politico economic drama foreign pundits observed in 1997. Mahathir managed the politico-economic turmoil caused by the Asian Financial Crisis defying the policy prescription made by the International Monetary Fund, while Meles was in the midst of a series of tough negotiation with the IMF over the conditionality designed by the latter (Stiglitz 2002). They appeared to be devout nationalists facing the pressure from the powerful international financial institutions. It is not necessarily the case that nationalist politicians know the best about his/her countries and could lead them properly. They must be labelled as headstrong politicians who did not listen to smart technocrats, if they had failed to manage their economy well. What made them nationalist statesmen instead of outdated parochial politicians that might be found in some other countries? We should therefore carefully examine the policy process of the two economies. What did they actually do? Why did they choose particular options? Why could they implement the policy options despite the opposition from the international financial institutions? What are the politico-economic legacies of it?

In addition to the dramatic clash with the IMF, these two countries serve as good cases to study the politics of developmental state building in multiethnic society. Malaysian society is composed of Malay, Chinese, Indian and some other ethnic groups, while Ethiopian society witness more diverse ethnic groups. Why could they avoid being a political leader taking care of the interest of their own ethnic group?

In comparing the two countries, the following part of this chapter examine four issues in each country; social composition, government-business relations, international relations and political leadership. First, since the players of the politics of economic growth aim at mitigating social tensions through economic growth, we should examine the nature of social tensions in each country. The sections on each country examine ethnic issues as a potential source of social tension. Second, we study government-business relations, because the developmental state is by definition active in economic activity. The government cannot create its policy from a clean slate, but have to face existing economic structure. Third, the developmental state from the late 20th Century maximized opportunity shaped by the foreign direct investment as well as loans from international organizations. Fourth, each section scrutinizes the particular political will that the leader exerted in dealing with the above-mentioned three issues.

By examining these issues, this chapter aims at revealing a nature of leadership in developmental state building. The players in the politics of economic growth should be in dynamic political process which we cannot understand with a dichotomous perspective of the developmental state facing international pressure. The arena of the politics of economic growth is not limited within the national boundary but has been shaped throughout the context of politico-economic development of particular countries. The following section reveals the nature of leadership and context shaping it in two countries.

5.3 The Politics of Developmental State Building in Malaysia

To speak of a 'developmental state' in Malaysia is to grapple with the four issues discussed above. Linking them up provides a view of the process by which the state transformed itself at specific moments between, say, 1969, when ethnic violence broke out in what might be called Malaysia's crisis of decolonization, and 1997–98, when a crisis of globalization brought financial mayhem. The issue of leadership can be analyzed through the ideological force of nationalism—in particular, the nationalism of Mahathir Mohamad, Prime Minister from 1981 to 2003—that had peculiar expressions in Malaysian society and infused much of post-1969 state-led economic development. A guide to the complex interplay between society, political system, incumbent administrations, development strategies, economic transformation, and institutional changes—that led to a multiplicity of policy regimes—is provided by Tables 5.1 and 5.2.

5.3.1 Managing Interethnic and Class Relations

The first set of tensions lay in the internal patterns of interethnic and class relations that were reshaped by state intervention under the uninterrupted tenure of the ruling coalition. Here, the original underlying problem was a colonially constructed plural society that bore a rigid ethnic division of labor. Wheelwright (1965, 110) succinctly called the division a 'part of a class structure [that had] crystallized along ethnic lines'. The 'Outline Perspective Plan 1971–1990' of the Mid-Term Review of the Second Malaysia Plan 1971–1975, the principal document of the New Economic Policy (NEP), defined it as 'the identification of race with occupational function'. Both characterizations pointed to what were crudely called vertical and horizontal inequalities that threatened the stability of peculiar post-colonial configuration of interethnic power-sharing. After the electoral crisis and ethnic violence of 1969, the state's development strategy pursued (economic) growth with (social) distribution in parallel with the (political) management of the endemic tensions.

The strategy reserved a critical role for coherent development planning under political leadership that had the imagination, resolve, and power to make stability a prerequisite for economic growth and equitably distributed growth a determinant of stability. In good times, the strategy served an ambitious juggling of class interests and ethnic expectations although the rent-seeking conduct of competing coalitions of class interests and political power violated 'good governance'. In lean times, painful short-term choices were made 'between growth and distribution' that were amenable to the political manipulation of inter-ethnic rivalry (Khoo and Khoo 2012, 3–4).

In practice, the strategy found several institutional expressions. With the NEP, the state broke with the liberal capitalist regime of the Alliance coalition government (1957–69). The 'NEP state' projected new, active, and diversified roles for

Table 5.1 Malaysia: Administrations, Policies and Regimes 1957–90

Period	Ruling coalition/administration	Core political concerns	Regime		
			Economic policies	Social policies	Institutions and agents
1957–1969	Alliance	Decolonization, nation-building, counter-insurgency	*Laissez faire*, competitive commodity production, diversification, ISI, agricultural and infrastructural improvements	Ameliorative welfarist measures, education; revision of civil service terms and pay, credit for housing, expanded EPF coverage	Market, central bank prudence, state agencies and development authorities
1970–1980	National Operations Council, Barisan Nasional (BN)	Re-shaping political system: co-optation, more efficient administration, imposing social engineering	Promoting MNC-led EOI, state investment, employment creation, land resettlement and rural development, urbanization	poverty eradication, employment and training, restructuring wealth and ethnic division of labor, human capital formation, home ownership	Bureaucracy, SEDCs, SOEs, Malay trust agencies, state-owned banks, Petronas
1981–1985	BN: early Mahathirism	Constructing economic nationalism: new state-capital alliance, reform of administration, reorientation of mass expectations	Corporate takeovers, heavy industrialization, financial liberalization, beginning privatization, counter-cyclical spending	Bureaucratic reform, BCIC, Islamization; lowered tax rates, income bands adjusted upwards, expanded child relief	SOEs, HICOM, UMNO's fleet, domestic conglomerates, stock market
1986–1990	BN: NEP in abeyance	Surviving recession, curbing dissent, political repression	Counter-recessionary measures, austerity, debt servicing, liberalizing FDI rules, privatization, industrial deepening	Stimulating growth, creating employment, re-training unemployed graduates	FDI, privatized entities, major conglomerates, HICOM, EPU (IMP)

Source Khoo (2012, 31, Table 2.1)

Table 5.2 Malaysia: Administrations, Policies and Regimes 1991–2003

Period	Ruling coalition/administration	Core political concerns	Regime		
			Economic policies	Social policies	Institutions and agents
1991–(June) 1997	BN: triumphant late Mahathirism	Settling political succession, consolidation of oligarchy, regional triumphalism	Industrial deepening, intensifying privatization, diversifying corporatization, services (finance and tourism), new global-domestic interfaces: MSC, outward investment, foreign labor, economic regionalism	Social-market instruments for restructuring, ASN, ASB, expansion and liberalization of higher education; National Development Plan; reform of education; lowered income tax rates	Major conglomerates, FDI, Malaysian Business Council, MSC authority, IPPs
(July) 1997–1999	BN: Mahathirism in crisis	Crisis management, resistance to reform, repression of dissidence; surviving general election	Retreat from liberalization, semi-autarky: capital controls, currency peg, rescue, reflation, recapitalization; consolidation of banks	Tax cuts, reducing number of students sent abroad, no tax on 1999 personal income	State crisis agencies: Bank Negara, Danaharta, Danamodal, CDRC; IMF, foreign funds; local banks, conglomerates; Petronas, EPF
2000–(October) 2003	BN: Mahathir's last administration	Containing Malay recalcitrance; preparing succession in UMNO	Re-nationalization of ailing projects and companies; reducing capital controls; state-market rapprochement	Privatization of health care, lower tax rates, higher personal relief	Bureaucracy, conglomerates
(November) 2003 and after	BN: Old state, new administration	Recovery of legitimacy, placating core constituents, reconstituting power, Islamization	Partial return to liberalization, GLCs and governance, trimming fiscal deficit, fuel subsidy reductions, new major infrastructure; removal of currency peg, FTA negotiations	Palliative and populist measures, rural improvements, civil service pay rises, return to emphasis on NEP restructuring	Khazanah, GLCs, GLICs; new technocracy, new segments of BCIC

Source Khoo (2012, 32, Table 2.2)

state agencies that let them embark on a path of rapid economic transformation. Under Mahathir's premiership, the interventionist state grew into a 'developmental state' whose nationalist-capitalist mission required, among others, a systematic use of industrial policy, a framework of 'governing the market', and a regime of 'getting prices wrong'. That mission shaped internal politics to the extent that an authoritarian administration protected its legitimacy and kept its popularity by maintaining the mutually reinforcing conditions of political stability and economic progress. At the same time, the state undertook a number of regionalist diplomatic initiatives to safeguard national priorities vis-à-vis other states and especially more powerful regions in changing global conditions.

5.3.2 Configuring Internal State-Capital Balance of Power

The second set involved shifts in the balance of power between the state and the market within national borders. The NEP brought the first shift by enlarging the scope and degree of state power vis-à-vis domestic and foreign capital. The state assumed a multiplicity of roles: a provider of opportunities (principally to the Malays), a regulator of business, enforcing legal and bureaucratic compliance with the NEP, a major investor who acquired many kinds of assets, and the trustee of Malay economic interests whose state agencies and enterprises held corporate equity 'in trust' for the *Bumiputera* (the sons of the land), or the ethnic Malays. These multiple roles of the state deployed vast public financial resources for economic, social, and welfare development, expanded technocratic capability, and tightened bureaucratic control. Born of political crisis and inseparable thereafter from public controversy, the NEP state, in stark contrast to its relatively laissez faire Alliance predecessor, 'governed the market' as never before, but at the cost of a partial rupture between state and capital.

A second shift in the state-market balance of power emerged at the start of the NEP's second decade. Mahathir's early policies of bureaucratic reform, 'Malaysia Inc.', privatization, and even 'the assimilation of Islamic values' formed part of his scheme to refashion the interventionist NEP state into a variant of the East Asian developmental state.

His strong personal nationalist-capitalist impulses went beyond the ethnic fixations of many NEP advocates. Malaysia Inc. promised cooperation between the state and national capital with the latter being no longer synonymous with domestic Chinese capital. Privatization was used to reduce the fiscal burden of operating unprofitable SOEs, improve the performance of existing state monopolies, transfer state-owned corporate assets to mostly Malay capitalists, and recast a state-supported private sector as the vanguard of development investment and growth. Malaysia Inc. and privatization stood for power alignments, a corporate structure, and a governance framework within which the state 'picked winners' from politically connected Malay, non-Malay, or interethnic conglomerates.

At its most triumphant in mid-1997, the state pushed new development initiatives in alliance with national capital, and, where feasible, foreign capital. Consultative councils and meetings, such as the Malaysian Business Council, Malaysian Industry-Government Group for High Technology, and the International Expert Panel for the Multimedia Super Corridor, became the more influential the more they were tasked with passing ideas and initiatives between state and capital. In all this, Mahathir did not hasten to replace the NEP but he displaced it from the center of the nationalist-capitalist project. Twice he showed that the NEP could be realized through other developmental goals—first in September 1986 when he suspended the NEP's restructuring requirements during a recession, and, second, in 1990, when he introduced a National Development Plan that formally eschewed the restructuring language of the NEP (Khoo and Khoo 2012, 3–4).

5.3.3 Encountering the World

The third set was bound up with positioning and safeguarding the state's interests in the world. Malaysia's development proceeded under many changing conditions framed by global events and phenomena that buffeted small and non-influential states—the post-World War II struggles for decolonization; the geopolitics of the Cold War and its end; the emergence of a 'new international division of labor'; the trading and financial accords of developed states; and the reshaping of global markets under neoliberal auspices and the impositions of supranational agencies. Moreover, Malaysia's small, export-dependent, and open economy was vulnerable to fluctuations in global growth, changes in demand for commodities and manufactured goods, and shifts in the terms of trade for exports and imports, and shocks to the world economy. Its leaders and planners never threatened post-colonial nationalization but remained receptive to trade, investment flows, the transfer of technology, and ideas for development. A few developments, however, caused Mahathir to rail at foreign interests—soybean exporters who campaigned against palm oil imports (into USA), the London Metal Exchange whose abrupt change of trading and delivery rules ruined a Malaysian scheme, UK-originated criticisms of Malaysian takeovers of several plantation and mining companies on the London Stock Exchange, and the 1985 Plaza Accord that bloated Malaysian's yen-denominated loans. Mahathir's advocacy of closer East Asian economic regionalism as a bulwark against European and North American trading blocs was blocked, primarily by USA. Still, nothing had threatened the stability of the economy like the 1997 East Asian financial crisis.

Nothing that the state and the central bank, Bank Negara (BNM) attempted seemed capable of reversing 'the depreciation of the ringgit and the decline in share prices [that] reinforced each other' (BNM AR 1998, 34). Very soon, an embattled state confronted a global money market. The former's crisis management was marred by irrational statements, confrontational stances, and defensive changes of investment rules. The latter, supported by the International Monetary Fund (IMF) and economic orthodoxy, raised its demands for 'pro-market' reforms. The impasse brought damaging capital flight at the end of 1997 that turned into a foreign capital strike by mid-1998. Policy options were limited. Inviting long-term FDI for productive activity would not rescue the financial system from catastrophe. Hopes for an 'Asian solution' managed by a Japan-led 'Asian Monetary Fund' were dashed by the opposition of the USA, the IMF and even China. In addition to the IMF's standard package of structural adjustment, neoliberal prescriptions for the crisis demanded market liberalization, (domestic) financial sector reform, and 'good governance'. Such remedies, stringently applied, would have been fatal to Malaysia Inc.: a 'free market' would govern a non-interventionist state.

5.3.4 The Imperatives of Nationalism

At that juncture, the state under Mahathir bestirred itself and imposed a semi-autarkic 'shield' of currency and capital controls. The capital controls presaged a policy regime of rescuing local business, recapitalizing the financial sector, and reflating the economy. This gamble was so controversial when it was played that it attracted a lively debate over its efficacy as an instrument of crisis management and its implications for the global financial market. Rarely, however, has it been said that it was an underlying economic nationalism, long and powerfully articulated by Mahathir, that breathed life into his 'developmental state' at the very moment when it faced extinction!

Although Mahathir held and expressed many strong views on a range of subjects and was a man of different personae (Khoo 1995), Mahathir was most widely regarded to be a staunch nationalist whether or not perceptions of him as such were favorable or otherwise. He was variously involved in politics between his student days in the immediate post-World War II era and his retirement as prime minister at the beginning of the 21st century. He participated in the Malay mobilization against the Malayan Union proposal of 1946 and joined UMNO when it was founded as the organizational vehicle of Malay nationalism in the same year. His full career included an initial five-year term as a Member of Parliament (1964–69), nearly a decade of ministerial-level appointment (1972–81), and a 22-year tenure as prime minister (1981–2003).

Nationalism meant many things to Mahathir but it had an economic heart, so to speak, around which coalesced other constituent parts. His economic nationalism was a complex matter as he conceived, articulated, practiced, modified, advanced, and defended it in the course of 60 years of politics. It was not unchanging, though, just as he, Malaysia and the world did not ever stand still during that time. It would be preferable to approach Mahathir's economic nationalism in its entirety rather than reduce its complexity to a few elements or aspects. Nonetheless, for conceptual clarity, a short essay might begin by decomposing his ideas, commitments, policies, and initiatives according to some selected categories of analysis.

The core of Mahathir's economic nationalism was 'development', or *pembangunan* in the Malay language. The idea of development was cultivated in the official mind and imprinted on the public imagination as a national ideal for an independent nation, and indeed a historical imperative for an 'underdeveloped', 'developing', or 'emerging' country as such. Development as a process was expected to generate high growth, catalyze structural transformation, establish strategic sectors, promote key industries, and secure competitiveness. To achieve those ends, the state would plan and manage the process, define its goals, set targets, and launch projects. Sound and sustained development, undertaken as a major responsibility of the state, allowed economic nationalism to bear firm social objectives as well. The New Economic Policy (NEP) promulgated in 1970 placed the highest priority on two social objectives for the period from 1970 to 1990: to 'eradicate poverty irrespective of race', and to 'restructure society to abolish the identification of race with occupational function'. In fact, 'poverty eradication' and 'restructuring' were the policy demands of an ethno-nationalism whose central 'Malay dilemma' was ideologically formulated by Mahathir in 1970. But he had first raised it in 1950 (Khoo 1995, 85). The two NEP objectives supplied the justifications for the state to launch innumerable development programs and projects to provide a broad range of social services, raise an educated and skilled labor force, nurture technocratic, professional, and managerial strata, and foster a capitalist vanguard.

After 1990, Mahathir's Vision 2020 shifted the focus of the NEP objectives to the attainment of developed-country status, and the consolidation of an 'economically just society' grounded in 'a fair and equitable distribution of the wealth of the nation' (Khoo 1995, 328). Vision 2020 expressly taught that Malaysia had to avoid becoming 'an economically defenceless nation and an economically powerless state' by acquiring 'the ability to marshal influence and create coalitions in the international economic arena' (Khoo 1995, 330). And, perhaps most deeply of all, an ideological-psychological matrix of impulses—constituted of ethnic anxieties, class aspirations, state interests, and a leader's vision—motivated Mahathir's nationalism. The ultimate prize of development would be a 'secure and developed Malaysian society … justifiably proud of what it is, of what it has accomplished … psychologically subservient to none, and respected by the peoples of other nations' (Khoo 1995, 331).

5.3.5 The Political Character of Development

Whether the capital controls of September 1998 were necessary, or how effectively they aided economic recovery, stimulated a controversy that has not found a settled resolution in theory and analysis. However, the capital controls were not an economistic solution. In economic terms, the semi-autarkic regime of capital controls, recapitalization, rescue, and reflation prevented the financial collapse and IMF intervention (as happened in Thailand, Indonesia and South Korea). Politically, the semi-autarkic regime allowed the state to regain 'a greater degree of monetary independence' from the market, provide 'an environment of stability', 'restructure the financial and corporate sector' (BNMAR 1998, 36)—and salvage its nationalist-capitalist project. In a way, the crisis and the response brought things full circle.

Malaysian society has always had an intuitive appreciation of the profoundly political character of economic development. This was partly due to the NEP's overarching influence over the economy, society and political system. But it was also because mass expectations were invested in development as 'a nationalist project driven by capitalist impulses or a capitalist project imbued with nationalist aspirations' (Khoo 2003, 5). The leaders at different times had sought to suffuse development with strong ideological tones. In 1971, the principal architect of the NEP, Prime Minister Tun Abdul Razak, who spoke of combining 'rapid economic transformation' and 'social equality', called the NEP as 'nationalistic socialism' that encompassed 'state participation' and the 'doctrine of welfarism' (Khoo and Khoo 2012, 5). Two decades later, Mahathir, who launched a program of heavy industrialization and privatization, proclaimed the nation's impending arrival in the club of developed countries by dint of its continued economic growth. Between the one and the other were embedded many initiatives of a development state driven by political objectives of nation-building and national unity, and hopes of inter-ethnic equity at home, inclusion in an East Asian regionalist triumph, and an eventual parity with the advanced economies abroad.

5.4 The Politics of Development State Building in Ethiopia

The Ethiopian attempt to make a developmental state is worth studying because of its impressive growth record in the 2000s. The country enjoyed rapid economic growth without huge resource extraction or commodity exports, which are common in other emerging African economy. Besides, the country is a landlocked country surrounded by not well managed states at the Horn of Africa.

In their study on rapid growing African economy entitled, *Emerging Africa*, Radelet (2010) counts Ethiopia as one of the 17 emerging African countries which achieved more than 2% annual per capita income growth from 1996 to 2008, declined the share of the people living below the poverty line by 10% in the same time period, achieved increasing school enrollment, literacy rate and education levels for girls, and so forth (Radelet 2010, 13). These emerging Africa, according to Radelet, departed from anti-growth syndrome characterized with control-oriented economic policy, nepotism among decision makers, heavy borrowing, and failed state apparatus, and adopted more sensible economic policy, became relatively free from IMF, staffed their governments with highly educated policymakers, and were run by the new generation of political leaders.

Besides, Prime Minister Meles publicly stated that the Ethiopian government would seek for making a democratic developmental state (Clapham 2018). In the above-mentioned volume edited by Stiglitz and others, Ethiopia is indeed a model country of possible developmental state in Africa (Noman et al. 2012). Meles himself contributes a chapter, "States and Markets: Neoliberal Limitations and the Case for a Developmental State" (Meles 2012b, 170). It is true that the Ethiopian government advocated the concept of the democratic developmental state together with agricultural-led industrialization (Ohno 2013, Ch. 9).

It would be puzzling if we assume that the country enjoyed impressive economic growth with articulated program to make a democratic developmental state from the beginning of the current administration. Alex de Waal, who closely discussed with Meles on various issues, mentioned that Meles consolidated his power within the ruling coalition and carried out developmental agenda after the war with Eritrea and a successive restructuring of the party leadership in 2001 (de Waal 2012, Fana 2014). In the following sections, we will trace the process where Meles and his colleagues worked for state reconstruction after dismantling the Derg regime or the authoritarian regime led by President Mengistu Haile Mariam from 1974 to 1991.

5.4.1 Reconfiguration of the State Structure Through the Politics of Ethnicity

Before assuming the presidency, Meles was a leader of the Tigrayan People's Liberation Front (TPLF) which was a core of the governing coalition of the Ethiopian People's Revolutionary Democratic Front, EPRDF (Young 1997). The EPRDF is not only a coalition of the former guerrilla forces but rather a coalition of political groups realigned under the dominant leadership of the TPLF which was confident of its own style of governance. The TPLF leaders changed the direction of governance in following two ways. First, it came from Tigray region where most of the residents are peasants and cities were not developed or administered by the repressive rulers of the Derg regime. The TPLF provided public goods such as schools and justice system in Tigray region where the Derg systematically destroyed social system after 1974 (Young 1997, Ch. 7). Generally speaking, the TPLF leaders did not trust intellectuals and middle class in city and were concerned about rural peasants, though most of them were educated intellectuals (Markakis 2011, 247–251). Assuming that the majority of its population is in rural area, Meles even stated, "Addis Ababa [capital city] is not Ethiopia" just after he came to power in 1991 (cited from Markakis 2011, 249). There were valid political reason for the EPRDF to promote the agricultural development-led industrialization considering its leadership and its power base (Ohno 2013, 319).

Second, the TPLF emphasized the role of ethnicity as a source of legitimacy. The EPRDF government carried out a series of reform to realize the state based on the idea of ethnic federalism. The government attempted to realign the local leadership through the Peace and Development Committees from June 1991 (Markakis 2011, 234). The EPRDF recruited teachers for a month long seminar, provided political education, and search for appropriate candidates in local elections in each area. In addition, the administration declared the Proclamation to Provide for the Establishment of National/Regional Self Government in 1992 (Markakis 2011, 234). Under the proclamation, the Boundaries Commission set up by the Transitional Council of Representatives, whose members had no expertise on the issue, prepared a plan to divide the country into fourteen regions in November 1992 (Markakis 2011, 235). Because of internal migration and inter-ethnic marriage, however, the Commission could barely provide a clear cut rule to divide the country. Markakis even stated

Table 5.3 Distribution of Population by Regional State, 2007

Region	Number	Percent
Tigray	4,314,456	6
Afar	1,411,092	2
Amhara	17,214,056	23
Oromia	27,158,471	37
Somali	4,439,147	6
Beni Shangul Gumuz	670,847	1
SNNP	15,042,531	20
Gambella	306,916	0
Harar	183,344	0
Addis Ababa	2,738,248	4
Dire Dawa	342,827	1
Special enumeration	96,570	0
Country total	73,918,505	100

Source Markakis (2011, 235)

in his intensive study on Ethiopian state building, "as a result [of complex nature of ethnicity] no official *kilil* (regional) map has been issued to this day" (Markakis 2011, 236). The ethnicity created by the EPRDF's ethnic federalism was in essence political.

It is misleading to assume the politicization of ethnicity as the hegemony of the ethnic majority over minority. As Table 5.3 reveals, the Tigray people who promote ethnic federalism are minority in the country.

It is obvious that the Tigray region, where the TPLF comes from, occupied only the fifth largest population in the country. Under this situation, the TPLF would be located as an automatic minority group with general elections. Why did they do this?

In order to understand the politicization of ethnicity by the TPLF leadership, we should contextualize the regime change in the history of Ethiopia. The TPLF aimed at dismantling the traditional Amhara hegemony in Ethiopia. It accused the Derg regime of imposing Ethiopian nationalism on ethnic minority such as Tigray. The Derg indeed imposed the usage of Amharinga in school and public offices. As a result, 67% of city dwellers said that they spoke Amharinga at home while only 29% of the population claimed that they were Amhara in 1984 (Markakis 2011, 185–186). Against this background, the TPLF established schools throughout Tigray region to mobilize the peasants by advocating Tigrayan nationalism (Young 1997, 172–174). Once coming to power, the EPRDF kept pushing for political realignment based on the ethnic federalism. A symbolic example of the realignment is a transformation of the Amhara People's Democratic Movement (ANDM) from the Ethiopian People's Democratic Movement, EPDM in 1994 (Markakis 2011, 243). The ANDM supposedly represents the voice of Amhara people, while the EPDM was assumed a pan-Ethiopian movement and did not limit its membership to Amhara people. The

Table 5.4 Number of privatized enterprises, 1994–2001

1994	12
1995	122
1996	27
1997	15
1998	13
1999	22
2000	10
2001	2

Source Ethiopian Privatization Agency cited from Getachew (2003, 35)

EPRDF finally made a new constitution stipulating ethnic federalism in August 1995. The TPLF leaders succeeded in transforming the political system of Ethiopia as they desired.

5.4.2 Liberalization: Transition from Socialist Economy

The TPLF did not seem to have a clear vision for economic development except its emphasis on the benefits of the peasants' population. In the midst of constitution making for a new government, President Meles established the Ethiopian Privatization Agency in 1994, which was a part of the Public Enterprises Reform Program supported by the World Bank and IMF. In implementing the privatization, the agency received financial and technical assistance from Germen Technical Assistance (GTZ), African Development Bank, and the World Bank (Getachew 2003, 58).

As Table 5.4 shows, the EPRDF boldly carried out a series of liberalization facing sporadic opposition in civil society, it for instance even cracked down the Confederation of Ethiopian Trade Unions when the latter publicly condemned the structural adjustment program by the World Bank in 1994 (Markakis 2011, 251–252). Despite the opposition in civil society, the EPRDF left an impressive economic performance through various deregulatory measures, removal of price controls, export taxes and exchange controls (Markakis 2011, 262).

5.4.3 Encountering the World

The policymakers in fact accepted a policy package prepared by the international financial institutions until the late 1990s. The board of the IMF approved Enhanced Structural Adjustment Facility (ESAF) program in 1996 (Wade 2001, 70). The Ethiopian government defied against the IMF when the former supported the Ethiopian Airlines or the national flag career of Ethiopia despite the opposition of the

IMF's advice late in the same year. While the Ethiopian government approached the World Bank led by its chief economist, Joseph Stiglitz, the IMF decided to stop the ESAF program in Ethiopia. After several negotiation supported by the World Bank, the Ethiopian government accepted a new program with the IMF only in April 1998 (Wade 2001, 73).

Stiglitz revealed his first encounter with Prime Minister Meles in his provocative book, *Globalization and its Discontents* (Stiglitz 2002, 25–33). When he visited the country in March 1997, Prime Minister Meles was in the midst of heated debate with the IMF over the ESAF program providing $127 million loan with highly subsidized rates (Stiglitz 2002, 27). Stiglitz praised the macroeconomic management as well as the budget allocation reducing the military budget and increasing the budget for rural development of the country, while he criticized the IMF of its obsessive concern about Ethiopian budget's dependence on foreign aid (Stiglitz 2002, 28). He further pointed out that the Ethiopian government was wise enough so that it did not follow the IMF's advice to open its financial market, which resulted into the decision by the IMF to suspend the ESAF program (Stiglitz 2002, 32). Stiglitz eventually mobilized his network in the World Bank and the Clinton administration to lift the suspension of the program by the IMF (Stiglitz 2002, 32).

Meles and his aides were nationalist policymakers who were different from isolationists or rent seekers. They did not hesitate to contact with the World Bank, but rather sought for the help from the Bank. Moreover, they succeeded in convincing the chief economist who could have been critical at economic policy management if the Ethiopian policymakers were irresponsible for their countries' macroeconomic condition.

Meles and the policymakers might have shifted their economic policy management much earlier, if they haven't had faced an untimely war with Eritrea in 1998 as we will see below.

5.4.4 Developmental State Building in a Series of Political Turmoil

It took three more years for the Ethiopian government to prepare a new development plan not because of the clash with the international financial institutions but rather because of military clash with its neighbor, Eritrea. In May 1998, Tigray regional administration published a map to figure out the national boundary between the two countries. After a small skirmish led by Eritrean Army, the Ethiopian Army fought back with its full force, which resulted into a classic type of trench warfare between the two countries. They remained at war until the time Organization of African Union brokered and arranged the Cessation of Hostilities Agreement in May 2000. In December same year, the U.S. pushed two countries to sign the Technical Agreement with which two countries submit their differences in international arbitration

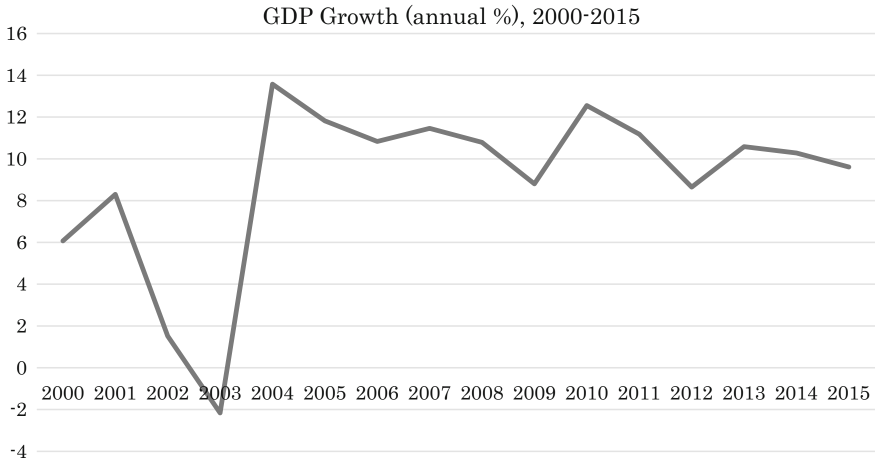

Fig. 5.1 Economic growth of Ethiopia, 2000–2015. *Data from database* World Development Indicators (Last Updated: 04/27/2017)

(Markakis 2011, 273). In the election in 2000, the EPRDF won 481 out of 546 seats at the House of People's Representative (Markakis 2011, 272).

Not the entire leadership of the TPLF, however, agreed to the cessation. Hardliners within the EPRDF condemned Prime Minister Meles of yielding pressure from the U.S. calling for truce (Markakis 2011, 273). Meles did not listen to their voices instead, he expelled twelve members from the TPLF central committee and then removed actual and potential dissidents within the EPRDF (Markakis 2011, 273–274). He labelled those who were expelled hard core radicals or the left wing which did not understand changing world, while he exploited the expertise of technocrats to lead a nation in an age of globalization (Markakis 2011, 274; Lefort 2012, 682).

After the turmoil, the EPRDF geared toward economic development with the Sustainable Development and Poverty Reduction Program (SDPRP) for the years from 2002 to 2005, which triggered a decade long high economic growth as we can see in Fig. 5.1 (Arkebe 2015, 80).

The policymakers carried out institutional reform to promote export, foreign direct export, and manufacturing sector. Regarding the export promotion, Prime Minister Meles created the National Export Coordination Committee in 2003. The NECC, following the example of South Korean counterpart, held a monthly meeting chaired by Prime Minister Meles from 2003 to 2012. The committee reviewed the performance of export products, discussed bottle necks and made decision to improve the performance (Arkebe 2015, 99).

In terms of foreign direct investment, the government restructured the Ethiopian Investment Authority into the Federal Investment Commission in 2002 and once again reformed it into the Federal Investment Agency in 2006 (Arkebe 2015, 90). In 2004, the government targeted Turkey, India and China as the sources of the

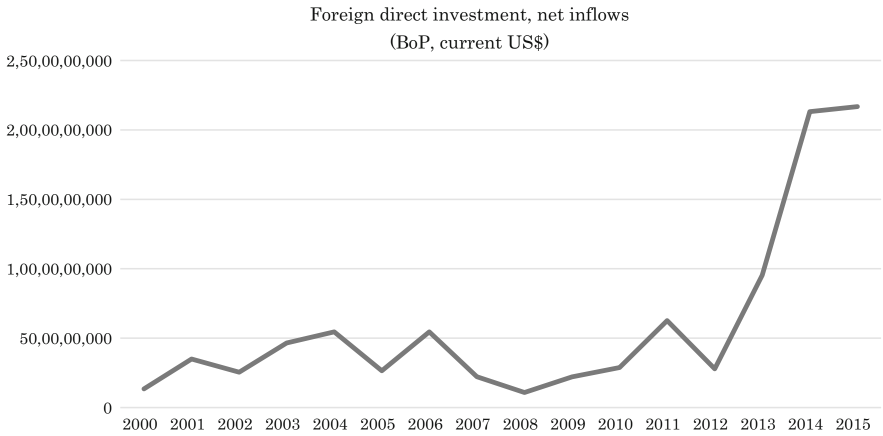

Fig. 5.2 FDI Inflow, 2000–2015. *Data from database* World Development Indicators (Last Updated: 04/27/2017)

investment as well as Netherlands in various fields. For instance, the Netherlands government provided incentives to the firms investing floriculture industry in Ethiopia (Arkebe 2015, 88).

Among the targeted economies, however, China played an impressive role. The Ethiopian government cultivated the tie with China in the 1990s (Adem 2012, 146). The Ethiopian government made an agreement with China to create special economic zone in the suburb of Addis Ababa. Ethiopia became the fourth largest recipient of Chinese FDI in the field of infrastructure in Africa following Angola, Sudan and Nigeria, which are all resource-rich countries unlike Ethiopia (Adem 2012, 147). The following Fig. 5.2 shows inflow of FDI from 2000 to 2015.

It is clear that the Ethiopian government is very much interested in its economic relations with China, though Fig. 5.2 counts the FDI from all countries. The Ministry of Finance and Economic Cooperation established a special branch called Ethio-China Developmental Cooperation Office independent of the Bilateral Cooperation Directorate.[3]

The government also worked for nurturing manufacturing sector. As the following Fig. 5.3 shows, manufacturing sector increased its share in GDP, though its growth was not that impressive as general growth of Ethiopian economy shown in Fig. 5.1. Arkebe Oqubay, former mayor of Addis Ababa and a special advisor to prime minister, worked for industrial policy making and has studied the impact by himself in his Ph.D. dissertation, which is later published from Oxford University Press with the title of *Made in Africa: Industrial Policy in Ethiopia* (Arkebe 2015). In his study, Arkebe picks up cement industry, flower cutting industry, and leather industry. According to his study, both import substitution strategy for the cement industry

[3]MoFEC Homepage (http://www.mofed.gov.et/web/guest/ethio-china-development-co-operation-office) accessed on June 15, 2017.

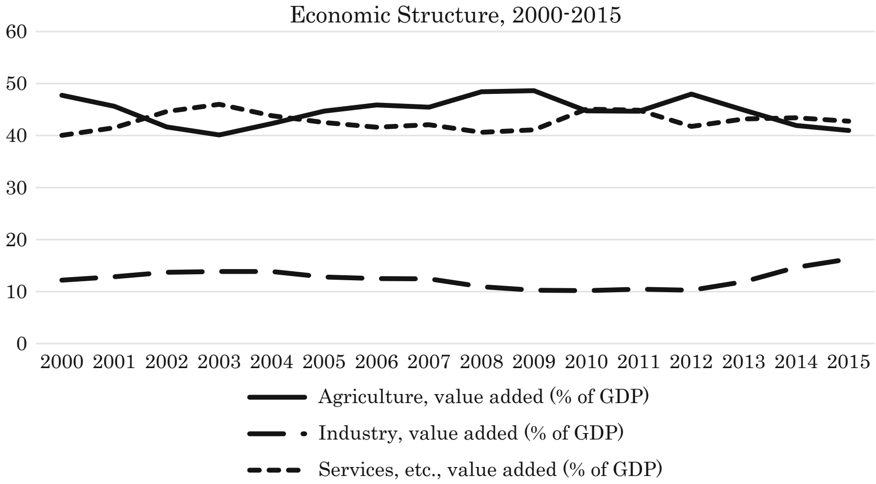

Fig. 5.3 Economic structure, 2000–2015. *Data from database* World Development Indicators (Last Updated: 04/27/2017)

and export-led industrialization strategy for the flower cutting industry worked well, while industrial policy for leather industry failed to achieve impressive economic performance partly because of the existing interests opposing any changes.

Considering the impressive record of economic growth, it might be a surprise to know the fact that the EPRDF failed to achieve a land slide victory in the 2005 elections. The opponents of the EPRDF, such as the Rainbow Ethiopia, mobilized themselves into a Coalition for Unity and Democracy (CUD) before the elections. The CUD supported the idea of liberalism and free market, while it opposed ethnic federalism and land ownership by the state (Markakis 2011, 275). Berhanu Nega, who led the Rainbow Ethiopia, was once a head of a think tank which had a deep connection with business sectors being critical of economic policy of the government (Nishi 2009, 53). Mobilizing the moral and financial supports from the urban middle class within the country and Ethiopian diaspora, the CUD-led opposition won at least one third of the seats of the lower house including the entire 23 seats in capital city, Addis Ababa (Nishi 2009, 53; Markakis 2011, 275). The CUD leaders were, however, not satisfied with the announced result of the elections and their supporters organized rallies which resulted into a violent crush with 193 casualties, more than 700 injured person, and more than 1000 roundup including opposition leaders (Markakis 2011, 276).

One year after this bloodshed and suppression of the opposition party, Meles prepared the paper, "African Development: Dead Ends and Beginnings and criticized those who supported the free market economy in Africa" (Meles 2012a). We should remember the voice of CUD supporting free market when we read Meles' critique on free market economy. The EPRDF did not entirely reject the policy proposals by the opposition in 2005. The EPRDF, for instance, shifted its focus from small-scale subsistence farmers to the large scale commercial farming in its agricultural development-led industrialization reflecting the campaign agenda of the CUD during the 2005 election (Nishi 2013, 8–9).

When it comes to politics, however, the EPRDF has never allowed opposition to play a significant role. In the 2010 election, the EPRDF won all the seats except one for “token opposition” (Markakis 2011, 277). Most of keen observers on Ethiopian politics have argued that Meles consolidated his dominant power since 2001 (Vaughan 2011). As we have mentioned earlier, Meles contributed his chapter to the edited volume, *Good growth and governance in Africa: Rethinking development strategies* (Meles 2012b). In his chapter, instead of explaining the strategy of his government, he spent so much pages to criticize neo-liberal economics with a night watchman state model and rent seeking behavior. It is actually confusing because Meles linked the night watchman state with neo-liberal economics instead of liberal economics. Meles in a different occasion argued that he should be careful about hasty democratization in Africa where rent-seeking activity is rampant (De Waal 2012, 153).

Meles and policymakers in the ruling coalition continuously addressed national agenda in their policy making. They were neither parochial rent seekers nor blind followers of capricious pundits in international community. They were nationalist policymakers considering national agenda and made decision to address it. The political turmoil after the 2000s, however, reveals the fact that the government faced a tension generated by its own change or contradiction in policy making. The government had once promoted liberalization in the 1990s, while the opposition party advocated in the 2000s. Meanwhile, the government promoted a developmental state building with which it could differentiate its policy orientation from the opposition. The developmental state building is, however, not a complete solution, especially in the context of the making of ethnic federalism. This is because, the former expects local governments to abide by the central government’s decision, while the latter allows them to be autonomous (Fana 2014). The central government promoting development from the center faces repercussion from the people in the federal states, who had been encouraged to unite under the name of their ethnicity. The ruling coalition is now expected to address the challenge generated by its own policy innovation.

5.5 Conclusion

The both cases reveal significance of nationalist leadership in developmental state building. Mahathir bluntly declined the IMF’s policy prescription in the midst of financial crisis and Meles defended national flag career against the IMF’s austerity measure. They were, however, not at all isolationists. Mahathir indeed maximized his relations with Japan to mitigate the pressure from the IMF, while Meles cultivated a tie with the World Bank to reconstruct the relations with the IMF. Furthermore, both Malaysia and Ethiopia promoted foreign direct investment to nurture manufacturing sectors. While Mahathir found Japan a partner through his Look East policy, Meles institutionalized the ties with China through economic bureaucracy. They were nationalists in the sense they thought about development of national economy, took a necessary position against international organization, if necessary, and were open to policy options maximizing the opportunity given by globalization.

No leaders could, however, impose their state building project on a clean slate. While Mahathir gradually shifted from the politics of ethnicity to the politics of developmental state building, Meles had institutionalized the politics of ethnicity and once promoted liberalization before he began to advocate developmental state building.

The political leaders nurtured their strategy seeking for their own survival. Mahathir and Meles did not simply crack down the opposition but to expand its mass base by committing economic growth. Rather they found the way to accommodate the voice of the opposition either through elections and/or governance of the dominant coalition, though they never allowed the opposition to gain the power. In this sense, the political leaders of developmental state might end up being simple predators once they stop listening the voices of those who oppose them. They can be the leaders of the developmental states as long as they continuously learn the way to develop in the midst of power struggle.

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