

ARTHASHASTRA INSTITUTE INDONESIA

AII WORKING PAPER | AII-WP-2026/16 | May 2026

The State and the Market

Developmental Transformations in Post-Independence Societies:
China, Vietnam, India, Indonesia, and Brazil

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Abstract

This working paper examines the political economy of state-market relations in five major post-independence economies — China, Vietnam, India, Indonesia, and Brazil — across the period from mid-twentieth century independence or revolutionary transformation to the present day. Drawing on the developmental state literature of Evans, Amsden, Chang, and Rodrik, the paper argues that all five cases reveal a common structural logic: sustained developmental transformation required not the withdrawal of the state in favour of the market, but the construction of a strategically capable state that shaped, guided, and disciplined market forces toward long-run developmental objectives. The paper documents the specific mechanisms through which each country navigated the state-market relationship across successive developmental phases, analyses the comparative performance data across GDP growth, poverty reduction, urbanisation, and human development, and identifies five critical structural patterns that cut across all five cases. The final section examines the novel challenges posed to the developmental state model by the rise of digital platform monopolies (Big Tech) and the accelerating concentration of economic and social activity in mega-cities — and asks whether the developmental state can reinvent itself for a digital, urban, and climate-constrained twenty-first century.

Keywords: *developmental state, state-market relations, post-colonial development, industrial policy, China, Vietnam, India, Indonesia, Brazil, Big Tech, mega-cities*

I. Introduction: The State-Market Question in Development

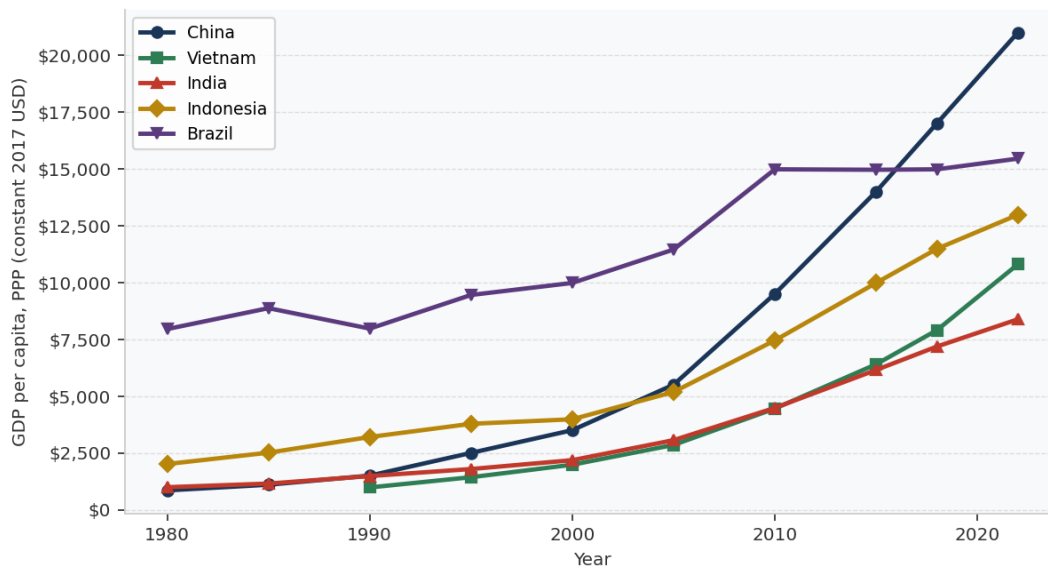
The central question of development economics in the twentieth century was never simply about growth. It was about transformation — the metamorphosis of predominantly agrarian, often colonial or semi-colonial societies into industrialised, urbanised, and institutionally capable states. Beneath this transformation lay a more fundamental political economy tension: what is the proper relationship between the state and the market? Were markets engines of liberation to be freed from state interference, or instruments of disruption to be tamed by public authority? Or were they, more realistically, institutional constructs whose performance depended entirely on the quality of the state that shaped their operation?¹

Five large economies — China, Vietnam, India, Indonesia, and Brazil — offer the most instructive empirical canvas on which to examine this question. Together they account for over 42 percent of the world's population and approximately 32 percent of global GDP in purchasing power parity terms.² Each achieved independence or revolutionary transformation in the mid-twentieth century under conditions of severe underdevelopment: low per capita income, overwhelmingly rural populations, weak infrastructure, contested state authority, and the accumulated distortions of colonial extraction. Each has since undergone developmental transformations of historic magnitude, lifting hundreds of millions from poverty and constructing modern industrial and service economies. And each has navigated the state-market tension in dramatically different ways — yet, on close examination, with important structural similarities that reveal a deeper logic of developmental success.

This essay argues three propositions. First, that successful post-independence development has universally required an activist developmental state — not a dirigiste command economy at one extreme, nor a laissez-faire minimal state at the other, but a strategically capable state that shapes,

guides, and disciplines market actors toward developmental objectives. Second, that the sequencing and calibration of state-market relations has mattered as much as the overall balance: each of these five countries moved through distinct phases of state-led accumulation, managed liberalisation, and market deepening, with the pace and sequencing determined by political economy conditions at home and the configuration of the global economy abroad. Third, that the twenty-first century presents genuinely novel challenges to these developmental models — the rise of digital platform monopolies and the accelerating concentration of economic activity in mega-cities fundamentally alter the political economy terrain on which states must now operate, raising the question of whether the developmental state can reinvent itself for a digital and urban age.³

Figure 1: GDP per Capita (PPP) Trajectories, 1980-2022



Source: IMF World Economic Outlook Database, 2023; World Bank World Development Indicators, 2023.

II. Theoretical Scaffolding: Beyond the Washington Consensus

For much of the 1980s and 1990s, development policy was dominated by what John Williamson famously codified as the Washington Consensus — a package of prescriptions centred on fiscal austerity, trade liberalisation, privatisation, deregulation, and secure property rights.⁴ The intellectual architecture rested on neoclassical economic theory: markets are efficient allocators of resources; state intervention introduces distortions; development requires the removal of those distortions. This framework had enormous influence on the conditionality attached to IMF and World Bank lending, and its prescriptions were applied with varying degrees of coercion across Latin America, sub-Saharan Africa, and parts of Asia.

The empirical record proved devastating to these prescriptions. Countries that implemented structural adjustment most faithfully — much of sub-Saharan Africa, Bolivia, and parts of Latin America — experienced two decades of stagnation, deindustrialisation, and social deterioration. By contrast, the fastest-growing economies of the late twentieth century were precisely those that had most systematically departed from Washington Consensus prescriptions. South Korea and Taiwan industrialised behind tariff walls, with directed credit, state-owned enterprises, and performance-conditioned subsidies. China built its market economy under the Communist Party's strategic

guidance. Vietnam reformed its command economy while retaining single-party developmental authority. The anomaly was too large to explain away.⁵

The theoretical response came from multiple directions. Peter Evans demonstrated that effective developmental states combined "embeddedness" — close ties to private business that generated information and coordination — with "autonomy" — insulation from capture by narrow private interests — a configuration he termed "embedded autonomy."⁶ Alice Amsden showed that late industrialisation universally required the state to subsidise investment but to discipline firms with performance requirements, producing what she called the "reciprocal control mechanism" that distinguished East Asia's success from Latin America's failures.⁷ Ha-Joon Chang demonstrated historically that every successful industrialiser — including Britain and the United States — had used infant industry protection and state guidance, making the Washington Consensus an exercise in "kicking away the ladder" that the advanced countries had themselves climbed.⁸

More recent theoretical contributions have further refined this picture. Dani Rodrik's revival of industrial policy argumentation has demonstrated that selective state intervention in productive sectors is not inherently distortionary when accompanied by proper monitoring, exit mechanisms, and learning processes.⁹ Mariana Mazzucato's "entrepreneurial state" thesis has documented the foundational role of public investment in generating the technologies — the internet, GPS, touchscreen interfaces — on which Silicon Valley's private innovation was subsequently built.¹⁰ And Yuen Yuen Ang's institutional analysis of China has shown that its developmental success was not the product of a coherent top-down plan but of institutional experimentation — decentralised trial-and-error within a framework of party-state oversight that allowed successful innovations to be scaled nationally.¹¹

What emerges from this theoretical convergence is a developmental state framework considerably more nuanced than either the Washington Consensus or its state-socialist antithesis. The successful developmental state is neither omniscient nor omnipotent. It is strategically selective — identifying binding constraints on economic transformation and deploying public authority to relax them. It is institutionally embedded — maintaining information flows with the private sector without being captured by it. It is politically legitimate — able to sustain long-term developmental commitments across political cycles. And it is adaptive — evolving its instruments as the economy itself transforms, shifting from infant industry protection to innovation subsidies as the economy moves up the value chain. This framework provides the analytical lens through which the five case studies that follow are examined.

Text Box 1: The Berkeley Mafia — Technocratic Capacity in New Order Indonesia

Among the most striking examples of embedded technocratic authority in developmental state history is the role of the "Berkeley Mafia" in Indonesia's New Order. A cohort of Indonesian economists trained at the University of California, Berkeley — Widjojo Nitisastro, Emil Salim, Ali Wardhana, and others — were appointed by Suharto to lead the key economic ministries after

1966. Insulated from day-to-day political pressures and given direct access to the president, the technocrats implemented orthodox macroeconomic stabilisation (eliminating Sukarno-era hyperinflation), managed the oil revenue windfall of the 1970s through disciplined investment in agriculture and infrastructure, and navigated the post-oil fiscal adjustment of the 1980s through diversification into manufactured exports.

The Berkeley Mafia exemplifies Peter Evans's concept of embedded autonomy: the technocrats were institutionally insulated from rent-seeking pressures that would otherwise have diverted oil revenues into unproductive patronage, yet they maintained sufficient access to the private sector and the president to translate developmental priorities into policy action. Their eventual marginalisation by the politically connected Suharto family business networks in the 1990s — and the catastrophic consequences of that erosion of technocratic capacity in 1997–1998 — provides equally powerful evidence for the proposition that developmental state capacity is a political achievement that must be continuously reproduced, not a permanent institutional endowment.

III. China: The Developmental State at Continental Scale

China's post-1978 development trajectory is the most consequential economic transformation in human history. Between 1978 and 2022, China's GDP grew at an average annual rate of approximately 9 percent in real terms, lifting an estimated 800 million people out of poverty — more than the rest of the world combined over the same period.¹² GDP per capita in purchasing power parity terms rose from approximately \$850 in 1980 to over \$21,000 by 2022. China became the world's largest manufacturer, largest exporter, largest holder of foreign exchange reserves, and the second-largest economy by nominal GDP. No account of the state-market relationship in development can avoid beginning here.

The standard narrative attributes this transformation to China "opening up to the market." This account is true but radically incomplete. The more precise account is that China's Communist Party created markets where none had existed, selectively introduced market mechanisms in domains where they could accelerate capital accumulation, and systematically retained state control over strategic sectors, capital allocation, and the pace of integration with the global economy. The market did not spontaneously emerge from the liberation of entrepreneurs; it was architecturally designed by a capable developmental state operating with extraordinary institutional patience.¹³

The first phase of reform (1978–1992) was grounded in agricultural and township transformation. The household responsibility system de-collectivised agriculture and restored production incentives, generating both a rural surplus and a supply of labour for industrialisation. Township and Village Enterprises (TVEs) — hybrid collective-market entities under local government management — became the unexpected engines of China's first industrial takeoff. Special Economic Zones along the coast allowed controlled exposure to foreign direct investment and export markets without subjecting the entire domestic economy to external competition. This sequenced, geographically bounded reform strategy — experiment in one place, observe, then scale — was the hallmark of China's institutional approach.

The second phase (1992–2001) accelerated market deepening after Deng Xiaoping's southern tour. SOE reform restructured state enterprise through "grasping the large, releasing the small" — retaining state ownership in strategic sectors while privatising or liquidating smaller inefficient SOEs. The capital account remained largely closed, insulating China from the financial contagion that devastated Southeast Asia in 1997–1998 — a period that would prove retrospectively decisive in validating China's managed integration strategy over the rapid liberalisation pursued by its regional neighbours.¹⁴

The third phase (2001–2012) was WTO-era globalisation, in which China became the world's factory. Electronics, machinery, and consumer goods exports surged; FDI inflows accelerated; and China climbed global value chains with extraordinary speed. But the state remained central throughout: industrial policy channelled investment into priority sectors, state banks provided patient capital at below-market rates, and the exchange rate was managed to maintain export competitiveness. The made-in-China export machine was not the product of unfettered markets but of a sophisticated state-market partnership in which the state held the strategic rudder and markets provided the operational energy.

The fourth phase (2012–present), under Xi Jinping, has involved a reassertion of party-state authority over the economy, driven by recognition that pure market dynamics were generating inequality, financial instability, and strategic vulnerabilities in technology and semiconductors. The "Made in China 2025" initiative and the subsequent focus on technological self-reliance represent a new industrial policy phase, explicitly targeting dominance in artificial intelligence, electric vehicles, and advanced manufacturing. The 2020–2021 technology sector crackdown — imposing sweeping antitrust and data governance regulation on Alibaba, Tencent, Didi, and others — demonstrated the party's willingness to sacrifice short-term market valuation for long-term strategic control over the digital economy.¹⁵

Text Box 3: China's Special Economic Zones — The Laboratory of Reform

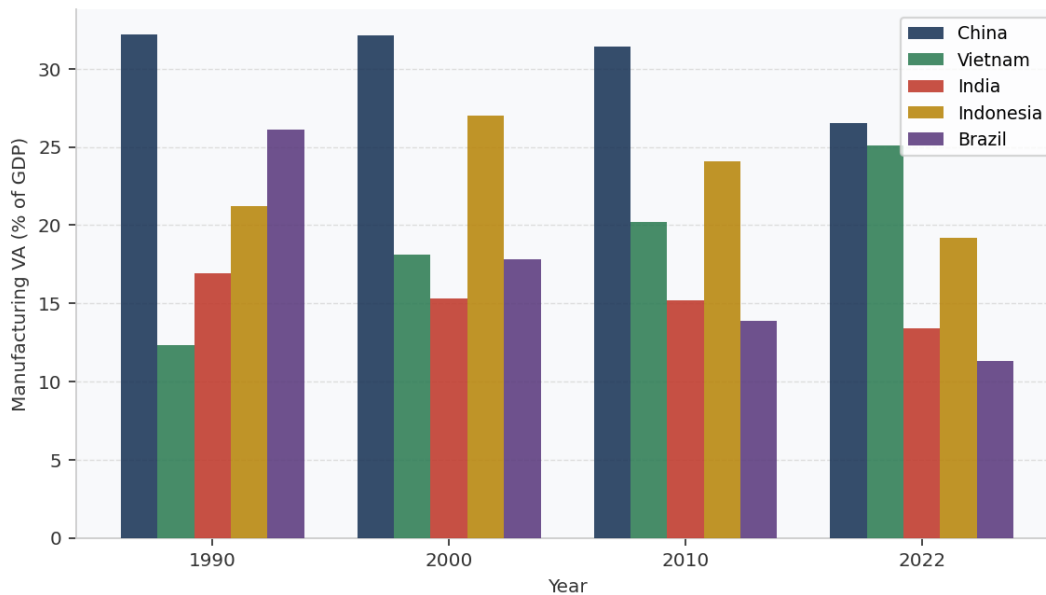
China's Special Economic Zones represent one of the most consequential institutional innovations in the history of developmental statecraft.

Established beginning with Shenzhen in 1979, the SEZs created geographically bounded spaces in which market mechanisms — foreign investment, private enterprise, export orientation — were permitted to operate under rules that differed

fundamentally from those governing the planned economy of the interior. Shenzhen, across the border from Hong Kong, was the paradigm case: a fishing village of 30,000 in 1979, it grew to a metropolitan area of over 17 million by 2023, generating electronics exports valued at hundreds of billions of dollars annually.

The SEZ strategy was not a concession to market forces but a controlled experiment designed by a cautious developmental state. Failures could be contained geographically; successes could be scaled nationally. The institutional learning generated through the SEZs — about what foreign firms require, what regulatory frameworks enable efficient production, what social infrastructure is needed for industrial agglomeration — informed the subsequent opening of coastal cities and, eventually, the national economy. China's SEZ model has since been adapted in various forms across Indonesia (KEKs), India (SEZs and now DMIC corridors), Vietnam (industrial zones), and dozens of other developing countries — with varying degrees of success depending on the institutional quality of the surrounding developmental state.

Figure 2: Manufacturing Value Added as % of GDP, 1990-2022



Source: World Bank World Development Indicators, 2023.

IV. Vietnam: The Socialist Market Economy and Doi Moi

Vietnam's development story is both a Chinese parallel and a distinctive trajectory in its own right. Reunified in 1975 after thirty years of anti-colonial and civil war, Vietnam initially attempted orthodox socialist construction — collectivisation, centralised planning, and Soviet-style heavy industrialisation. The results were catastrophic: near-famine conditions in the early 1980s, hyperinflation reaching several hundred percent annually by the mid-1980s, and the collapse of agricultural output. By 1986, even within the Vietnamese Communist Party, the evidence for systemic failure was undeniable.

The Doi Moi ("renovation") reforms of 1986 represented one of the most consequential policy reversals in twentieth-century development history.¹⁶ Under Doi Moi, the party de-collectivised agriculture through the household land assignment system, liberalised domestic trade, permitted private enterprise, opened to foreign direct investment on selective terms, and began the process of integrating with the global economy — culminating in WTO accession in 2007. The results were spectacular: GDP growth averaged over 6 percent annually from 1990 to 2022, poverty incidence fell from over 60 percent in the late 1980s to under 5 percent by 2022, and Vietnam became a major manufacturing hub in global electronics and garments value chains.

What distinguishes Vietnam's case theoretically is the deliberate retention of single-party developmental state authority through the market transition. Unlike the Soviet Union and Eastern European socialist states, which dissolved party control during market reform with disastrous economic consequences, the Vietnamese Communist Party maintained political legitimacy and institutional coherence while overseeing economic liberalisation. This allowed the state to sustain long-term developmental commitments, manage the social disruptions of rapid industrialisation, and avoid the "reform chaos" that characterised Russia's catastrophic transition in the 1990s.¹⁷

Vietnam's integration with global value chains has been particularly striking in its sectoral upgrading dimension. The country attracted massive FDI from South Korean conglomerates (Samsung, LG), Japanese manufacturers, and more recently from China-plus-one supply chain diversification strategies driven by US-China trade tensions. Electronics surpassed garments as the leading export sector by the 2010s, representing a significant upgrading of industrial sophistication within a relatively compressed timeframe. The state managed this through investment screening, industrial zone development, and selective linkage promotion between foreign firms and domestic suppliers.

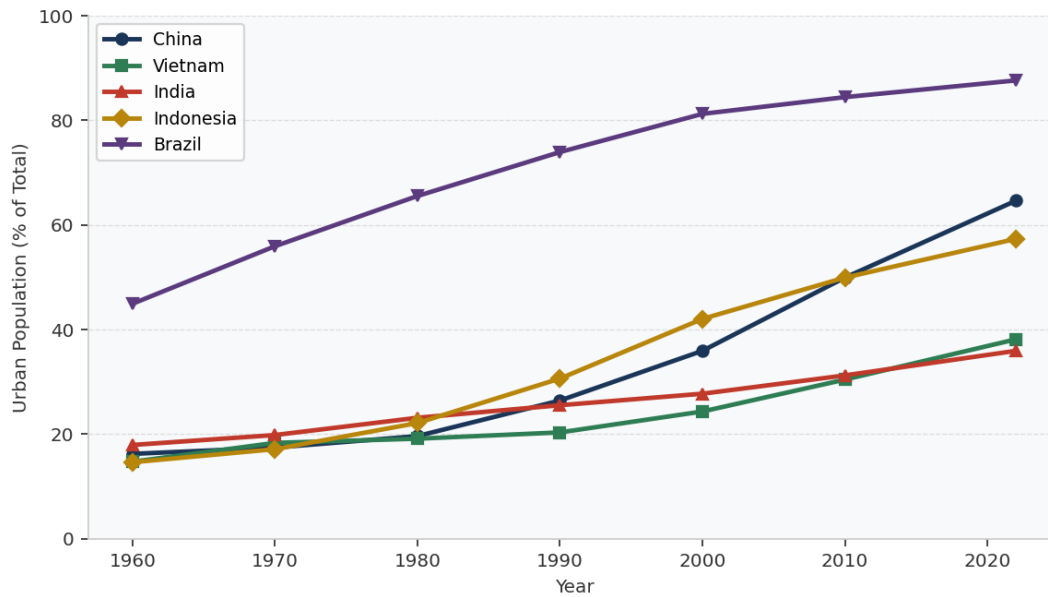
Vietnam also illustrates the foundational importance of agricultural transformation for broader development. The 1988 agricultural reforms that returned land use rights to farm households generated an immediate surge in agricultural productivity, transforming Vietnam from a food-deficit to a food-surplus country within a decade and making it the world's third-largest rice exporter. The political economy of this land reform — redistributing productive assets without alienating the party's rural political base — was a masterclass in developmental statecraft that aligned institutional incentives with productive outcomes.

Text Box 4: Doi Moi at Forty — Vietnam's Unfinished Revolution

Forty years after the Doi Moi reforms of 1986, Vietnam stands as perhaps the most successful case of socialist market economy construction in history. GDP per capita has grown from roughly \$980 (PPP) in 1990 to over \$10,800 by 2022. Poverty at \$2.15/day has fallen from over 60 percent to under 5 percent. Vietnam has become a globally significant manufacturing hub in electronics, with Samsung's Vietnamese operations alone accounting for roughly 30 percent of the company's global smartphone production. The country has achieved HDI scores that place it in the upper quartile of middle-income countries — a remarkable achievement given its starting point.

Yet Doi Moi remains, in important respects, an unfinished revolution. The Vietnamese Communist Party faces a structural tension between the political imperatives of single-party governance and the institutional requirements of a market economy at middle-income level: an independent judiciary, enforceable property rights, freedom of information for investors, and a civil society capable of generating the social innovation that drives late-stage development. Vietnam's middle-income transition — moving from labour-cost-driven manufacturing to higher-value, innovation-driven growth — will test whether the developmental state model can adapt to a context in which the state's information advantage over the market progressively diminishes.

Figure 3: Urbanisation Rates, 1960-2022



Source: World Bank World Development Indicators, 2023.

V. India: The Mixed Economy and Its Mutations

India's post-independence development trajectory is marked by a deeper ambivalence toward the state-market relationship than any of the other four cases — an ambivalence that reflects both the ideological complexity of the Nehruvian consensus and the fractured political economy of the world's largest democracy. Where China and Vietnam pursued coherent developmental strategies under single-party authority, India's developmental choices have been continuously negotiated through the messy, coalition-driven processes of democratic politics — producing outcomes that are less consistent but arguably more durable.

The Nehruvian model (1947–1991) combined parliamentary democracy with a planned mixed economy.¹⁸ The state reserved the "commanding heights" — steel, coal, railways, banking, heavy industry — for public enterprise, while permitting private capitalist development in consumer goods and agriculture. The Industrial Licensing System required firms to obtain government approval for capacity expansion, new products, and technology imports, creating a regulated capitalism that was neither fully state-directed nor market-driven. Industrial planning focused on import substitution and capital goods development, with public sector investment in steel, power, and heavy industry creating the foundational infrastructure that later growth would build upon.

The results were decidedly mixed. The "Hindu rate of growth" — roughly 3.5 to 4 percent annually through the 1950s and 1970s — represented a genuine doubling of per capita income in a generation, no mean achievement for an economy of India's complexity and initial conditions. But the License Raj generated pervasive inefficiency, rent-seeking, and technological stagnation. India's manufacturing sector never achieved the export dynamism of East Asia. Population growth eroded per capita income gains. By the late 1980s, fiscal imbalances had accumulated to crisis point, culminating in the 1991 balance-of-payments emergency that forced India's most consequential economic policy transformation.

The 1991 reforms under Finance Minister Manmohan Singh abolished the License Raj, opened trade through phased tariff reduction, deregulated capital markets, and began privatisation of non-strategic public enterprises. The post-1991 liberalisation unleashed extraordinary entrepreneurial energy, particularly in information technology services, pharmaceuticals, and financial services. India's IT sector became globally dominant, generating tens of billions in annual exports and creating a new professional middle class. Bangalore, Hyderabad, and Chennai emerged as globally recognised technology hubs — the most visible symbol of India's post-liberalisation transformation.¹⁹

But India's liberalisation also revealed the limits of the Washington Consensus applied to a complex democratic polity. Agricultural reform stalled under coalition politics. Infrastructure investment remained chronically inadequate relative to the economy's requirements. Labour market rigidities constrained manufacturing competitiveness. The services-led growth model created "islands of excellence" while leaving large swaths of the country — particularly the populous Hindi heartland states — largely untouched by the growth dividend. Inequality rose sharply in the liberalisation era, creating political pressures that would ultimately reshape India's development strategy.

The Modi government's approach from 2014 has sought a third path: activist industrial policy through "Make in India" and Production Linked Incentive (PLI) schemes, combined with continued private sector primacy. The PLI schemes — direct financial incentives for domestic production across fourteen priority sectors — have attracted significant investment in smartphones, pharmaceuticals, and solar panels, representing India's most explicit return to sector-specific industrial policy since 1991. Simultaneously, the construction of digital public infrastructure — the Aadhaar biometric identification system, the Unified Payments Interface (UPI), and the DigiLocker digital document stack — has created a state-built technology foundation that has transformed financial inclusion and service delivery.²⁰

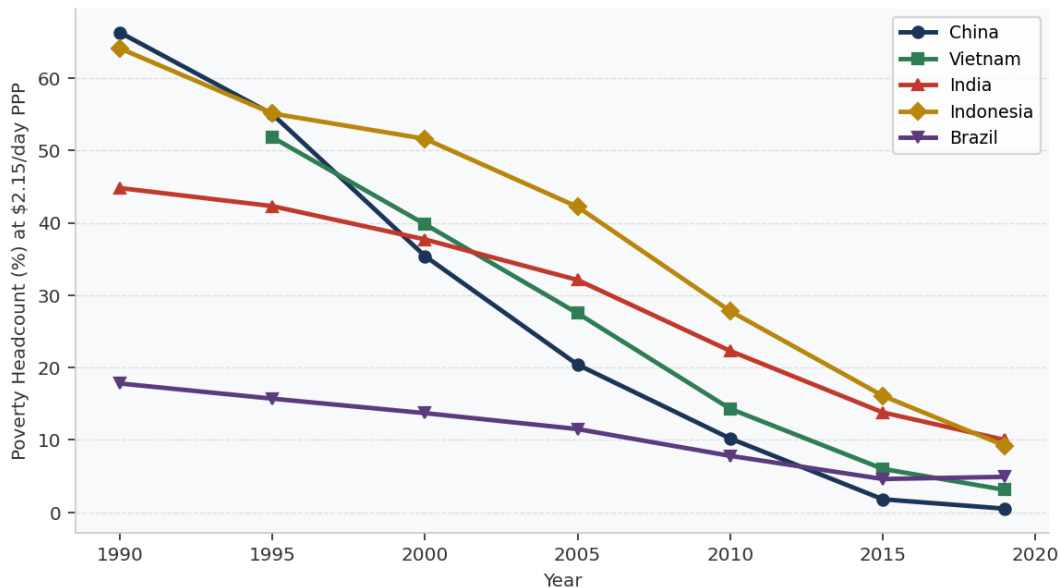
Text Box 2: India's Digital Public Infrastructure — The Stack Model

India's development of a layered digital public infrastructure architecture — commonly known as "India Stack" — represents the most globally significant innovation in developmental state strategy of the twenty-first century. Built over roughly a decade (2009–2022), India Stack comprises three foundational layers: Aadhaar, a biometric digital identity system covering over 1.3 billion residents; UPI (Unified Payments Interface), a real-time payment rail that processed over 100 billion transactions in 2023; and DigiLocker, a digital document repository that eliminates the friction of physical credential verification.

The architectural principle is critical: the state builds and maintains the infrastructure rails; private providers build services on top of them. No

single private entity controls the payment infrastructure; no monopoly can emerge from network effects in the foundational layer. The World Bank has identified India's DPI model as a potentially transformative template for developing country financial inclusion, and multiple nations – including Indonesia, Philippines, and several African states – are in various stages of replicating its core elements. India's achievement demonstrates that the developmental state's core logic – creating the institutional foundations on which productive private activity can build – applies as powerfully in the digital economy as it did in the industrial one.

Figure 4: Poverty Headcount Reduction, 1990-2019



Source: World Bank PovcalNet / Poverty and Inequality Platform, 2023.

VI. Indonesia: From Guided Economy to Reformasi

Indonesia's post-independence development narrative is structured by two authoritarian developmental regimes separated by a democratic transition – and the question of whether developmental effectiveness can be sustained across a political rupture of that magnitude. The answer, Indonesia's experience suggests, is cautiously affirmative, though the democratic developmental state operates through different mechanisms and with different costs than its authoritarian predecessor.

Sukarno's Guided Economy (1959–1965) was a nationalist developmental project that combined state-owned enterprise expansion with aggressive economic nationalism, expropriating Dutch-owned enterprises and pursuing self-sufficiency. The economic results were catastrophic: hyperinflation, stagnant output, and fiscal collapse. The political crisis of 1965 brought Suharto's

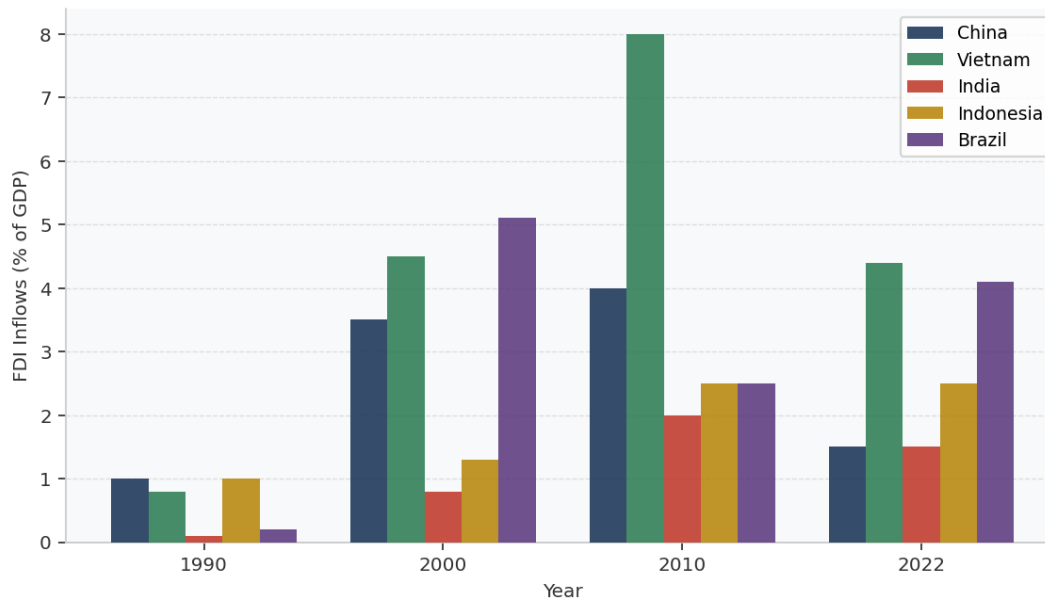
New Order to power — one of the most consequential political transitions in Southeast Asian history, accompanied by mass violence against the Indonesian Communist Party.

The New Order regime (1966–1998) was a classic developmental authoritarianism with significant technocratic capacity.²¹ The "Berkeley Mafia" — US-trained economists who staffed the key economic ministries — implemented orthodox stabilisation and then pursued a selective export-oriented industrialisation strategy. Oil revenues in the 1970s funded massive public investment in infrastructure, agriculture (the Green Revolution that made Indonesia self-sufficient in rice by the 1984), and human capital development. When oil prices collapsed in the 1980s, Indonesia successfully diversified into labour-intensive manufactured exports — garments, footwear, plywood — demonstrating remarkable policy adaptability under fiscal pressure.

By the 1990s, however, the developmental state had been systematically compromised by the patronage networks of the Suharto family and politically connected businessmen through the notorious Cukong system. The 1997–1998 Asian Financial Crisis exposed these structural vulnerabilities with devastating force. Capital flight, currency collapse (the rupiah lost over 80 percent of its value against the US dollar), and the IMF's severe conditionality produced the worst economic contraction in Indonesian post-independence history — GDP declined by over 13 percent in 1998 alone — and the political delegitimisation of the New Order, culminating in Suharto's resignation in May 1998.

The Reformasi era (1998–present) has involved Indonesia's most dramatic political transformation: from centralised authoritarian rule to a rambunctious, decentralised democracy with direct presidential and local elections. Economic decentralisation transferred significant fiscal and regulatory authority to district governments, producing both developmental innovation in provinces with capable leadership and coordination failures where political fragmentation impeded infrastructure investment. The democratic dividend — greater accountability, reduced regime-linked corruption, more equitable fiscal transfers — has been partially offset by the erosion of technocratic state capacity and the fragmentation of developmental authority across hundreds of competing jurisdictions.²²

Under President Jokowi (2014–2024), Indonesia returned to a more assertive developmental posture through infrastructure investment, KEK (Special Economic Zone) development, and — most innovatively — a downstream resource processing strategy requiring domestic value-added processing of raw mineral exports. The nickel ore export ban, implemented in 2020, forced foreign and domestic investors to build smelting and battery manufacturing capacity within Indonesia, leveraging the country's world-class nickel reserves in the context of global electric vehicle battery supply chains. This represents a sophisticated application of resource nationalism appropriate to the twenty-first century development context — not simple extraction rent capture, but strategic industrial upgrading using natural resource leverage.

Figure 5: Foreign Direct Investment Inflows as % of GDP, 1990–2022

Source: UNCTAD World Investment Report, 2023; World Bank World Development Indicators, 2023.

VII. Brazil: Developmentalism, Democracy, and Commodity Dependence

Brazil's developmental trajectory occupies a distinct position in the comparative landscape — neither an Asian miracle nor a simple Latin American failure, but a partial success story complicated by commodity dependence, extreme inequality, and the political economy of a vast, heterogeneous federation. Brazil built the largest industrial economy in the Global South outside Asia, generated world-class enterprises in aerospace (Embraer), oil and gas (Petrobras), and agribusiness, and implemented one of the most successful conditional cash transfer programmes in history (Bolsa Família) — yet it has never achieved the self-sustaining industrialisation dynamic that characterised the East Asian cases.

The Estado Novo and Vargas-era developmentalism (1930–1954) laid the institutional foundations: state-owned enterprises in oil, steel, and electricity; Keynesian demand management; and import substitution industrialisation that transformed Brazil from a coffee-exporting plantation economy into the largest industrial economy in Latin America. The Kubitschek era (1956–1961) added automobile manufacturing through selective FDI attraction and built Brasília — the most audacious act of developmental statecraft in the Western hemisphere, a declaration in concrete and steel that the Brazilian state could subordinate geography to development ambition.

The military dictatorship (1964–1985) accelerated industrialisation through forced savings, directed credit through BNDES (the national development bank), and technology transfer agreements. The "Brazilian economic miracle" of 1968–1973 saw GDP growth rates exceeding 10 percent annually, generating a sophisticated capital goods sector, a chemicals industry, and a modern aerospace sector. But this growth was built on accumulating external debt, and the second oil shock and global interest rate surge of 1979–1981 produced a debt crisis that derailed the developmental project and ushered in a "lost decade" of stagnation and hyperinflation through the 1980s.

The Plano Real of 1994 — which ended hyperinflation through currency anchoring and fiscal adjustment — restored macroeconomic stability but at the cost of abandoning active industrial policy. Brazil's 1990s were shaped by the Washington Consensus: privatisation of state enterprises, trade liberalisation, and financial deregulation. The results were modest growth, significant deindustrialisation of medium-complexity manufacturing, and continued dependence on commodity exports. Brazil's manufacturing share of GDP fell from 26 percent in 1990 to under 12 percent by 2022 — among the most pronounced cases of premature deindustrialisation documented in the development economics literature.

The Lula years (2003–2010) represent Brazil's most recent attempt at a new developmental synthesis: a commodity export boom was channelled to fund expanded social transfers (Bolsa Família), real minimum wage increases, and a revival of developmental state institutions through BNDES lending to national champions in oil, construction, and agribusiness. Poverty fell dramatically; the middle class expanded by some 40 million people; and Brazil achieved investment-grade credit status. But the model was commodity-dependent and BNDES lending was concentrated in politically connected large firms — creating new forms of cronyism whose investigation through the Lava Jato anti-corruption operation subsequently produced the deepest political crisis in Brazilian democratic history.

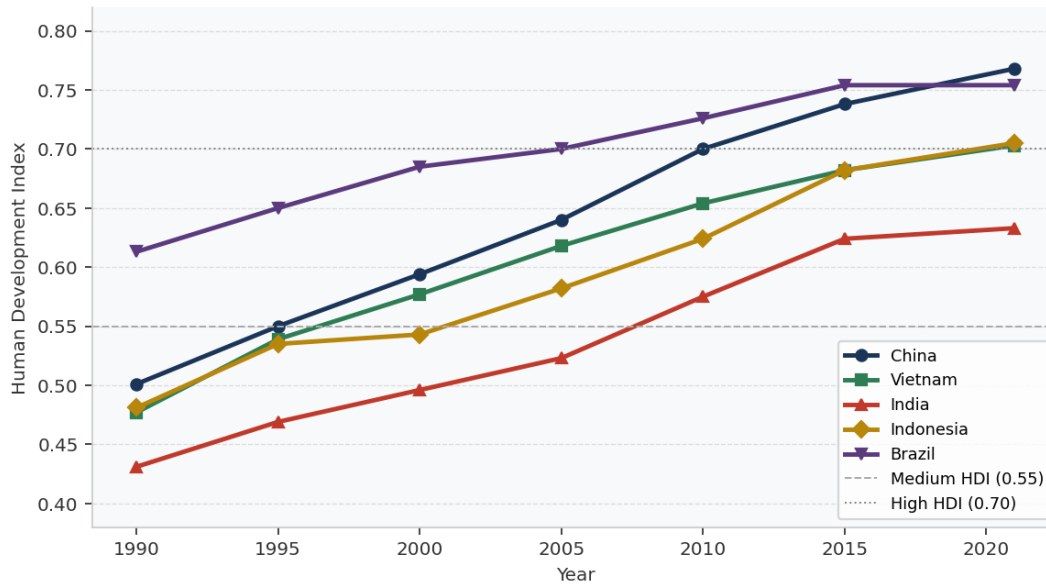
Text Box 5: Brazil's BNDES — Development Bank as Political Economy Battlefield

The Banco Nacional de Desenvolvimento Econômico e Social (BNDES), founded in 1952, is Brazil's national development bank and one of the largest development finance institutions in the world — larger by assets than the World Bank. At its best, BNDES has been a genuine instrument of developmental statecraft: financing the expansion of Embraer into a global aerospace player, supporting the development of deep-water oil extraction technology by Petrobras, and extending patient capital to infrastructure projects that private markets would not finance.

At its worst, BNDES has been a vehicle for politically directed credit to connected private groups under the cover of developmental rhetoric. The Lula and Rousseff governments' "national champions" strategy used BNDES to concentrate lending in politically connected construction conglomerates — Odebrecht, OAS, Camargo Corrêa — whose subsequent collapse in the Lava Jato corruption investigations destroyed tens of billions in shareholder value and produced Brazil's deepest political crisis in a generation. The BNDES story is the developmental state's central risk in a democratic context: the institutional instruments

created for developmental purposes are always also instruments of political power, and sustaining the distinction between developmental and predatory uses of those instruments requires a quality of political accountability that is difficult to sustain across successive governments with different political economies of support.

Figure 6: Human Development Index Progression, 1990-2021



Source: UNDP Human Development Report 2021/2022.

VIII. Comparative Analysis: Patterns and Divergences

Across these five cases, several structural patterns emerge that illuminate the deep logic of developmental transformation and the irreducible role of the state in generating it.

The Developmental State Paradox

All five cases display what might be called the developmental state paradox: market-led growth required extensive state involvement in creating, structuring, and disciplining the markets through which growth was achieved. None of the five achieved sustained transformation through spontaneous market activity alone; all required deliberate institutional construction, selective protection of infant industries, directed investment, and active management of integration with the global economy. The Washington Consensus prescription — that development required the removal of state distortions — was precisely backwards: it was the quality of state engagement with markets, not its absence, that determined developmental outcomes.

Regime Type and Developmental Capacity

The relationship between political regime type and developmental effectiveness is more complex than either the "authoritarian advantage" hypothesis or the "democratic dividend" thesis suggests. China and Vietnam achieved extraordinary developmental results under single-party systems with

high technocratic capacity and long time horizons. Indonesia's New Order demonstrated that authoritarian developmental states can achieve remarkable results while accumulating the institutional rot that eventually produces catastrophic failure. India's democratic developmental state produced more modest but more sustainable outcomes, while Brazil's experience suggests that neither regime type is determinative — what matters is the quality of state institutions and the political economy of fiscal allocation across the constituency structure of the polity.

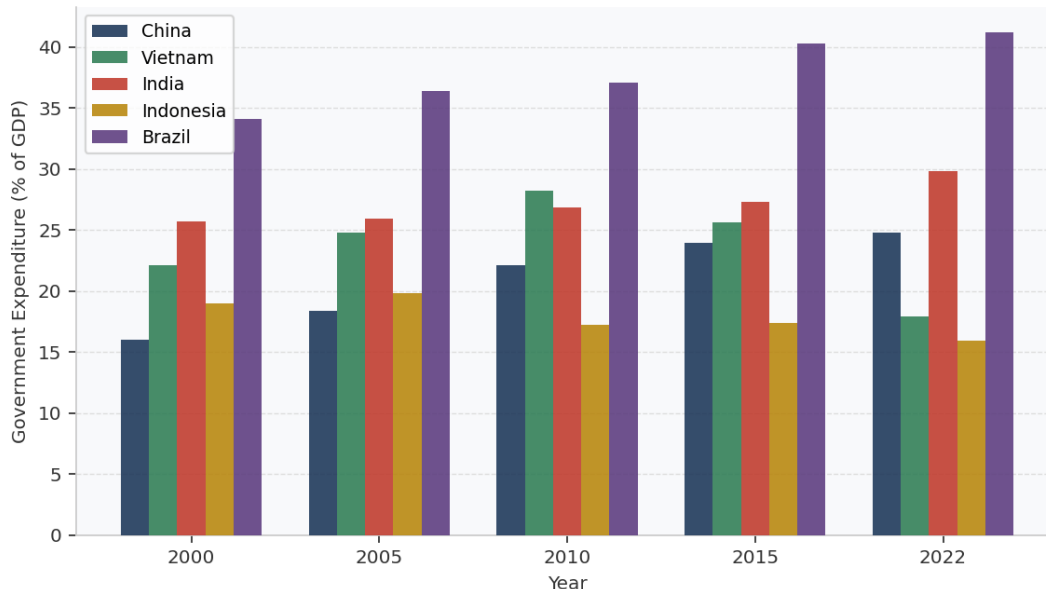
The Foundational Role of Agrarian Transformation

Agrarian transformation was the foundation of industrial takeoff in all five cases. China's household responsibility system, Vietnam's agricultural decollectivisation, India's Green Revolution, Indonesia's rice self-sufficiency programme, and Brazil's cerrado agricultural revolution all generated the rural surplus, the labour supply, and the domestic demand that fuelled industrial growth. Development economists who focus exclusively on manufacturing or services consistently underestimate how deeply agricultural transformation conditions the possibility of broader economic transformation — a lesson with particular relevance for twenty-first-century developing economies where food security and agricultural productivity remain foundational challenges.

Managed Globalisation vs. Indiscriminate Openness

All five cases achieved their most rapid developmental progress during periods of managed globalisation — integrated with the world economy on their own terms, controlling the pace and sequencing of external exposure rather than submitting to indiscriminate capital account and trade openness. The Asian Financial Crisis of 1997–1998 served as a natural experiment confirming this: Indonesia and Thailand, which had liberalised their capital accounts rapidly under Washington Consensus pressure, suffered devastating crises; India and China, which had retained capital account restrictions, were largely insulated. The policy lesson — that sequencing and the maintenance of strategic controls matter — has been fully absorbed by the post-crisis developmental state literature but remains contested in mainstream international financial institutions.

Figure 7: Government Expenditure as % of GDP, 2000-2022



Source: IMF World Economic Outlook Database, 2023.

IX. The Twenty-First Century Challenge: Big Tech and Mega-Cities

The developmental state framework that proved so generative in the twentieth century now confronts two structural transformations that were entirely absent from the original analytical context: the emergence of digital platform monopolies and the accelerating concentration of economic activity and population in mega-cities. Understanding how these two phenomena interact with the state-market relationship is the central developmental challenge of the twenty-first century, and no existing developmental state model has yet generated fully adequate responses to either.

Big Tech and the New Political Economy of Development

Digital platform companies — Alphabet, Meta, Amazon, Alibaba, Tencent, ByteDance — represent a qualitatively new form of economic power that does not fit neatly into the categories with which developmental states have historically operated. They are neither traditional manufacturing firms that developmental states can discipline through export performance requirements, nor financial institutions regulable through capital adequacy ratios, nor natural resource companies taxable through royalty regimes. They are platform ecosystems that generate value through network effects, data accumulation, and algorithmic governance — and their power grows not through conventional capital investment but through the expansion of user bases and data pools that create self-reinforcing competitive moats.

For developing countries, this creates a fundamental developmental dilemma. On one hand, digital platforms provide extraordinary access to global markets, financial services, and information for small producers, rural populations, and informal sector workers previously excluded from formal economic activity. China's Taobao villages, Indonesia's e-commerce revolution through Tokopedia and Shopee, India's UPI payment stack, and Brazil's digital financial inclusion through Pix all represent genuine developmental achievements enabled by platform technologies — reducing transaction costs, expanding market access, and accelerating financial inclusion at scale.

On the other hand, the rent extraction, data monopolisation, and market power of global tech platforms pose new threats to the developmental ambitions of the Global South. When a platform intermediates an entire urban transport ecosystem, or dominates small business e-commerce, the platform captures a growing share of the value created by local economic activity — a new form of digital extractivism whose governance implications developmental states have not yet fully worked out. The question of who owns the data generated by millions of Indonesian micro-merchants, Indian rural borrowers, or Brazilian informal workers is not merely a privacy question; it is a question of developmental rent distribution with implications for the political economy of accumulation in the twenty-first century.

China's response has been the most aggressive and consequential. The 2020–2021 technology crackdown imposed sweeping antitrust regulation on Alibaba (including a record \$2.8 billion fine), forced Didi to delist from US markets, and imposed data governance frameworks that significantly curtailed the political and economic power of domestic tech giants. While the crackdown's economic costs were significant — a sharp contraction in technology sector valuations and a chilling effect on venture investment — it demonstrated that a state with sufficient institutional capacity and political will can reassert developmental authority over digital platforms even at the cost of short-term innovation friction.

India's approach to this challenge has been more architecturally creative. The development of digital public infrastructure — the India Stack comprising Aadhaar biometric identification, UPI payment rails, and account aggregator frameworks — represents an attempt to create state-built, interoperable, open-access technology foundations on which private providers compete without achieving monopolistic capture of critical infrastructure. This "public rails, private services" model has attracted global attention as a potentially replicable template for developing countries seeking to harness the developmental benefits of digital platforms without surrendering to their rent-extractive pathologies. UPI alone processed over 100 billion transactions in 2023, representing a financial inclusion achievement unprecedented in the history of development.

Mega-Cities and the Spatial Transformation of Development

The second twenty-first-century structural challenge is the mega-city. By 2030, all five of the economies examined in this paper will have at least one city exceeding 20 million inhabitants, and collectively they will host a disproportionate share of the world's 40-plus projected mega-cities. Jakarta's extended metropolitan area already exceeds 34 million. Delhi is projected to become the world's most populous city by the late 2020s, approaching 39 million. Shanghai, São Paulo, and Beijing each exceed 20 million. These are not merely large cities — they are distinct civilisational entities whose economic, political, and institutional complexity exceeds the administrative reach of most national developmental states.

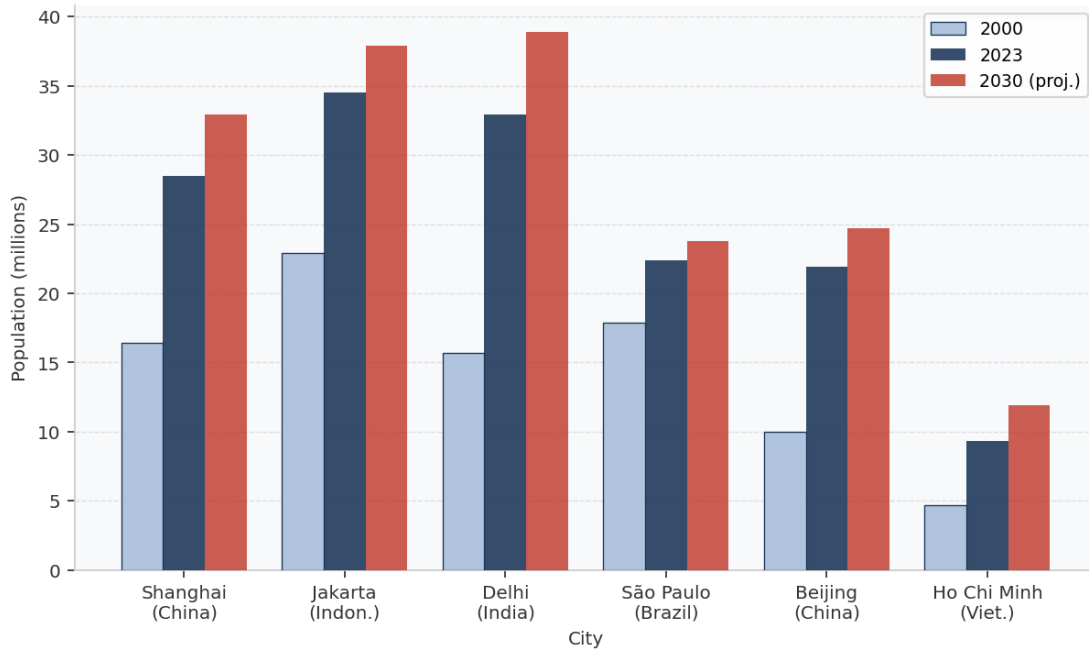
Mega-cities concentrate both the highest-productivity economic activity and the most acute developmental failures. Agglomeration economies generate productivity gains estimated at 2–5 percent for every doubling of city size in the development economics literature — but these gains coexist with sprawling informal settlements, catastrophic congestion, severe environmental degradation, and extreme spatial inequality within metropolitan boundaries. The developmental state's traditional toolkit — sectoral industrial policy, national infrastructure investment, centralised fiscal transfers — was designed for a spatial economy in which development could be spread across the national territory. The mega-city economy operates by different rules: agglomeration economies generate productivity gains that reinforce concentration, and attempts to force economic dispersal through administrative fiat may dilute both development efficiency and governance quality.

The twenty-first-century developmental state must therefore develop new spatial instruments: metropolitan governance frameworks capable of coordinating across municipal and provincial boundaries, transit-oriented development strategies that extend the productive catchment area of mega-city cores, and managed densification policies that allow mega-cities to capture agglomeration benefits while preventing the social costs of unmanaged sprawl. China's city cluster strategies — the Pearl River Delta, the Yangtze River Delta, and the Jing-Jin-Ji megaregion — offer the most developed attempts to govern mega-city systems as integrated spatial economies rather than as collections of competing municipalities. Indonesia's decision to relocate the national capital from Jakarta to Nusantara in Borneo — the most audacious act of planned spatial development since Brasília — reflects both the severity of Jakarta's sustainability crisis and the limits of conventional urban governance in managing a 34-million-person metropolitan system.

The interaction between Big Tech and mega-cities creates a further developmental complexity: digital platforms are overwhelmingly mega-city phenomena in their operational concentration and densest network effects. The spatial and digital dimensions of twenty-first-century development are therefore deeply intertwined. Ride-hailing platforms reshape urban transport systems; e-commerce logistics transform urban land use; digital financial services accelerate the

commodification of urban space. A developmental state that manages digital platforms effectively but fails to govern mega-city spatial dynamics — or vice versa — will find its developmental ambitions fundamentally constrained by the institutional mismatch between twentieth-century governance architectures and twenty-first-century economic geographies.

Figure 8: Selected Mega-City Populations, 2000-2030



Sources: UN World Urbanization Prospects 2022; Demographia World Urban Areas, 2023. 2030 figures are UN medium-variant projections.

X. Strategic Insights

Five strategic insights emerge from this comparative analysis, with particular relevance for policymakers navigating developmental challenges in the twenty-first century.

Strategic Insight 1: The Developmental State Remains Indispensable

The developmental state is not an artifact of the twentieth century. It is a recurrent institutional response to the coordination failures inherent in structural economic transformation. The question for the twenty-first century is not whether states should play an active developmental role but how that role must be reinvented for a digital, urban, and climate-constrained economy. The empirical record across all five cases examined here is unambiguous: the retreat of the state from developmental functions has consistently produced not market-led growth but institutional vacuum, rent-seeking, and development arrest.

Strategic Insight 2: Sequencing Determines Outcomes

Sequencing and institutional complementarity determine developmental outcomes more than the overall level of state intervention per se. Premature liberalisation — opening markets before the institutional capacity to govern them is in place — consistently produces crisis, as the 1997–1998 Asian Financial Crisis and Brazil's 1980s debt catastrophe both demonstrate. The lesson is not that liberalisation is wrong but that it must be preceded by the construction of the regulatory, supervisory, and redistributive institutions that allow markets to function without generating systemic instability.

Strategic Insight 3: Digital Public Infrastructure Is the New Industrial Policy

Digital public infrastructure (DPI) — state-built, interoperable, open-access foundational technology layers — represents the twenty-first-century equivalent of the developmental state's industrial infrastructure investments. India's UPI-Aadhaar-DigiLocker stack offers the most replicable model: public ownership of the infrastructure rails, private competition in services built on those rails. This architecture captures the developmental benefits of platform technologies — scale, network effects, low marginal cost — while preventing the monopolistic rent extraction that characterises private platform dominance. Developing countries that build their own DPI before ceding the digital infrastructure space to global tech platforms will retain the developmental leverage that their twentieth-century predecessors exercised through industrial infrastructure ownership.

Strategic Insight 4: Mega-City Governance Is the Most Urgent Institutional Gap

Mega-city governance is the most urgent institutional gap in contemporary developmental states. No country in the Global South has yet developed a metropolitan governance framework fully adequate to the complexity of cities of 20–40 million people. Resolving this gap — through constitutional reform, fiscal innovation, new forms of metropolitan democracy, and technology-enabled service delivery — is as important to developmental outcomes as any sectoral industrial

policy. The concentration of economic productivity and population in mega-cities means that governance failures at the metropolitan level cascade into national developmental failures.

Strategic Insight 5: The South's Developmental Experiences Are Active Intellectual Resources

The developmental experiences of China, Vietnam, India, Indonesia, and Brazil are not merely historical records — they constitute active intellectual resources for the Global South. The twenty-first century's developing economies do not need to choose between the Washington Consensus and state socialism; they can draw on a rich, documented repertoire of developmental state instruments — from China's SEZ experimentation to Indonesia's resource nationalism, from India's DPI architecture to Vietnam's managed FDI attraction. The sophistication with which these instruments are adapted to specific political economy contexts will determine whether the developmental state successfully reinvents itself for the challenges ahead.

XI. Conclusion

The state-market relationship in development is not a zero-sum competition between two institutional forms. It is a dynamic, historically specific, and politically contingent partnership whose terms are continuously renegotiated as economies transform. The five case studies examined in this paper — China, Vietnam, India, Indonesia, and Brazil — collectively demonstrate that there is no single developmental path, no universal sequence, and no institutional blueprint that can be transplanted from one context to another without adaptation to local political economies, historical inheritances, and global positioning.

What these cases demonstrate, with remarkable consistency, is the indispensability of an effective state. Not an all-knowing state that replaces markets, nor a minimal state that merely enforces contracts and protects property rights, but a strategically capable state that can identify developmental priorities, deploy public instruments selectively, sustain long-term commitments across political cycles, and adapt its institutional forms as the economy evolves. The evidence from the five cases reviewed here is unambiguous: the developmental states that succeeded — and those that failed — did so on precisely these dimensions.

The twenty-first century presents this developmental state with challenges of a qualitatively different order. The rise of Big Tech concentrates economic and governance power in ways that challenge state authority in both its regulatory and developmental dimensions. The emergence of mega-cities creates spatial complexity that exceeds the administrative reach of most national governments. Climate change imposes environmental constraints on the carbon-intensive developmental pathways that the twentieth century's successful transformers followed. And the fragmentation of the liberal international order — on which export-led growth strategies depended

— creates genuine uncertainty about whether the global economic conditions that enabled earlier developmental successes can be reproduced.

Yet the core logic of the developmental state remains valid and increasingly supported by evidence. The intellectual rehabilitation of industrial policy, the growing consensus on the necessity of digital public infrastructure, and the renewed attention to state capacity in the development economics literature all point in the same direction: the developmental state is not a relic of the past but a recurrently necessary institutional response to the coordination failures that structural transformation inevitably generates. The Kautilyan insight — that the art of statecraft lies in aligning institutional design with productive outcomes, in sustaining long-run developmental vision against the short-run pressures of political economy — resonates as powerfully today as it did in the fourth century BCE. The question before the developmental states of the twenty-first century is not whether to engage with markets but how to govern them in service of human welfare at the scale and complexity that the age demands.

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