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The Long-Term Persistence of State Capacity and its Origins in the British Empire, Latin America, Korea, and Taiwan

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Requirements for the degree Doctor of Philosophy
in Political Science

by

Chijiun Albert Chang

2019
ABSTRACT OF THE DISSERTATION

The Long-Term Persistence of State Capacity and its Origins in the British Empire, Latin America, Korea, and Taiwan

by

CHIJIUN ALBERT CHANG
Doctor of Philosophy in Political Science
University of California, Los Angeles, 2019
Professor Barbara Geddes, Co-Chair
Professor Ronald L. Rogowski, Co-Chair

This dissertation examines the origins and persistence of state capacity in three regions: the former colonies of the British Empire, the former Japanese colonies of Korea and Taiwan, and Latin America. In all three regions, I find that countries differ significantly in state capacity, and that these differences are highly persistent. In the cases of the former British colonies, Korea, and Taiwan, I find that differences in state capacity were already well-established during the last few decades of colonial rule by Britain and Japan, respectively, in the mid-20th century. In the case of Latin America, I find that differences in state capacity were also highly apparent in the independent Latin American countries by the early 20th century, and that they have persisted up to the present day. This project shows the persistence of state capacity across the 20th century in these three regions and also suggests reasons for the origins of these differences in state capacity.
First, I find that measures of state capacity in 38 former colonies of the British Empire at the time of independence strongly predict modern-day levels of GDP and HDI in the independent countries. Using three measures of colonial-state capacity – taxes collected per capita, the size of the colonial police force per capita, and extent of the British legal system – I find that all three variables strongly predict modern-day per capita income as well as educational and health indicators, after controlling for initial conditions, as well as geographical and other precolonial variables. The analysis also suggests that the reasons that the British established colonies with greater state capacity in some territories but not in others do not appear to be related to natural or geographical advantages that would predict modern-day economic performance, or even to how much economic potential they thought the territory might have. The British were more likely to establish an intense colonial administration where it was inexpensive to do so. In particular, it was less costly when there was little indigenous resistance to British colonization, and where there were no native polities through which they could rule indirectly.

Next, I show how the state capacity developed under colonial rule in four Asian countries (Taiwan, South Korea, India, and Singapore), under two different colonial rulers (Japan and Britain), was maintained and affected policy-making and implementation in the first decade after independence. This chapter investigates the mechanisms through which state capacity developed under colonial rulers was maintained or undermined during the first decade after independence in South Korea, Taiwan, India, and Singapore. All of these countries maintained their colonial civil service after independence, but the penetration of the civil service to local levels of government was much higher in South Korea, Taiwan, and Singapore than in India. South Korea, Taiwan, and India also had more well-qualified locals to replace departing British officials. Finally, the
professionalism of the civil service in India was significantly undermined by patronage and the reservation system for certain ethnic and caste groups.

Finally, I show that state capacity established after independence also strongly affected development outcomes in Latin America, the only large region in the developing world where most states were already independent by the early 20th century. Latin American states today show considerable variation in GDP and HDI levels. This chapter demonstrates that this variation can likewise be traced to a significant divergence in the levels of state capacity achieved by these states in the early 20th century. By the early 20th century, some Latin American states had achieved more state capacity than others, but significant investment in mass welfare of citizens had not yet occurred. Yet state capacity in early 20th-century Latin America is a strong determinant of levels of health and education in the present day. In addition, there is no relationship between the years that a state was ruled by a democratic or leftist regime, and its modern-day economic development, or its modern-day levels of health and education.
The dissertation of Chijun Albert Chang is approved.

Michael F. Thies
Nico Voigtlaender
Barbara Geddes, Committee Co-Chair
Ronald L. Rogowski, Committee Co-Chair

University of California, Los Angeles

2019
For my parents
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CHAPTER 1

Introduction

This project examines the origins and persistence of state capacity in three regions: the former colonies of the British Empire, Latin America, and the former Japanese colonies of Korea and Taiwan. In all three regions, I find that countries differ significantly in state capacity, and that these differences are long-standing. In the cases of the former British colonies, Korea, and Taiwan, I find that differences in state capacity were already well-established during the last few decades of colonial rule by Britain and Japan, respectively, in the early 20th century. In the case of Latin America, I find that differences in state capacity were also highly apparent in the independent Latin American countries by the early 20th century. This project shows the persistence of state capacity across the 20th century in these three regions and also suggests reasons for the origins for these differences in state capacity.

1.1 The Importance of State Capacity

In times of natural disaster, state capacity can be critical in matters of life and death. For example, in February 2010, an earthquake of magnitude 8.8 struck just off the southern coast of Chile, a country where earthquakes are endemic. This was a massive event, killing 521 people and injuring a further 12,000. Slightly more than a month before the Chilean earthquake, a much smaller magnitude 7.0 earthquake had struck Haiti. Though much smaller in seismic terms, this event resulted in the deaths of 316,000 people and the injury of a further 300,000. Although the 2010 Chilean earthquake was approximately 500 times that of the Haitian earthquake, its human and infrastructural toll was only about 0.17 percent as great (Kurczy et al. 2010). Why was the
less powerful earthquake so much more lethal? The reason is that at least since the 1920s, the Chilean government had instituted and enforced building codes designed to guard against earthquake damage, notably through enforcing the use of shear walls (Lomnitz 2004). No similar codes had been legislated in Haiti, nor could they in all likelihood have been effectively enforced. Likewise, in October 2016, Hurricane Matthew caused 517 deaths in southern Haiti but only 4 recorded deaths in neighboring eastern Cuba. The reason is that the Cuban government was able to warn its citizens to evacuate with ample time and enforce the evacuation order, while in Haiti, the evacuation order failed to reach affected residents in time: many residents were unaware that Matthew was even approaching the country a day before its expected landfall.

In 1991 and 1992, a cholera epidemic struck much of Latin America, but extensive infection was ultimately centered in Peru. By the time the epidemic had run its course, there were more than 301,000 reported cases in Peru and 2,840 deaths. Peru’s neighbor Chile, by contrast, suffered a total of 41 cases and only 2 deaths (Suárez and Bradford 1993). Why was the epidemic so much more deadly in Peru than in Chile? The answer is first that basic water infrastructure in Peru was in a poor state: in Trujillo, the epicenter, the public water system was not chlorinated, and relied on a storage system vulnerable to contamination. By contrast, when the Chilean government realized that the cholera which had entered the country was being disseminated via contaminated seafood and vegetables, it immediately took steps to stop the disease. In and around the capital Santiago, the use of wastewater for irrigation was banned, and enforcement was strict, involving inspections, barricades, and the destruction of contraband crops. The sale of raw seafood and vegetables in restaurants was banned, and a public information campaign was initiated.
The differences among Chile, Peru, and Haiti as their governments confronted these national emergencies are not only functions of these nations’ level of development: although Haiti is very poor, Chile only started to become significantly wealthier than Peru in the 1990s. Instead, the differences in mortality in these events came down to a simple set of capacities: the ability or inability of states to create appropriate basic infrastructure, impose regulation in construction and food production and distribution systems, or respond effectively and expeditiously to well-understood public health emergencies. In each case, the tools required to cope with catastrophe were both widely available and well within the reach of even comparatively poor states. Indeed, one of the most powerful earthquakes ever recorded, of magnitude 9.6, struck Chile in May 1960 in the same region as the 2010 quake, but killed only 1,655 people, which shows that Chile’s state capacity is long-standing.

What accounts for the enormous variations we observe in the ability of states to impose rule of law and implement effective policy? The most obvious answer might suggest that state capacity is largely a question of wealth: in rich countries, states will have more resources and thus in principle ought to be able to perform more functions better. Yet there is sometimes no strong relationship between national wealth and state strength. Countries at similar levels of income can actually vary drastically in their state capacity. Differences in the capacities of states to provide public goods, regulate their economies, or respond to crises are fundamentally about the differential abilities of state institutions to reach deeply into society. This is not always fiscally costly, and the mere existence of a wealthy economy in and of itself does not make state institutions effective.

High-capacity states are able to induce residents, firms, and organizations to act in ways they would not in the absence of its regulatory and administrative presence. At the micro level,
for example, citizens of high-capacity states are more likely to pay the taxes that they owe, serve in the military when called on, or use their property in a manner permitted by law. At the macro level, state capacity can be measured by uniform imposition of rule of law, the provision of public goods, military effectiveness, and the ability to generate tax resources to enable all of these. The infrastructural reach of state power thus matters. Scholars have long recognized that the strength of state institutions has a powerful role to play in the foundations for long-run economic performance. Some have emphasized the ability of the state to impose the rule of law or protect property rights as a determinant of comparative development (Dollar and Kraay 2003; Acemoglu et al. 2005). The developmental state literature argues that strong states are able to maximize growth because of a close alliance between government and industry that is able to spark rapid industrialization and create new comparative advantages, while at the same time shaping and constraining the activities of powerful economic agents in ways that prevent inefficiency and rent-seeking (Amsden 1991; Haggard 1990). Ha-Joon Chang (1999) suggests that, even in the contemporary era of liberalization and international economic integration, it is the systematic strengthening of state institutions that will be critical to superior long-run economic performance.

1.2 State Capacity in the Former British Empire, Latin America, Korea, and Taiwan

There is extraordinary variation in the quality, reach, and efficacy of public institutions around the globe. In fact, some states have had remarkably effective government institutions despite their comparative poverty, such as Chile in the 1920s and post-1953 South Korea. What is the origin of these differences in state capacity, and how long-standing are they?
This dissertation examines the origins and persistence of state capacity in three regions: the former colonies of the British Empire, Latin America, and the former Japanese colonies of Korea and Taiwan, as measured by the ability of the state to perform functions such as collecting taxes, maintaining law and order, and recruiting an army. In all three regions, I find that countries differ significantly in state capacity, and that these differences are long-standing. In the cases of the former British colonies, Korea, and Taiwan, I find that differences in state capacity were already well-established during the last few decades of colonial rule by Britain and Japan, respectively, in the early 20th century. In the case of Latin America, I find that differences in state capacity were also highly apparent in the independent Latin American countries by the early 20th century. This project shows the persistence of state capacity across the 20th century in these three regions and also suggests reasons for the origins for these differences.

State-building is examined in the former British Empire and Latin America because of the wide variations in institutional depth and efficacy to be found in former British colonies, as well as the independent republics of Latin America. In many ways, these groups of countries share institutional colonial legacies, as well as initial levels and patterns of economic development, yet they have extremely different modern-day development outcomes.

1.3 The Legacy of Colonial State-Capacity in the British Empire

There is much debate among scholars about how colonial rule impacted the long-term development of countries after they became independent. In a well-known paper, Acemoglu, Johnson, and Robinson (2009) argued that the percentage of European settlers during the colonial period was the most important determinant of the quality of colonial institutions, which persisted after independence and affected modern-day developmental outcomes. Other scholars,
such as Kohli (2004), argue that it is the state infrastructure established during the colonial era, particularly the ability to tax and police, that were most important for post-independence outcomes.

The former British Empire provides a useful set of cases to test the persistence of state capacity. First, the British Empire had colonies in all of the world’s major geographical regions: the Caribbean, South Asia, Africa, and East Asia, and economically successfully former colonies have not been restricted to any single world region. Second, with a few exceptions they all became independent at around the same time period: the late 1950s and early 1960s. A glance at the developmental records of British colonies, as measured by their modern-day HDI ranking, shows that former British colonies can be found at all levels of development – indeed, a close inspection of the list shows that British colonies are almost perfectly distributed throughout the world’s developmental rankings.

In Chapter 2, I use empirical evidence to show that the measures of state capacity in 38 former colonies of the British Empire at the time of independence strongly predict modern-day levels of GDP and HDI in the independent countries. Using three correlated measures of colonial-state capacity – taxes collected per capita, the size of the colonial police forces per capita, and extent of the British legal system – I find that all three variables strongly predict modern-day per capita income as well as educational and health indicators, after controlling for initial conditions, as well as geographical and other precolonial variables. Early development of state capacity under colonial rule is correlated with growth and welfare-improving outcomes many decades later.

First, the chapter finds that state capacity in the colonies with few European settlers varied dramatically, suggesting a challenge to the paper of Acemoglu, Johnson, and Robinson
The analysis also suggests that the reasons that the British established colonies with greater state capacity in some territories but not in others do not appear to be related to natural or geographical advantages that would predict modern-day economic performance, or even to how much economic potential they thought the territory might have. The British were more likely to establish an intense colonial administration where it was less expensive to do so. In particular, it was less costly when there was little indigenous resistance to British colonization, and where there were no pre-existing native polities through which they could rule indirectly.

1.4 Japanese Colonial State-Building in Taiwan and South Korea vs. British Colonial State-Building in India and Singapore

If the state capacity established during the final years of colonial rule was persistent, how was it maintained during the transition to independence? How were government capacities maintained after those who had occupied the most important decision-making offices in colonial governments left after independence? In the following chapter, I show how the state capacity developed under colonial rule in four Asian countries (Taiwan, South Korea, India, and Singapore), under two different colonial rulers (Japan and Great Britain), was maintained and affected policy-making and implementation in the first decade after independence.

All four of these countries inherited professional and competent civil and government bureaucracies from their colonial rulers, although India’s civil service was very small relative to the large size of the population. During the transition from colonial rule to independence, state capacity was better maintained when there was indigenous human capital available to replace departing colonial servants and when the colonial bureaucracy penetrated to local levels of
governance. In addition, there was also sometimes a loss in the professionalism of the post-independence civil services due to patronage appointments by the new governments.

At first glance, state-society relations in these colonies might seem similar, but the underlying bureaucratic foundations for such activities as tax collection were actually quite different. For example, both colonial India and colonial Korea were characterized by an alliance between the colonial power and local landlords. At the time of independence, in both countries there existed wealthy landowners who had collaborated with the British or the Japanese, as well as heavily taxed and impoverished peasants. Below the surface, however, the state capacity established by the British and the Japanese was very different in their respective colonies. In India, the British had brought landlords into their alliance by farming out tax collection to them. These landlords were permitted to collect taxes from their peasants, keeping some revenue for themselves, as long as a certain percentage was turned over to the British. The Japanese, by contrast, gained the allegiance of Korean landlords by guaranteeing their property rights in a land survey and improving agricultural productivity, so that returns on agricultural investments were high. Taxes, however, were collected by a bureaucracy that was also dense at the local level. The investment by the Japanese in tax-collecting infrastructure in Korea was actually greater than the British in India.

1.5 The Persistence of State Capacity in Latin America

The final chapter examines how varying state capacity in independent Spanish America due to differences in the state-formation process also persisted and resulted in diverging developmental outcomes in the present day.
Latin America is the only large region in the developing world where most states were already independent by the early 20th century. Latin American states today show considerable variation in GDP and HDI levels. This chapter argues that this variation can likewise be traced to a significant divergence in the levels of state capacity achieved by these states before the early 20th century. By this time period, some Latin American states had achieved more state capacity than others, but significant investment in mass welfare of citizens had not yet occurred. Yet state capacity in early 20th-century Latin America is a strong determinant of levels of health and education in the present day.

The remainder of the chapter proposes that Latin American states that had a single, pre-dominant urban city at the time of independence were more likely to implement a successful state-building project, while those states with multiple, competing cities were less likely to do so. The chapter includes with case studies of several Latin American countries showing this might have occurred.
CHAPTER 2

The Legacy of Colonial-State Capacity in the British Empire

2.1 Introduction

This chapter shows that colonial-state capacity at the time of independence affected later economic growth, as well as health and educational outcomes. Atul Kohli (2004) argued that the postwar economic success of South Korea can be attributed in part to the high state capacity of the Japanese colonial state. If Kohli’s argument is correct, other countries in which colonial rulers created more extensive governing institutions should also have grown faster after independence. This paper tests Kohli’s hypothesis for 38 colonies of the British Empire. Using three measures of colonial-state capacity shortly before they became independent – taxes collected per capita, the size of the colonial police force per capita, and extent of the British legal system – I find that all three variables strongly predict modern-day per capita income as well as educational and health indicators, after controlling for initial conditions, as well as geographical and other precolonial variables. This paper provides support for Kohli’s argument that greater state capacity before independence contributes to the effective implementation of development policy, even many years later.

The analysis also suggests that the reasons that the British established colonies with greater state capacity in some territories but not in others do not appear to be related to natural or geographical advantages that would predict modern-day economic performance, or even to how much economic potential they thought the territory might have. The British were more likely to establish an intense colonial administration where it was inexpensive to do so. In particular, it was less costly when there was little indigenous resistance to British colonization, and where
there were no pre-existing native polities through which they could rule indirectly. Two variables that might have influenced the expense of establishing a high-capacity state are pre-colonial population density, and the settler mortality variable identified by Acemoglu, Johnson, and Robinson (2001). AJR argued that settler mortality at the time of colonization has an impact on modern-day institutions because the extent of European settlement determined whether or not colonial and post-colonial states protected property rights, yet I find no relationship between AJR’s settler mortality variable and the actual proportion of settlers in each British colony at the time of independence. This paper identifies an alternative channel as to why AJR found that pre-colonial settler mortality might have an effect on modern-day income: British colonial administration was likely to be more intensive in regions of low settler mortality, even in the absence of actual European settlers. Contrary to AJR, who largely overlook the state structures that make possible the provisioning of rule of law and other public goods, this paper provides evidence that a high-capacity state that made development possible at the time of independence may instead have been one of the greatest determinants of future economic success.

2.2 Variation within the British Empire

The British Empire was the largest, most dispersed, and most diverse overseas empire the world has ever seen. It included colonies from many different world regions, almost all of which gained independence after WWII, mostly in the 1950s and 1960s. A look at the records of economic development in the former British colonies since independence reveals a very wide range of variation in economic performance as well as health and education indicators, as measured by both GDP per capita and the UN’s Human Development Index (HDI), which combines indicators of educational attainment, health, and economic opportunity.
One obvious difference among the British colonies was whether they experienced large-scale European settlement. The former settler colonies in the British Empire should be regarded as special cases, for in these countries (Canada, Australia, New Zealand, and the United States) the European settlers exterminated or marginalized the indigenous populations and established institutions very similar to those in the mother country. Even if the former dominions are excluded, however, there remains tremendous variation among the former British colonies whose populations at the end of colonialism were overwhelmingly non-European in origin. For example, Singapore, Hong Kong, Barbados, Trinidad, and Mauritius rank today among the world’s wealthiest territories, whereas Sierra Leone, Nigeria, and Bangladesh are at the bottom of the list. Other countries, such as Sri Lanka and Belize, compare poorly with Singapore but very favorably compared to, say, Nigeria. In fact, former British colonies can be found at almost all levels of development, and are evenly distributed throughout the world’s developmental rankings¹ (see Appendix Table B). Furthermore, although many of the worst-performing former colonies have been in former British Africa, even in this region there have been successful exceptions, such as Botswana. Finally, the best-performing former colonies, such as Singapore (Southeast Asia), Trinidad (Caribbean), Mauritius (Indian Ocean), and Cyprus (Mediterranean) are not restricted to any single world region.

The future success of the high-performing colonies was not obvious or even predicted at the time of independence. In fact, their starting points in the 1950s, in terms of per capita income, were very similar to the per capita income of former British colonies that have been much less successful in terms of economic growth. For example, in the 1950s, many of the sub-Saharan African countries at the time of independence had GDPs per capita not much different

¹ The 2011 HDI index can be found at: http://www.nationmaster.com/graph/eco_hum_dev_ind-economy-human-development-index
from the colonies that achieved rapid growth after independence, and furthermore many were much wealthier in terms of natural resources. Most of the colonies wealthiest in natural resources were in sub-Saharan Africa, which on average has been the worst-performing post-colonial region.

This chapter investigates why the former British colonies after independence might have had such divergent economic outcomes, and how much of this variation, if any, can be attributed to the legacy of British colonial rule. Specifically, it finds that the capacity of the colonial state, as measured by taxes collected per capita, the size of the colonial police force per capita, and the extent of the British legal system within the territory, varied greatly among the colonies at the time of independence, and that these institutional variables strongly predict modern-day per capita income, as well as educational and health outcomes.

2.3: Theories of Post-Colonial Economic Development

A debate still rages among scholars over the developmental impact of British colonialism. One hypothesis about the divergent economic outcomes of British colonies emphasizes precolonial factors, arguing that British colonialism had little or no long-term developmental impact and did not in fact transform the developmental trajectory of the colonies, so that whatever conditions promoted underdevelopment prior to colonialism were relatively unaffected by colonial rule and continued to reinforce developmental trajectories both during colonialism and afterwards. Gallup and Sachs (1999) argue that geographical endowments such as tropical climate, an unfavorable disease environment, and being landlocked, directly inhibit development or growth. Compared to temperate climates, tropical environments tend to have poor crop yields, more debilitating diseases, and endowments that cannot effectively employ
production technologies developed in more temperate zones (Diamond, 1997). Being landlocked raises the cost of accessing a large economic market and hinders its ability to exploit economies of scale, and therefore lower its production efficiency. Furthermore, diseases endemic to tropical areas, such as malaria or yellow fever, may be an obstacle to development.

A problem with this hypothesis when applied to the former British Empire is that nearly all the non-settler colonies, both successful and unsuccessful, were located in tropical regions, and very few were totally landlocked. Gallup and Sachs (1999) themselves note that several wealthy former colonies, such as Hong Kong, Singapore, and Mauritius, are in the tropics, but make no attempt to explain these anomalies. Furthermore, the existence of tropical diseases such as malaria is nowadays endogenous to economic development. Once endemic even in southern Europe and the southern USA, malaria and yellow fever have been eliminated in these wealthier countries.

Other studies trace the effect of geographic endowments through institutions. The institutions hypothesis holds that the environment’s main impact on economic development runs through long-lasting institutions. Engerman and Sokoloff (1997) argue that colonial underdevelopment is caused by the legacy of plantation agriculture, and colonies with geographical endowments that made plantation agriculture possible suffered from extreme income inequality at the time of independence. Those colonies with land endowments that lent themselves to commodities featuring economies of scale and the use of slave and indigenous labor became societies where power was concentrated in the hands of an elite that owned the mines and plantations. In contrast, the endowments of settler colonies such as Canada and Australia lent themselves to commodities grown on family farms and thus promoted the growth of a large middle class in which power was widely distributed. However, it is difficult to apply
the E&S hypothesis successfully to the British Empire, as many of the most successful colonies after independence, such as Mauritius, Trinidad, and Barbados, had economies dominated by plantations during the colonial period.

Acemoglu, Johnson, and Robinson (2001, 2002) argue that geography’s effect on development in the former European colonies was not direct, but rather indirect through geography’s effect on colonial institutions. They divide the European colonies into two broad categories – settlement and extractive colonies. Settlement colonies were created in areas with relatively benign disease environments yet without large indigenous populations. Because settlers demanded institutions that protected property rights, settlement colonies had relatively effective legal systems, institutions that persisted and thereby benefitted postcolonial development. Alternatively, where large-scale European settlement did not occur, colonial state officials developed “extractive” institutions that failed to provide the same legal protection of property as in settlement colonies. In the AJR argument, therefore, the presence or absence of European settlers was a key determinant of the form of colonialism. In the settler colonies, the Europeans created institutions to support private property and check the power of the state. At the other end of the spectrum, where Europeans did not settle, they did not create institutions to support private property rights; instead, they established institutions that empowered the elite to extract resources. The type of colonization strategy was influenced by the feasibility of settlement, so that in areas where there was high mortality among potential European settlers, they tended to create extractive states. The final piece of their theory of institutional development stresses that the institutions created by European settlers endured after independence. Settler colonies tended to produce post-colonial governments that were more democratic and better at defending private property rights than extractive colonies.
In a subsequent paper (AJR 2002), the authors point out further evidence that it is institutions rather than geography that matters: among colonized regions of the world, societies with higher urbanization or population density in the year 1500 have worse institutions and lower income today. High population densities made it difficult for these places to become colonies of settlement. The extractive institutions resulted in worse outcomes post-independence, and the result was a “reversal of fortune” in which colonies that had higher population densities and were wealthier in precolonial times are poorer today (AJR, 2002). Their argument can be summarized as follows: potential settler mortality determines the presence of European settlements, which determines the quality of early institutions. These institutions are maintained after independence, and they have an impact on current economic performance.

A problem with the AJR hypothesis, when applied to the former British Empire, is that even though the settler colonies such as Australia and Canada were indeed among the most successful, some non-settler colonies with almost no inhabitants of European descent at the time of independence grew quickly in the post-independence period as well. A plot (Figure 2.1) shows that there is no relationship between AJR’s settler mortality variable and the actual percentage of European settlers living in each colony in 1955.

In their 2001 paper, AJR argue that effective, non-extractive colonial-era institutions meant that the institutions were protective of property rights. However, their main dependent variable is the modern-day risk of expropriation as measured by Political Risk Services, and they never actually identify any colonial-era variable to measure quality of early institutions. Since only a small proportion of British colonies experienced large-scale European settlement, other factors besides institutional transfer via settlement would appear to have affected state institutional quality.
Several authors have also found a significant relationship between ethnic diversity and both economic performance and the quality of government. For example, Easterly and Levine (2002) argue that Africa’s poor economic performance is partly explained by its high ethnic fragmentation. Ethnic diversity may increase polarization and thereby impede agreement about the provision of public goods and create positive incentives for growth-reducing policies that create rents for the groups in power at the expense of society at large. La Porta et al. (1999) also find that countries that are ethnolinguistically heterogeneous exhibit inferior government performance and have worse public goods provision.

Finally, when examining the entire set of former European colonies, Olsson (2009) finds that there is a strong positive effect of colonial duration on democracy, that turns out to be driven primarily by former British colonies. Olsson does not evaluate, however, the effect of colonial duration or years since independence on economic performance or public goods provision. In the British Empire, the colonies of longest duration were in the West Indies, which were first colonized in the 1600s. By contrast, the British did not consolidate their rule over the African and Asian colonies until the late 19th century. Although many of the West Indian countries are among the best-performing former British colonies, there have been successful countries from the other regions as well. Also, Chanda and Putterman (2005) find that state antiquity (i.e., whether a state existed in a particular territory prior to European colonization) is positively correlated to a country’s post-1960 growth rate, when measured over all of the world’s current states (not just the former British Empire).

Was there anything distinctive then about British colonial rule in the most successful former colonies, and did they have anything in common? This paper agrees with AJR that the colonial legacy mattered for modern-day development, but argues that AJR overlook the state
structures that make possible the provisioning of rule of law and other public goods. In particular, I find that the bureaucratic capacity of the colonial administration, which Kohli (1994) argues was crucial for the success of the postwar developmental state in South Korea, had a strong impact on state effectiveness after independence, which in turn determined whether the independent state was able to provide public goods and carry out an effective post-colonial development strategy.

2.4: Strength of the Colonial State as a Determinant of Modern Development Outcomes

In a 1994 paper, Atul Kohli examines one of the most successful developmental states in the post-colonial world, South Korea, and attributes its success to the bureaucratic effectiveness of the Japanese colonial state that preceded it. Although Japan’s colonial rule was “brutal and humiliating”, with the end goal of benefitting Japan, Kohli argues that it also transformed the Korean state into a highly effective and penetrating administration that was able to effectively provide public goods as well as formulate and implement the export-driven growth strategy that eventually generated enormous wealth for Korea. Japanese colonial rule in Korea was unusually “intensive” by the standards of early 20th-century colonial empires, as measured by the size of the colonial bureaucracy and its ability to collect taxes. After Korea became independent, this transformed, high-capacity state was able to implement a program of economic development. It is hard to imagine, according to Kohli, that South Korea could have adopted this growth path without the state capacity left behind by the Japanese colonial regime. Unlike AJR, Kohli believes that the intensity of state infrastructure and bureaucratization, whether they effectively controlled the whole territory, and their ability to effectively collect taxes, were more important to future success than the “inclusiveness” of colonial-era institutions, as measured by the degree
of democracy, popular participation in government, or protection of property rights. However, high state capacity made protection of property rights and rule of law possible, if the post-colonial state chose to enforce them.

In contrast to Korea, Kohli argues that in the former British colony of Nigeria, the majority of the colonial population was outside the reach of the colonial state, which was incapable of implementing policy throughout the territory (Kohli 2004). The colonial state in Nigeria had no real capacity to reach down into the society to facilitate even such elementary government functions as taxation. This weak and fragmented state persisted after independence and failed to promote rapid development. In particular, the postcolonial Nigerian state has proved incapable of an effective development policy due to its extremely low levels of infrastructural power, its lack of bureaucratic organization, and the rent-seeking behavior of state officials. As a consequence, even the discovery after independence of rich oil deposits in Nigeria had little if any positive effect on broad-based development.

Kohli also identifies several variables that measure the transformative effect of the Japanese colonial state in Korea: the size of the civil service, the size of the police force, and the effectiveness of colonial-era tax collection. The near geographical continuity and shared racial and cultural traits of a colony such as Korea meant the Japanese may have realistically expected their rule to be permanent, leading to a full integration of the colonies into an expanded Japan. Both the extent and intensity of the colonial state’s penetration in Korea were unusual: comparing Japanese-administered Korea with French Indochina, there were nearly 15 Japanese officials in Korea, per capita, for every French administrator in Vietnam. The colonial-era bureaucracy in Korea was also highly effective in ensuring that lower-level officials responded to those above them in the bureaucratic hierarchy, rather than to personal interests, or to the
interests of societal actors with whom their interacted. Similarly, the extensive and intensive
type of the colonial-era police force in Korea was also unusual: it was highly centralized, well-
disciplined, and played an extensive role in social and economic reforms. The personalized and
factionalized pre-colonial state was replaced with a colonial state that had the capacity to
penetrate and control the society, thanks to the pervasive and disciplined civil and police
bureaucracies that constituted the cores of the new state. The increased capacity of the new
colonial state in Korea, compared to that of the pre-colonial state, was most evident in the
increased ability of the state to collect taxes. The stranglehold of the traditional landowning elite
on the precocial state was broken, and the newly created civil and police bureaucracy, posted
all over Korea, was able to effectively increase tax collection.

This paper tests Kohli’s hypothesis for 38 former colonies of the British Empire, which varied greatly both in development outcomes and in the colonial state-capacity variables
identified by Kohli for Korea. If Kohli’s hypothesis is also true for the British empire, then the
strength and organizational capacity of the state that the British left behind at the time of
independence would be expected to influence the subsequent development of each colony. After
independence, the strength of the colonial state that the British had left behind could be
harnessed for the benefit of the colonies’ inhabitants. As in Korea, “intensive” British colonial
administration would be pre-requisite to an effective government that was able to provide public
goods (health and education) and infrastructure, as well as formulate the effective economic
strategy for growth necessary in a “developmental” state.

The type of British colonial administration varied among its colonies, and even within them. Historians of the British Empire (Darwin, 2012), for example, usually make a distinction
between “direct” and “indirect” rule. For example, Singapore, Mauritius, and the British West
Indian colonies were administered directly. Any pre-existing political institutions before British colonization were dismantled, and colonial officials created a centralized state that controlled the entire territory that later became an independent state. In the British Caribbean, most of the indigenous population died out within a century of European colonization, and African slaves were imported as a replacement labor force; therefore, there were no indigenous institutions that survived. Most of British Africa, on the other hand, was under some form of “indirect” rule, in which the colonies were ruled through collaborative relations between the colonial administration and regional chiefs. The legal-administrative institutions in indirectly ruled colonies were usually confined to the colonial capital and areas of European settlement, while traditional indigenous rulers controlled “customary” legal-administrative institutions in peripheral areas. British India was a mixture of territories that were administered directly by the British and those that the British ruled indirectly through native intermediaries. The Japanese colonial regime in South Korea as described by Kohli was most similar to that of the directly-ruled British colonies such as Singapore in its control over the entire territory and its bureaucratic effectiveness. I argue that the “directness” of British rule, as it is traditionally understood by historians, has a strong relationship to Kohli’s state-capacity variables.

State capacity in the British Empire was determined by the local ability to raise taxes. By the standards of historical empires, the British Empire was actually not highly extractive in that the colonies did not pay “tribute” in the form of taxes that mostly went to Britain. By contrast, for example, the Spanish Empire demanded that one-fifth of colonial revenue to be paid directly to the Spanish Crown (the so-called “king’s fifth”, mostly in the form of silver bullion that was shipped to Spain). The political economy of the British Empire as a whole was designed not to generate widespread economic development in the colonies, nor to maximally extract resources
from them, but rather to maintain order at the lowest possible cost to Britain (Gardner 2012). Except for extraordinary loans during natural disasters and times of war, the financial accounts of each colony were kept completely separate from each other and those of the mother country. The main reason for the maintenance of the British Empire was not to extract tribute from the colonies, but to keep the markets of these colonies open to free trade, and prevent them from being monopolized by any foreign power, so that Britain was assured of a source of colonial raw materials, and that the colonial market for British products was kept open. One of the primary complaints of the nationalist movement in India, for example, was that the British had “de-industrialized” India by refusing to enact tariffs to protect India’s infant industries. For the most part, all revenue in each colony, to pay for colonial defense, law enforcement, education, and health was raised locally. This meant that in colonies with poor tax collection ability, there was little public funding available for education and health initiatives.

As Gardner (2012) points out, the need to collect sufficient revenue to pay for local administration was a serious problem in many British colonies, but especially so in Africa. Most African colonies did not have a sufficient surplus to support the highly bureaucratized European governments on which colonial administrations were loosely modeled. Nor were British taxpayers willing to make the kind of investment necessary to build such a state. At the beginning of the colonial period, few colonies in Africa were, from a purely financial perspective, worth the cost of governing them. Only in a few export powerhouses like Gold Coast (Ghana) and Zanzibar did exports keep pace with expenditures. The British Empire’s policy of “indirect rule” emerged as a matter of practical necessity, when the colonial establishment that could be supported by local revenue was skeletal at best. The fiscal institutions built by colonial states were inherited by the former colonies at independence, and
the weakness of these institutions largely explains the fiscal crises suffered by many colonies in the decades following independence.

Kohli’s hypothesis when applied to the British Empire predicts that high state capacity should have produced better economic outcomes. Although Kohli emphasizes, in the case of South Korea, the ability of the state to formulate and implement an effective economic and industrial policy, the results were equally important for health, education, and infrastructural development. Where state presence throughout the entire territory was strong, it was better able to provision and distribute public goods such as education and health care. This chapter tests whether the strength of the British colonial state affected post-independence economic development through these channels.

2.5 Data Sources

The colonial state-capacity variables for most colonies are measured in 1955, at which time none of the non-settler British colonies except for those in South Asia had yet become independent. For the five South Asian colonies, the variables are measured in 1947, the year in which they became independent. I exclude from the dataset colonies with a modern-day population of less than 100,000 people, which excludes Gibraltar, Malta, and the smaller West Indian islands. Also excluded from the dataset are colonies in which British rule lasted less than 20 years, which excludes the British mandates in the Middle East such as Transjordan and Palestine, which Britain controlled only during the interwar years. Finally, the dataset does not include independent countries where British capital had made large investments during the height of the Empire in the late 19th and early 20th centuries, such as the United States, Argentina, and Persia (Iran), even though British investments in these countries in many cases
exceeded those that were formally part of the empire. This leaves a set of 38 British colonies in the dataset, including the settler colonies of Canada, Australia, and New Zealand. A full list of all British colonies, both those included and not included in the dataset, as well as the ISO codes used in the plots, can be found in the appendix.

*Independent Variables Measuring Capacity of the Colonial State:* The data for this paper demonstrate that the capacity of the colonial state at the time of independence had an impact on modern-day economic performance. This might have occurred through several possible pathways. For example, a strong colonial state was able to build better infrastructure and provide higher levels of public goods such as education and public health. Two of the variables identified by Kohli (1994) as measuring the capacity of the colonial state are tax collection per capita and size of the police force per capita. Both measures are available for the year 1955 for all British colonies, except for those for those in South Asia, in the *Colonial Office List* (1955), which lists all tax revenues and expenditures in colonies administered by the Colonial Office. Similar data for the South Asian colonies in 1947 can be found in the *India Office List* (1947). A crucial characteristic of the British Empire was that all the British colonies were fiscally self-sufficient, and the accounts of each colony were kept completely separate from each other as well as from that of the mother country (Colonial Office, 1955; Chamberlain, 1997). Metropolitan taxpayers in Britain did not subsidize the colonies, nor did any of the colonies subsidize other colonies. Each colony in the Empire was expected to be fiscally self-sufficient, and local expenses, with the partial exception of foreign defense which was provided by the British armed forces (though with many locally recruited troops), were not subsidized by metropolitan taxpayers.

Lange (2009), in a study of colonial legal systems, measures the extent of the British legal system in each colony by analyzing the number of legal cases in each colony heard in
customary (i.e., non-British) courts. In all directly ruled colonies, the percentage of cases heard in customary courts was zero. In indirectly ruled colonies, on the other hand, some portion of court cases were heard in customary courts run by indigenous leaders who collaborated with colonial officials. In these colonies, the central legal-administrative institutions were often tiny, and colonial officials relied on customary authorities to govern large regions of the country. I use this variable, unique to the British Empire, to supplement Kohli’s state-capacity concept, as it is available for all colonies in the dataset.

**Dependent Variables Measuring Modern-Day Development, Educational, and Health Outcomes:**

I use several development indicators meant to measure economic development, such as per capita GDP (both in the first decade after independence and in the present-day), average educational attainment, infant mortality rates, and overall development as measured by the UN human development indicator (HDI). Maddison\(^2\) has the most complete data for estimated GDP for every decade from 1950 until 2008, but several countries are missing from his dataset; on the other hand, data for GDP in the earlier decades is missing for several countries from the World Development Indicators (WDI) as well as Penn World Tables. In regressions where a lagged log GDP per capita variable (measured in 1950) is used, I also use the Maddison measure of GDP per capita in 2008 (measured in 1990 Geary-Kharmis dollars); otherwise, I use the World Bank GDP per capita measure (PPP) for 2010, which has data for all countries in the dataset. The WDI also has data for infant mortality rates for most countries from 1960 until the present day. Finally, the newest dataset of Barro and Lee (2010) has data for average years of education for most countries from 1950 until the present day.

\(^2\) Maddison’s dataset is online at http://www.ggdc.net/maddison/maddison-project/home.htm
Control Variables: I include several control variables that have been proposed by various writers to measure the extent that pre-colonial state development might have influenced modern economic outcomes. The geographical variables thought to influence development, measuring whether a country is in the tropics or landlocked, are provided by Gallup and Sachs (1999). I also include a control variable measuring ethnolinguistic fractionalization developed by Fearon and Laitin (2003). To control for effect on GDP per capita from natural resource exports, I add a variable measuring resource rents as a % of total GDP. I also include variables for pre-colonial population density in 1500 (AJR 2001), measured by the pre-colonial population divided by the estimated amount of arable land, as well as state antiquity (Hariri 2012), which measures the existence of a state in this region before British colonization. Diamond (1997) argues that state antiquity and higher pre-colonial population density should be associated with more advanced countries, though AJR (2002) find a “reversal of fortune” in that countries that were more densely populated and urbanized in 1500 are less developed today. Finally, a variable is also included for percentage of people of European descent in 1955 to evaluate the AJR hypothesis that the presence of good colonial institutions is determined by whether Europeans settled in the colony.

2.6 Empirical Findings for the Effect of State Capacity on Modern-Day Development

In this section, I examine the empirical evidence for Kohli’s hypothesis as applied to the British Empire by investigating how well the measures of state-capacity in 1955 for the British colonies predict (a) modern-day per capita income; (b) HDI as measured by the UN Human Development Indicator; (c) educational outcomes in 2010 as measured by years of schooling; and (d) health outcomes as measured by infant mortality.
(i) Correlation of the Variables

First, a correlation matrix shows that colonial tax revenue per capita is both positively correlated to both police officers per 1000 people and negatively correlated to the percentage of cases heard in the customary courts. With the partial exception of external defense, each colony had to pay for its own administration. Therefore, it is unsurprising that colonies which raised low revenues in tax per person could only support a minimal colonial state. This data is also confirmed graphically in Figures 2, 3, and 4 (see appendix), which shows that the results are not being driven by any outliers.

Table 2.1: Correlation Matrix between Determinants of State Capacity, 1955

<table>
<thead>
<tr>
<th></th>
<th>Customary Courts</th>
<th>Police per 1000 People</th>
<th>Total Tax Per Capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customary Courts</td>
<td>1.0000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Police per 1000</td>
<td></td>
<td>-0.8318</td>
<td>1.0000</td>
</tr>
<tr>
<td>People</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Tax Per</td>
<td>-0.7042</td>
<td>0.7096</td>
<td>1.0000</td>
</tr>
<tr>
<td>Capita</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(ii) Testing Kohli’s Hypothesis

Kohli’s hypothesis is then tested by regressing the state-capacity variables in 1955 against three different indicators of development in 2010: per capita GDP, average educational attainment, and infant mortality rate. For the customary courts variable, the regression is run against both the set of full colonies as well as the set of all non-settler colonies (excluding Australia, Canada, and New Zealand, but including South Africa, which was only 25% European
in 1955). The OLS result are given in Table 2.5. For both sets of colonies, there is a highly significant (p < 0.001) negative correlation between extent of the British legal system (as measured by percentage of customary courts) in 1955, and per capita GDP in 2010. There is also a negative correlation between customary courts and average years of education in 2010, as well as a positive correlation with infant mortality in 2010. In each case, the magnitude of the coefficient for the customary courts variable is slightly lower when the settler colonies are excluded than when they are included, but still highly significant. The estimate of the coefficient implies, for example, that for each 1% increase in percentage of cases tried in customary courts, the per capita income in 2010 is expected to be lower by 1.45%. Likewise, for each 1% increase in percentage of customary courts, the average number of years of education is expected to be lower by 0.063 year, while infant mortality would be expected to be higher by 0.66 deaths per 1000 births. Similarly, there is a highly significant (p < 0.001) positive correlation between the police per 1000 people and the total tax per capita variables in 1955 (available only for the non-settler colonies) and per capita GDP in 2010. There is also a highly significant positive correlation between these variables and years of education in 2010, and a negative correlation between these variables and infant mortality in 2010. Figures 5-8 show plots of the percentage of customary courts in 1955 vs. log per capita GDP, average years of education, infant mortality, and HDI in 2010, while Figures 9-11 show a plot of tax collection per capita in 1955 vs. log per capita income, educational attainment, and infant mortality in 2010. These plots confirm that the results are not being driven by outliers.

The plots suggest graphically that the variance for modern log per capita income is greater among colonies that had high colonial state capacity, especially as measured by the customary court variable, than it is for modern-day educational or health incomes. This can be
confirmed by a plot (see Figure 9) of the UN’s modern-day Human Development Index (HDI) vs. the customary court variable. No ex-colony with high state-capacity had an HDI in 2010 of less than 0.62 (the value for Guyana). This suggests that high-capacity states were especially effective at providing better health and education for their citizens, even if economic performance was more variable. On the other hand, five colonies ranked as having high state capacity by the customary court variable (0% customary courts) still had per capita income of less than $10,000 in 2010.

Among the colonies which had a fully British legal system in 1955, Guyana ranks as an outlier in tax collection rate and modern-day per capita income. It had a low rate of tax collection during the colonial period and lower than average per capita income today. On the other hand, its education and health indicators today, as well as HDI, remain comparatively high. Among the colonies with a mostly non-British legal system in 1955, Botswana also ranks as an outlier: among the colonies with a high percentage of customary courts, Botswana has unusually high per capita income in 2010, as well as higher than expected educational and health indicators.

(iii) Testing for Robustness by Inserting Control Variables

How can we be sure that the apparent relationship between colonial state capacity and modern-day GDP is not caused by other factors correlated with both colonial state capacity and later outcomes? This section checks the robustness of the state-capacity variables as a predictor for economic development by introducing several control variables that have been identified by other authors.

(a) Inserting a Lagged Variable to Control for Initial Factors in 1950

First, a variable is introduced to control for initial conditions in 1950, to check how much of the variation in income, educational, and health incomes arose after the independence period.
In fact, as Figure 2.12 shows, only the three settler colonies (Australia, Canada, and New Zealand) were much wealthier than the rest in 1950. At that time, the other colonies differed very significantly in the state-capacity variables but considerably less in per capita income.

The OLS results for the regression of log per capita GDP in 2010 against the state-capacity variables are shown in Table 3. When a lagged variable controlling for initial per capita income in 1950 is introduced, I show the association between customary courts and growth in every decade after independence. Unsurprisingly, wealth in 1950 is highly correlated with wealth in 1960. The effect the coefficient on the customary court variable does not become statistically significant until 1980. However, for every decade after 1980, the coefficient on the state-capacity variable is highly significant and the size of the coefficient is increasing (see Table 3). A similar phenomenon can be observed for the police per 1000 people and tax collection state capacity variables as well. I insert similar controls for initial education in 1950 as well as infant mortality in 1960 (the earliest year for which the WDI has data). Education and health were already higher in the directly ruled colonies in 1950, but the state-capacity variable is still significant, showing that these colonies have still improved faster relative to the rest.

For the police per capita and tax per capita variable, the case set does not include the settler colonies. For the customary courts variable, the regression is run both with and without the settler colonies included.

(b) **Inserting Variables to Control for Geographical Factors**

This section examines the possible impact on development outcomes of control variables related to a country’s geography.
A regression of log per capita income in 2010 is run against the customary court variable and controls for the geographical variables that Gallup and Sachs (1999) argue may directly affect economic development:

\textit{dистeq}: distance of country from the equator

\textit{lnд100cr}: proportion of a country’s total land area within 100 km of the ocean coastline

\textit{pop100cr}: proportion of the population in 1994 within 100 km of the coastline or ocean-navigable river

\textit{lnд100km}: proportion of a country’s total land area within 100 km of the ocean or ocean-navigable river

\textit{pop100km}: proportion of the population within 100 km

Sachs and Gallup do not have an historical variable for index of malaria in the 1950s, but the Colonial Office List (1955) says that malaria and other tropical diseases are health problems in virtually every colony. Since independence, the wealthier tropical states have therefore been highly effective at eradicating tropical diseases, while less effective states have not.

The OLS results are shown in Table 4 (with settler colonies included) and Table 5 (with settler colonies excluded). In these tables, Model (1) runs the regression to control only for geographical variables, Model (2) runs the regression to control only for non-geographical variables, Model (3) controls for years of colonization and years of independence, Model (4) runs the regression with all control variables, and Model (5) runs the regression with the state-capacity variable (customary courts) as well as all control variables. The customary court variable was chosen as the state-capacity variable for these two tables because it is available for all the cases.
When the settler colonies are included (in Table 4), I find that distance from the equator is significant in predicting per capita income in 2010, as seen as in the column for Model(1). However, this result appears to be driven by the settler colonies. When the settler colonies are excluded (in Table 5), I do not find any of the geographical variables suggested by G&S to be significant in the regression. This is as expected since virtually all of the non-settler colonies, both successful and unsuccessful, are located in the tropics, and only five colonies in Africa are completely landlocked.

(b) Inserting Variables to Control for Non-Geographical Precolonial Variables

The next set of regressions in Model (2) controls for non-geographical precolonial variables that have been suggested to matter for economic development by various authors. The results are shown in Tables 2.4 and 2.5. Chanda and Putterman (2005) argue that pre-colonial population density as well as state antiquity should be positively correlated to development. On the other hand, Acemoglu, Johnson, and Robinson (2001) find that high urbanization and pre-colonial population density are negatively related to modern income, which they call the “reversal of fortune” finding. Olsson (2009) suggests that years since independence as well as years of colonial occupation might matter for development. I also include variables to control for percentage of European descendants at the time of independence (from Acemoglu and Robinson’s 2001 data), as well as variables for natural resource rents as % of GDP (from World Development Indicators), as well as Fearon and Laitin’s ethnic fractionalization (EF) index. Model (2) shows the results when the regression is run for the non-geographical control variables only. I find that pre-colonial population density is negatively related to log GDP in 2010 (p < 0.005), thus confirming AJR’s “reversal of fortune” finding for former European colonies. The state antiquity variable, measuring whether a state existed in the colony’s territory prior to 1500,
is weakly and positively related to per capita income in 2010. Interestingly, a plot of state antiquity vs. pre-colonial population density (see Figure 2.14) shows that these two variables are not always strongly related, as Chanda and Putterman suggest, because some territories that are ranked by them as having no state history (especially in Africa) were nevertheless densely populated at the onset of European colonization. Both of these variables are significant in the same way whether settler colonies are included or excluded. I find none of the other variables to be significant: many high-performing British colonies (for example, Mauritius, Singapore, and Trinidad) had few European settlers; in addition, many successful former colonies are also very diverse ethnically.

Model (3) runs the regression of log per capita GDP in 2010 for control variables measuring how many years the colony was under European rule (in some cases, both the British and the European colonial power that preceded them), and how many years the colony has been independent. Regardless of whether the settler colonies are included or excluded, neither variable is significant. Successful colonies include both those that have been colonized by Europeans for hundreds of years (Barbados), and those that the British founded only in the late 19th century, such as Singapore. Finally, almost all the British colonies in the sample, except for the South Asian colonies and the dominions, became independent after 1955, so this variable does not vary much.

Model (4) runs the regression of log per capita GDP in 2010 for all control variables, both geographical and non-geographical. Regardless of whether settler colonies are included or excluded, the only significant variable among the controls is pre-colonial population density, which is negatively related to modern-day GDP, as AJR (2002) also found when the entire set of former European colonies is considered.
Model (5) runs the regression of log per capita GDP in 2010 against the customary courts variable but with all control variables as well as a lagged variable for log per capita GDP in 1950 included. In addition, geographical dummy variables for Africa and the Caribbean regions are inserted, as most former colonies in sub-Saharan Africa tend to be poor, while most former colonies in the Caribbean tend to be relatively wealthy. Whether settler colonies are excluded or included, the state-capacity variable, in this case customary courts, remains negatively related to per capita income in 2010 and highly significant (p < 0.05).

In conclusion, the state capacity variable is robust even when including controls for GDP per capita and various geographic variables.

2.7 Why did the British establish higher state-capacity in some colonies but not in others?

So far, the tests do not rule out the possibility that some third factor caused both investment in state capacity and later growth. Did some colonies have initial conditions that caused both the British to invest in later building and also later caused economic growth? Why, for example, did the British establish a strong colonial state in Singapore but not in Sierra Leone? First, the answer is not likely to be future exploitation of natural resources. In many of the countries with high natural resource rents today, such as Trinidad (oil), Brunei (oil), or Botswana (diamonds), these resources had not yet been discovered at the time of independence. In particular, oil was not as important a resource at the time of colonization as it later became later in the twentieth century, as the global transition from a coal-based to an oil-based economy only occurred after the First World War. Furthermore, some of the most intensive colonial states were either in colonies that had no natural resources (Singapore and Hong Kong) or in colonies...
whose natural resource exports had already peaked long before independence (e.g., sugar exports from the West Indian islands or Mauritius).

One possible clue is provided by Hariri (2012), who uses Puttermann’s state antiquity variable to predict whether a country was colonized, as well as its intensity of colonization. He argues that countries with more developed precolonial states were less likely to be colonized and to experience European settlement; furthermore, conditional on being colonized, more developed precolonial states were likely to be colonized with an indirect form of colonial rule and without settlement (Hariri 2012). Hariri argues that territories governed by state-like institutions were harder to colonize because centralized authority under a single ruler enabled polities to respond decisively and mount coordinated resistance. Moreover, one-body polities are more likely to be less fraught with disunity and internal strife for colonists to exploit in divide-and-conquer strategies. Hariri argues that early statehood is associated with a state being more autocratic today; however, his paper does not make any arguments about how it may have affected economic performance.

It would have been extremely expensive for the British to establish strong colonial states in densely populated countries that could resist colonization, such as those in South Asia and parts of Africa. They were unable or unwilling to bear the costs to conquer the colony to such an extent that British legal administration would be established over the entire territory, for example, or to establish effective tax collection throughout the entire colony. Hariri argues, furthermore, that precolonial state development may have also shaped British colonization strategy. Where state-like institutions and authority structures were already in place, the British could superimpose themselves on the existing framework and govern through the established
channels in a system of indirect rule. In these cases, it was simply easier and cheaper for the British to use existing authority and state infrastructure than to destroy and build from scratch.

To test his hypothesis, Hariri (2012) constructed a dataset from Putterman’s State Antiquity Index in order to measure the presence of a state in any territory at the onset of European colonization. I regress my customary court variable, a measure of the “directness” of British rule, against Hariri’s state history variable, AJR’s precolonial population density variable, and the geographical control variables used above (see Table 2.6). Geographical variables are insignificant once the settler colonies are removed from the dataset. However, the population density variable, which is negatively correlated with extent of British rule, is highly significant (see Figure 13). This provides support for Hariri’s hypothesis that British colonization was impeded by dense indigenous populations, and that the British often instituted indirect rule in places as a way to cheaply rule such territories. The early state history variable is also weakly correlated in a negative way, tentatively providing further support for Hariri’s hypothesis, but the plot shows no clear relationship (see Figure 14).

It is likely that in areas with almost no indigenous inhabitants, the British found it easier and much less expensive to start from scratch and establish an intensive colonial state. This is especially clear in the case of the West Indian colonies, where practically all indigenous inhabitants had died of disease within a century of European contact. In the cases of Hong Kong and Singapore, the British built new cities and trading centers where none existed before, rather than taking over any pre-existing large city. For example, when the Chinese Qing Empire ceded Hong Kong island to the British in 1857, its population was only about 7000 living in a few fishing villages; today, the population of Hong Kong island alone exceeds 1.3 million, with an
additional 6 million living in the rest of the territory, now a special administrative region of the People’s Republic of China.

Nevertheless, neither state antiquity nor population density by themselves completely capture the prime reasons for the willingness of the British to establish a strong colonial state. In Hariri’s data, many sub-Saharan colonies had a state history of zero at the time of colonization. Yet the tribal or chiefdom level institutions that existed were adequate for the British to establish forms of indirect rule, as the large number of African colonies with no state history yet a low penetration of the British legal system shows. In addition, it is not true that only strong states were able to put up strong resistance to European colonization, as Hariri claims, or make it expensive. For example, the British fought a long series of colonial wars in West and Southern Africa during the nineteenth century against peoples with less than state-like organization (measured as zero in Hariri’s data) who nevertheless put up strong and effective resistance. In fact, it is noteworthy that the Spanish in the 16th century found it much easier to conquer and incorporate into their empire the Aztec and Inca Empires than the nomadic indigenous people of North America and the Southern Cone: the Apache of what are now northern Mexico and the southwest USA, as well as the Araucanians of southern Chile and Argentina, were not fully conquered by the Spanish empire’s successor states until the late nineteenth century. In addition, there were cases in which ancient states with dense populations welcomed British administration: such was the case of Cyprus, which Britain annexed from the Ottoman Empire in 1878. The Christian Greek Cypriots, who made up the island’s majority population, preferred British rule to that of the Muslim Ottomans, and at the time put up little resistance to the annexation. Cyprus therefore seems to be one of the few already populated states where the British were able to set
up intensive colonial administration, similar to what Kohli suggests that Japan did in South Korea.

It is also suggestive that the British tended to establish intense colonial administration in territories that were physically small, or, in many cases, islands, especially if they were lightly populated prior to colonization. Thus, the British were able to intensively rule the small territory of Hong Kong, establishing an effective tax collection system and providing excellent infrastructure for this territory, but they were unable and unwilling to do it for large, already populated African states. This is part of the explanation why the former colonies with higher state capacity tend to be physically small and sometimes islands.

Another suggestive idea comes from Acemoglu, Johnson, and Robinson (2001), who find a strong relationship between colonial settler mortality and modern-day per capita income. As shown in Figure 1, in the British Empire there is in fact no relationship between the AJR measure of settler mortality (from their 2001 paper) and the actual percentage of people of European descent in these colonies in 1955, since only Canada, New Zealand and Australia experienced large-scale European settlement. There is also no strong relationship between pre-colonial population density and percentage of people of European descent in 1955. In other words, simply because the disease environment was relatively benign or the territory was lightly populated did not guarantee that European settlers would move there. In the West Indian colonies, where the indigenous inhabitants had perished within half a century of European contact, British planters introduced labor from Africa and later also South Asia. The planters of Mauritius likewise imported labor from continental Africa and South Asia. Unlikely the colonies of continental Africa, where the British were unwilling to establish expensive direct rule due to the resistance of their large indigenous populations, Mauritius became a directly and intensely administered
colony, which may have contributed to its post-independence success compared to mainland Africa. The British developed Hong Kong and Singapore into important trading centers, with good infrastructure and ruled by British law, that attracted immigrants from China (Hong Kong and Singapore), India (Singapore), and the Malay Peninsula (Singapore).

There is also a remarkably strong positive correlation between the AJR measure of colonial mortality and the customary court variable (see Figure 15). In other words, the British were more likely to establish a strong colonial state where settler mortality was lower. This suggests that the AJR settler mortality variable, which is derived from the mortality of colonial soldiers (AJR 2001), is a good measure of how difficult or expensive it was for the British to establish a strong colonial state. The channel by which settler mortality may have determined the modern-day economic performance of former British colonies, in other words, is not through its ability to attract European settlers who came to set up better institutions, but its effect on the willingness and ability of the British to establish a strong colonial state, though the exact mechanism is still uncertain. I therefore suggest that AJR could use the settler mortality measure to instrument for one of Kohli’s state-capacity variables instead of a measure for modern-day institutional quality.

2.8: Conclusions and Suggestions for Future Research

The statistical evidence provides strong support for Kohli’s hypothesis when applied to the British Empire. The state-capacity variables of the British colonies at the time of independence strongly predict modern-day per capita income, educational attainment, and public health. However, the state-strength variables are a more accurate predictor of education and health outcomes than of GDP per capita. The reason for this might be that several countries with
high state-capacity at independence (such as Guyana or Sri Lanka), pursued an autarkic or socialist economic policy after independence, which caused them to have lower GDPs per capita in 2010 than those that have consistently pursued free-trade, export-oriented economic policies, and were open at an earlier date to foreign investment (such as Hong Kong, Mauritius, and Singapore). Further research could be done on whether there is a relationship between type of colonial rule and post-independence openness to trade and foreign investment, since a significant number of the high-capacity states pursued an export-oriented, free-market strategy after independence, while many of the lower-capacity states, such as those in Africa, preferred an autarkic development strategy.

Historians of the British colonial empire usually make a distinction between “direct” and “indirect” rule. It turns out that there is a strong positive relationship between the “directness” of British rule, as measured by extent of the British legal system, and the state-capacity variables identified by Kohli, as measured by number of police per capita and tax collection per capita. In those colonies in which the British relied heavily on local collaborators and ruled indirectly, the police force per capita was small, and the state was also ineffective at collecting taxes. The weak post-colonial state that resulted was therefore not able to effectively provide public goods such as health and education, and it was unable to effectively coordinate economic and industrial policy for growth.

The effectiveness of the state-strength variables in predicting economic performance, education, and health outcomes persists even when lagged dependent variables are introduced to control for initial conditions. This is because all the non-settler colonies initially had fairly low GDP per capita, but the directly ruled colonies grew much faster after independence, while the more indirectly ruled colonies did not, thus providing support for Kohli’s hypothesis. The
directly ruled colonies did already have significantly better education and health levels at the time of independence, but the state capacity variables are still very significant even when lagged variables are introduced, providing evidence that they were still highly important at determining the independent state’s ability to provide public goods.

The significance of the state-strength variables persists even after controlling for various geographical and non-geographical variables. The best-performing colonies were located in many different geographical regions of the world (though almost all in the tropics) that nevertheless were endowed by the British with high state capacity. Since almost all the directly ruled non-settler colonies in the dataset are located in the tropics, and few are landlocked, I did not find any of Gallup and Sachs’ geographical variables to be significant. Similarly, some of the wealthiest countries today, such as Mauritius and all the West Indian colonies, had colonial economies based on plantation agriculture, which provides evidence against Engerman and Sokoloff’s hypothesis. Finally, I do not find that variables measuring ethnic fractionalization or natural resource exports to be highly significant, since many of the wealthy British colonies are ethnically diverse (e.g., Mauritius, Singapore), and many of the wealthiest countries do not earn significant income from natural resource exports (e.g., Barbados, Cyprus, Hong Kong, Mauritius, Singapore). The percent of European settlers at the time of independence is not significant for economic outcomes either, since only three colonies (Australia, Canada, and New Zealand) had a high percentage of settlers in 1955, and the state-capacity variables are still highly significant when these countries are dropped from the dataset.

Finally, the reasons that the British established direct rule in some colonies but not in others do not appear to be related to natural or geographical advantages that would predict modern-day economic performance, or even to how much economic potential they thought the
place had at the time. Besides geostrategic reasons, the British were more likely to establish an intense colonial administration where it was inexpensive to do so, and there was little indigenous resistance to British colonization. Therefore, intensive colonization was less likely in densely populated areas, while in low-density or uninhabited colonies (such as the Caribbean islands, Hong Kong, or Singapore), they were able to build a colony from scratch. Furthermore, a large indigenous population meant that the British sometimes sought to cheaply govern the territory through indigenous collaborators, which was referred to as “indirect” rule. There is a strong negative relationship between pre-colonial population density and intensity of British colonization, but I found no relationship between the state-capacity variable and Hariri’s measure of state development at the time of colonization. In fact, historical evidence shows that pre-state societies could put up strong resistance to the British that made colonization very costly; in addition, the British were able to use the existing pre-state societies in Africa to institute indirect rule. The cases, therefore, in which Britain established an intensive colonial regime in a highly populated territory were rare, though Cyprus is a good example. This was possible because the Christian Greek Cypriots preferred British rule to the Muslim Ottoman administration, and so did not resist or object strongly when the British transformed the island’s administration.

Finally, there is no relationship between AJR’s settler mortality variable and the actual percentage of colonial settlers in each colony at the time of independence, but the settler mortality variable may actually a good predictor of the intensity of British rule, which suggests that it is actually measuring factors, such as disease environment or resistance to colonial rule, that determined the intensity of colonization. In places with low settler mortality, the British were more likely, and found it less expensive, to establish a strong and effective state, even if
few European settlers actually came to the colony. If high pre-colonial population density prevented “intensive” British colonization (though not always, as in the case of Cyprus), then this supports the AJR’s earlier “reversal of fortune” finding, though not the channel by which it happened. Therefore, the relationship between settler mortality and modern-day incomes, in the case of the British Empire, is because this variable predicts the likelihood of the British colonizers to set up an effective state, regardless of the presence of European settlers.

One avenue of further research would be to study in-depth large former colonies such as India, where the extent of British colonial administration varied considerably from state to state. The modern-day Indian states vary in per capita income, and it is likely that there might be a relationship between regional development in India and the type of colonial administration that existed in each region prior to independence. Another research avenue would be to compare the British colonial empire with that of the French colonial empire, which similarly had colonies all over the world in various geographical regions, to see if the Kohli hypothesis applies for this other large European 19th-century colonial empire as well.

Also, this study provides evidence that high-capacity states gave these territories the potential to rapidly grow after independence, but further research using case studies could show the pathways by which they actually did so, and why they did so. This paper has shown that high-capacity states are better at providing public goods such as education and health, but this was not the only pathway through which they contributed to economic growth. Kohli emphasizes the ability of high-capacity states, South Korea being a prime example, to coordinate economic policy and practice industrial planning. Also, it would seem possible that high-capacity states after independence could have become rent-seeking, in which officials abuse their power, or the government could have become totalitarian and oppressive, as indeed happened in North Korea,
for example. Yet this did not happen in most of the high-capacity states that were formerly colonies in the British Empire. Finally, further work should be done on why some cases are outliers: for example, why Guyana, despite having been a high-capacity state as measured by the British legal system, performed relatively well in providing public goods but did not deliver high economic growth rates; and why Botswana, despite the relatively weak British colonial state, nevertheless experienced high growth economic rates and also had high educational and health outcomes compared to the rest of Africa.
Table 2.2: Variable Description and Sources for Data about the British Empire

<table>
<thead>
<tr>
<th>Variable</th>
<th>Description</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Independent Variables</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Dependent Variables</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP Per Capita 2010</td>
<td>GDP Per Capita 2010 (PPP)</td>
<td>World Bank WDI⁴</td>
</tr>
<tr>
<td>Human Development Index</td>
<td>United Nations Development Indicators, 2012</td>
<td>UN Human Development Reports⁵</td>
</tr>
<tr>
<td>Average Years of Education 1950-2010</td>
<td>Average Years of Education</td>
<td>Barro and Lee (2010)⁶</td>
</tr>
<tr>
<td>Infant Mortality 1960-2010</td>
<td>Mortality rate, infant (per 1,000 live births)</td>
<td>World Bank WDI⁷</td>
</tr>
</tbody>
</table>

³ Maddison’s dataset is online at http://www.ggdc.net/maddison/maddison-project/home.htm
⁶ Barro and Lee’s educational data can be downloaded from www.barrolee.com
Control Variables

Geographical Variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Description</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>disteq</td>
<td>distance of country from the equator</td>
<td>Gallup and Sachs (1999)</td>
</tr>
<tr>
<td>Ind100cr:</td>
<td>proportion of a country’s total land area within 100 km of the ocean or ocean-navigable river</td>
<td>Gallup and Sachs (1999)</td>
</tr>
<tr>
<td>Ind100km</td>
<td>proportion of a country’s total land area within 100 km of the ocean coastline</td>
<td>Gallup and Sachs (1999)</td>
</tr>
<tr>
<td>pop100cr:</td>
<td>proportion of the population in 1994 within 100 km of the coastline or ocean-navigable river</td>
<td>Gallup and Sachs (1999)</td>
</tr>
<tr>
<td>pop100km</td>
<td>proportion of the population within 100 km</td>
<td>Gallup and Sachs (1999)</td>
</tr>
</tbody>
</table>

Non-Geographical Variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Description</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Early State Development</td>
<td>Value of the State Antiquity Index up to 1500, 1750, or combined (1500 for Americas, 1750 for other countries)</td>
<td>Bockstette and revised by Hariri (2012)</td>
</tr>
<tr>
<td>Ethnic Fractionalization</td>
<td>Index of ethnic, religious, and linguistic fragmentation</td>
<td>Fearon and Laitin</td>
</tr>
<tr>
<td>Settler Percentage</td>
<td>% European settlers in 1955</td>
<td>Acemoglu et al. (2002)</td>
</tr>
<tr>
<td>Resource Rents</td>
<td>% Total natural resources rents (% of GDP)</td>
<td>World Bank WDI9</td>
</tr>
<tr>
<td>Years since Independence</td>
<td>Number of years since independence</td>
<td>Olsson (2009)</td>
</tr>
<tr>
<td>Years Colonized</td>
<td>Number of years under European colonial rule</td>
<td>Olsson (2009)</td>
</tr>
</tbody>
</table>

Other Variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Description</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Setter Mortality</td>
<td>Estimate of Colonial Settler Mortality</td>
<td>Acemoglu et al. (2001)</td>
</tr>
</tbody>
</table>

8 State Antiquity Index (Version 3), found at http://www.econ.brown.edu/fac/louis_putterman/antiquity%20index.htm

Table 2.3: List of British Colonies in the Analysis

<table>
<thead>
<tr>
<th>Colony</th>
<th>ISOCode</th>
<th>GDP Per Capita (PPP, 2010)</th>
<th>HDI (2012)</th>
<th>Yr Colonized</th>
<th>Yr Independent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>AUS</td>
<td>$39,721</td>
<td>0.929</td>
<td>1788</td>
<td>1901</td>
</tr>
<tr>
<td>Bahamas</td>
<td>BHS</td>
<td>$31,978</td>
<td>0.771</td>
<td>1648</td>
<td>1973</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>BGD</td>
<td>$1,777</td>
<td>0.500</td>
<td>1757</td>
<td>1947</td>
</tr>
<tr>
<td>Barbados</td>
<td>BRB</td>
<td>$19,320</td>
<td>0.793</td>
<td>1627</td>
<td>1966</td>
</tr>
<tr>
<td>Belize</td>
<td>BLZ</td>
<td>$6,672</td>
<td>0.699</td>
<td>1524</td>
<td>1991</td>
</tr>
<tr>
<td>Botswana</td>
<td>BWA</td>
<td>$14,746</td>
<td>0.633</td>
<td>1885</td>
<td>1966</td>
</tr>
<tr>
<td>Brunei</td>
<td>BRN</td>
<td>$51,760</td>
<td>0.838</td>
<td>1888</td>
<td>1984</td>
</tr>
<tr>
<td>Canada</td>
<td>CAN</td>
<td>$40,370</td>
<td>0.908</td>
<td>1608</td>
<td>1867</td>
</tr>
<tr>
<td>Cyprus</td>
<td>CYP</td>
<td>$32,250</td>
<td>0.840</td>
<td>1878</td>
<td>1960</td>
</tr>
<tr>
<td>Egypt</td>
<td>EGY</td>
<td>$6,281</td>
<td>0.644</td>
<td>1882</td>
<td>1922</td>
</tr>
<tr>
<td>Fiji</td>
<td>FJI</td>
<td>$4,757</td>
<td>0.688</td>
<td>1874</td>
<td>1970</td>
</tr>
<tr>
<td>Gambia</td>
<td>GMB</td>
<td>$1,809</td>
<td>0.420</td>
<td>1816</td>
<td>1965</td>
</tr>
<tr>
<td>Ghana</td>
<td>GHA</td>
<td>$1,871</td>
<td>0.541</td>
<td>1482</td>
<td>1957</td>
</tr>
<tr>
<td>Guyana</td>
<td>GUY</td>
<td>$3,438</td>
<td>0.633</td>
<td>1580</td>
<td>1966</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>HKG</td>
<td>$50,551</td>
<td>0.898</td>
<td>1842</td>
<td>1997</td>
</tr>
<tr>
<td>India</td>
<td>IND</td>
<td>$3,627</td>
<td>0.547</td>
<td>1750</td>
<td>1947</td>
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<td>Lesotho</td>
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<td>$1,703</td>
<td>0.450</td>
<td>1868</td>
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<td>MWI</td>
<td>$893</td>
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<td>$16,051</td>
<td>0.761</td>
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<td>MUS</td>
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<td>$28,800</td>
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<td>1840</td>
<td>1907</td>
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<tr>
<td>Nigeria</td>
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<td>$2,533</td>
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<td>1947</td>
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<td>$871</td>
<td>0.336</td>
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<td>SGP</td>
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<td>1652</td>
<td>1910</td>
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<td>0.466</td>
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<td>1961</td>
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<td>Trinidad</td>
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<td>$515</td>
<td>0.376</td>
<td>1890</td>
<td>1980</td>
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The settler colonies were Australia, Canada, and New Zealand.
**Table 2.4: British Colonies Excluded from the Dataset**

<table>
<thead>
<tr>
<th>Population Less than 100,000</th>
<th>Mandate Territories</th>
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<tbody>
<tr>
<td>Antigua and Barbuda</td>
<td>Iraq</td>
</tr>
<tr>
<td>Bermuda</td>
<td>Israel/Palestine</td>
</tr>
<tr>
<td>Cayman Islands</td>
<td>Jordan</td>
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<tr>
<td>Dominica</td>
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<td>Falkland Islands</td>
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<td>Gibraltar</td>
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<tr>
<td>Grenada</td>
<td></td>
</tr>
<tr>
<td>Maldives</td>
<td></td>
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<tr>
<td>Malta</td>
<td></td>
</tr>
<tr>
<td>Montserrat</td>
<td></td>
</tr>
<tr>
<td>St. Kitts and Nevis</td>
<td></td>
</tr>
<tr>
<td>St. Lucia</td>
<td></td>
</tr>
<tr>
<td>St. Vincent and Grenadines</td>
<td></td>
</tr>
<tr>
<td>Seychelles</td>
<td></td>
</tr>
<tr>
<td>St. Helena</td>
<td></td>
</tr>
<tr>
<td>Tonga</td>
<td></td>
</tr>
<tr>
<td>Turks and Caicos Islands</td>
<td></td>
</tr>
<tr>
<td>Tuvalu</td>
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### Table 2.5: The Effect of Colonial State-Capacity Variables on Modern-Day Development Outcomes

<table>
<thead>
<tr>
<th>(i) Dependent Variable:</th>
<th>All Colonies</th>
<th>N</th>
<th>R²</th>
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<tbody>
<tr>
<td>Log Per Capita GDP 2010</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% Customary Courts</td>
<td>-.0145*** (.00181)</td>
<td>38</td>
<td>0.62</td>
</tr>
<tr>
<td></td>
<td><strong>Non-Settler Colonies Only</strong></td>
<td>N</td>
<td>R²</td>
</tr>
<tr>
<td>% Customary Courts</td>
<td>-.0135*** (.00195)</td>
<td>34</td>
<td>0.61</td>
</tr>
<tr>
<td>Police Per 1000 People</td>
<td>.431*** (.0737)</td>
<td>33</td>
<td>0.56</td>
</tr>
<tr>
<td>Total Tax Per Capita</td>
<td>.0486*** (.00642)</td>
<td>24</td>
<td>0.63</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(ii) Dependent Variable:</th>
<th>All Colonies</th>
<th>N</th>
<th>R²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avg Years of Education, 2010</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% Customary Courts</td>
<td>-.0629*** (.00863)</td>
<td>35</td>
<td>0.52</td>
</tr>
<tr>
<td></td>
<td><strong>Non-Settler Colonies Only</strong></td>
<td>N</td>
<td>R²</td>
</tr>
<tr>
<td>% Customary Courts</td>
<td>-.053*** (.00779)</td>
<td>32</td>
<td>0.48</td>
</tr>
<tr>
<td>Police Per 1000 People</td>
<td>1.536*** (.289)</td>
<td>30</td>
<td>0.4</td>
</tr>
<tr>
<td>Total Tax Per Capita</td>
<td>.169*** (.0552)</td>
<td>21</td>
<td>0.4</td>
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</table>

<table>
<thead>
<tr>
<th>(iii) Dependent Variable:</th>
<th>All Colonies</th>
<th>N</th>
<th>R²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infant Mortality, 2010</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% Customary Courts</td>
<td>.684*** (.0897)</td>
<td>37</td>
<td>0.65</td>
</tr>
<tr>
<td></td>
<td><strong>Non-Settler Colonies Only</strong></td>
<td>N</td>
<td>R²</td>
</tr>
<tr>
<td>% Customary Courts</td>
<td>.658*** (.0936)</td>
<td>34</td>
<td>0.61</td>
</tr>
<tr>
<td>Police Per 1000 People</td>
<td>-18.417*** (3.62)</td>
<td>32</td>
<td>0.46</td>
</tr>
<tr>
<td>Total Tax Per Capita</td>
<td>-2.143*** (.461)</td>
<td>23</td>
<td>0.46</td>
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</table>
(iv) Dependent Variable:
Human Development Index, 2010

<table>
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<th>All Colonies</th>
<th>N</th>
<th>R²</th>
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</thead>
<tbody>
<tr>
<td>% Customary Courts</td>
<td>-.464*** (.0455)</td>
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<td>0.71</td>
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</table>

<table>
<thead>
<tr>
<th></th>
<th>Non-Settler Colonies Only</th>
<th>N</th>
<th>R²</th>
</tr>
</thead>
<tbody>
<tr>
<td>% Customary Courts</td>
<td>-.420*** (.0434)</td>
<td>35</td>
<td>0.71</td>
</tr>
<tr>
<td>Police Per Capita</td>
<td>12.626*** (1.669)</td>
<td>33</td>
<td>0.6</td>
</tr>
<tr>
<td>Total Tax Per Capita</td>
<td>1.417*** (.214)</td>
<td>24</td>
<td>0.65</td>
</tr>
</tbody>
</table>

Note: *** p < .01, ** p < .05, * p < .1
Standard Errors in Parentheses
Table 2.6: Regressions with Lagged Variable

<table>
<thead>
<tr>
<th>Dependent Variable: GDP Per Capita in Year</th>
<th>Year 1960</th>
<th>Year 1970</th>
<th>Year 1980</th>
<th>Year 1990</th>
<th>Year 2000</th>
<th>Year 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>% Customary Courts</td>
<td>-0.000439</td>
<td>-0.00124</td>
<td>-0.00412**</td>
<td>-0.00653***</td>
<td>-0.00889***</td>
<td>-0.00946***</td>
</tr>
<tr>
<td></td>
<td>(.00601)</td>
<td>(.00840)</td>
<td>(0.00132)</td>
<td>(0.00174)</td>
<td>(0.00190)</td>
<td>(0.00190)</td>
</tr>
<tr>
<td>GDP Per Capita in 1950</td>
<td>0.985***</td>
<td>0.976***</td>
<td>0.833***</td>
<td>0.737***</td>
<td>0.663***</td>
<td>0.607***</td>
</tr>
<tr>
<td></td>
<td>(.0344)</td>
<td>(.0485)</td>
<td>(0.101)</td>
<td>(0.147)</td>
<td>(0.146)</td>
<td>(0.135)</td>
</tr>
<tr>
<td>N</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>R²</td>
<td>0.97</td>
<td>0.94</td>
<td>0.88</td>
<td>0.85</td>
<td>0.83</td>
<td>0.83</td>
</tr>
<tr>
<td>Police Per Capita</td>
<td>-0.00821</td>
<td>0.04017</td>
<td>0.171**</td>
<td>0.226**</td>
<td>0.253**</td>
<td>0.259**</td>
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<tr>
<td></td>
<td>(0.0254)</td>
<td>(0.0324)</td>
<td>(0.0694)</td>
<td>(0.0985)</td>
<td>(0.127)</td>
<td>(0.138)</td>
</tr>
<tr>
<td>GDP Per Capita in 1950</td>
<td>1.07***</td>
<td>1.03***</td>
<td>0.852***</td>
<td>0.828***</td>
<td>0.893***</td>
<td>0.898***</td>
</tr>
<tr>
<td></td>
<td>(0.0775)</td>
<td>(0.107)</td>
<td>(0.215)</td>
<td>(0.314)</td>
<td>(0.375)</td>
<td>(0.397)</td>
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<td>25</td>
<td>25</td>
<td>25</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>R²</td>
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<td>0.887</td>
<td>0.802</td>
<td>0.730</td>
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<td>0.677</td>
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<tr>
<td>Total Taxes Per Capita</td>
<td>-0.00591</td>
<td>-0.0017</td>
<td>0.0125</td>
<td>0.02092</td>
<td>0.0308**</td>
<td>0.0287*</td>
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<tr>
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<td>(0.00252)</td>
<td>(0.00504)</td>
<td>(0.00575)</td>
<td>(0.00769)</td>
<td>(0.00956)</td>
<td>(0.00925)</td>
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<tr>
<td>GDP Per Capita in 1950</td>
<td>1.21***</td>
<td>1.150***</td>
<td>0.861***</td>
<td>0.743***</td>
<td>0.671</td>
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<td></td>
<td>(0.0981)</td>
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<tr>
<td>R²</td>
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Note: *** p < .01, ** p < .05, * p < .1

Standard Errors in Parentheses
Table 2.7: The Effect of Geographical and Non-Geographical Variables on State Capacity (All Colonies)

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<th>Log2010 Model(3)</th>
<th>Log2010 Model(4)</th>
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Geographical Variables Only

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<th>Model(3)</th>
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<th>Model(5)</th>
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<td>(0.0112)</td>
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<td>(0.0153)</td>
<td>(.716)</td>
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<td>(0.0135)</td>
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Non-Geographical Variables Only

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<th>Model(4)</th>
<th>Model(5)</th>
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<td>Pre-Colonial Population Density</td>
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<td>(0.108)</td>
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<td>State Antiquity</td>
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<td></td>
<td>(0.321)</td>
<td>(0.319)</td>
<td>(0.314)</td>
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<td></td>
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<tr>
<td>Ethnic Fractionalization</td>
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<td>(0.388)</td>
<td>(0.477)</td>
<td>(0.418)</td>
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<td>Settler Percentage</td>
<td>0.00546</td>
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<td>(0.00350)</td>
<td>(0.00697)</td>
<td>(0.00650)</td>
<td></td>
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<tr>
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<td>0.00555</td>
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<tr>
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<td>(0.00788)</td>
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Time Controls

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<th>Model(3)</th>
<th>Model(4)</th>
<th>Model(5)</th>
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<td>(0.000832)</td>
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</tr>
<tr>
<td>Years since Independence</td>
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<td>(0.00555)</td>
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Regional Controls

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<th></th>
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</thead>
<tbody>
<tr>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>-0.091 (0.348)</td>
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<td>38</td>
<td>30</td>
<td>38</td>
<td>30</td>
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</tr>
<tr>
<td>R²</td>
<td>0.47</td>
<td>0.50</td>
<td>0.08</td>
<td>0.71</td>
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Table 2.8: The Effect of Geographical and Non-Geographical Variables on State Capacity (No Settler Colonies)

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<tr>
<td></td>
<td>-0.0230**</td>
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<td>Log 1950 (lagged)</td>
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<tr>
<td></td>
<td>(0.0147)</td>
<td>(0.0341)</td>
<td>(7.053)</td>
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<tr>
<td>pop100km</td>
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<td>Pre-Colonial Population Density</td>
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<td>-0.0351</td>
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<tr>
<td></td>
<td>(0.106)</td>
<td>(0.134)</td>
<td>(0.137)</td>
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<td>State Antiquity</td>
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<td>0.181</td>
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<tr>
<td></td>
<td>(0.346)</td>
<td>(0.510)</td>
<td>(0.447)</td>
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<td>Ethnic Fractionalization</td>
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<tr>
<td></td>
<td>-0.600</td>
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<tr>
<td></td>
<td>(0.432)</td>
<td>(0.644)</td>
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<td>Settler Percentage</td>
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<td><strong>Time Controls</strong></td>
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<td>(0.00460)</td>
<td>(0.00658)</td>
<td>(0.00533)</td>
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<td><strong>Regional Controls</strong></td>
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<td>African dummy</td>
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<td>-0.0596</td>
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<tr>
<td></td>
<td>(0.514)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>N</strong></td>
<td>38</td>
<td>30</td>
<td>38</td>
<td>30</td>
<td>27</td>
</tr>
<tr>
<td><strong>R²</strong></td>
<td>0.47</td>
<td>0.50</td>
<td>0.08</td>
<td>0.71</td>
<td>0.85</td>
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Table 2.9: Determinants of British Colonization Strategy

Dependent Variable is
% Customary Courts, 1955

(Non-Settler Colonies Only)

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<thead>
<tr>
<th>Geographical Variables</th>
<th>Coefficient</th>
<th>Standard Error</th>
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<td>Disteq</td>
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<td>pop100km</td>
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<tr>
<td>pop100cr</td>
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<td>(0.309)</td>
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<table>
<thead>
<tr>
<th>Non-Geographical Variables</th>
<th>Coefficient</th>
<th>Standard Error</th>
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<tr>
<td>Pre-Colonial Population Density</td>
<td>8.64***</td>
<td>(3.134)</td>
</tr>
<tr>
<td>State Antiquity</td>
<td>-22.903*</td>
<td>(11.311)</td>
</tr>
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</table>

N: 35
R²: 0.72
Figure 2.1: Log Settler Mortality (AJR 2001) vs. Percentage of European Settlers in 1955

Figure 2.2: Percent of Customary Court Cases Negatively Correlated with Police per 1000 People in 1955
Figure 2.3: Police Officers per 1000 People Positively Correlated with Tax Collection in 1955

Figure 2.4: Customary Courts Negatively Correlated to Tax Collection in 1955
Figure 2.5: % Customary Courts vs. Log Per Capita GDP, 2010

Figure 2.6: % Customary Courts vs. Average Years of Education, 2010
Figure 2.7: % Customary Courts vs. Infant Mortality, 2010

Figure 2.8: % Customary Courts, 1955 vs. HDI 2010
Figure 2.9: Tax Collection Per Capita vs. Log Per Capita Income, 2010

Figure 2.10: Tax Collection Per Capita in 1955 vs. Avg Years of Education in 2010
Figure 2.11: Tax Collection Per Capita in 1955 vs. Infant Mortality in 2010

Figure 2.12: Per Capita Income in 1950 vs. Per Capita Income in 2008
Figure 2.13: % Customary Courts, 1955, vs. Pre-Colonial Population Density

![Graph showing the relationship between % Customary Courts, 1955, and Log Pre-Colonial Population Density.](image)

Figure 2.14: % Customary Courts, 1955, vs. Settler Mortality Variable (AJR)

![Graph showing the relationship between % Customary Courts, 1955, and Log Settler Mortality.](image)
Figure 2.15: % Customary Courts, 1955. vs. State Antiquity Variable
CHAPTER 3

Japanese Colonial State-Building in Taiwan and South Korea vs. British Colonial State-Building in India and Singapore

The first chapter in this project looked at how the varying levels of state capacity left by the British Empire in its former colonies at the time of independence contributed to drastically different post-colonial outcomes half a century later. In this chapter, I show how the state capacity developed under colonial rule in four Asian countries (Taiwan, South Korea, India, and Singapore), under two different colonial rulers (Japan and Britain), was maintained and affected policy-making and implementation in the first decade after independence.

This chapter aims not only to show that state capacity developed during colonial rule had the same long-lasting effect in Asia as in other parts of the world, but also to investigate the mechanisms through which state capacity developed under colonial rulers was maintained or undermined during the first decade after independence. The previous chapters showed that early development of state capacity is correlated with growth and welfare-improving outcomes many decades later, but they did not explain or even describe how government capacities were maintained after those who had occupied the most important decision-making offices in colonial governments left after independence. In this chapter, I examine how this occurred (or failed to occur) in four Asian countries – South Korea, Taiwan, India, and Singapore.

3.1 The Case Studies: South Korea, Taiwan, India, and Singapore

Many theories have been proposed to explain the economic success of Taiwan, South Korea, and Singapore in the latter half of the 20th century. Most of these explanations focus on
post-independence macroeconomic and trade policy, but often overlooked is the legacy of state
capacity bequeathed to these countries by the departing colonial power. This chapter looks at
how state capacity developed under colonial rule affected policy-making and implementation in
the first decade after independence.

Japanese colonialism in Korea and Taiwan was highly repressive, but the Japanese
invested considerable resources in state-building, especially in the capacity of the state to police
and collect taxes. Eventually both states were able to build upon the relatively sophisticated
administrative, security, and educational infrastructure developed by the Japanese to become
successful export-oriented economies that rapidly improved the health and education levels of
their citizens.

In South Korea, much of the colonial-era bureaucracy and police force survived the
Korean War and were maintained during the personalistic rule of dictator Syngman Rhee, the
first postwar president. Although South Korea achieved mediocre economic growth in the first
decade of independence under Rhee, when a more development-oriented authoritarian ruler, Park
Chung-hee, replaced him in 1962, many of these inherited colonial structures provided a basis
for Korea’s subsequent spectacular economic growth.

In Taiwan, the Kuomintang (KMT) government, headed by Chiang Kai-Shek, which took
over from the Japanese in 1945, at first tried to replace the colonial-era bureaucracy with
administrative models from the mainland. Mainlanders replaced departing Japanese officials at
the upper levels of the bureaucracy. However, after the KMT was defeated in mainland China,
the Nationalists concentrated on ruling Taiwan and improving its economy. If the KMT were
ever to return to the mainland, economic success in Taiwan would be necessary to demonstrate
to the mainland Chinese the superiority of the KMT’s economic model. Native Taiwanese were
recruited into the ruling party and the bureaucracy, and the Japanese-era policing system was re-instated. Taiwan also subsequently experienced spectacular economic growth in the 1950s and 1960s.

Japan’s considerable human and material investment in building state capacity in Taiwan and Korea contrasts with the lesser investment in state-building, with some notable exceptions, made by European colonial regimes in Asia during the same period. This chapter examines Japanese investment in three aspects of state-building: the bureaucracy, policing systems, and state involvement in economic development, and contrasts them with two British colonies during the same period in Asia, India and Singapore. Both the British and the Japanese tried to win the support of native elites to minimize the costs of rule, but the Japanese did not delegate important state activities such as tax collection to local intermediaries, as the British did in India. British state-building tended to be concentrated in cities which they founded in Asia, such as Hong Kong and Singapore.

India also inherited a professional and competent civil service from the British, but compared to Taiwan and Korea, the state’s downward reach was limited. Given the size of India, the civil service was a relatively miniscule ruling elite. Though competent, the elite service was a tiny group that sat atop a much larger, less professional, and less capable group of civil servants. In addition, the state capacity established by British rule tended to be uneven, with the greatest administrative capacity concentrated in British-founded colonial cities such as Mumbai, Singapore, or Hong Kong. Singapore is the only example of a colonial city that became an independent country on its own after its expulsion from the Federation of Malaysia in 1965. Though at first the expulsion appeared to be a great disadvantage for Singapore, the
The capacity of the colonial state at the time of independence had an impact on modern-day economic performance, which may have occurred through several possible pathways. After independence, high-capacity governments were able to build better infrastructure and provide higher levels of public goods such as education and public health. Beyond providing better infrastructure and public goods, a high-capacity state gave political leaders the tools to better coordinate economic policy and promote export-led development, once it became a priority of political leaders.

In all of these cases, early political leaders maintained many institutions from the colonial period after independence, although departing colonial officials had to be replaced with locals. One motive was to maintain law and order during the transition to independence, and to avoid disruption in essential state functions, such as policing and tax collecting. In a very large country such as India, the colony-wide civil service had been one of the few all-India institutions, so it was helpful to maintaining the unity of the country. The colonial civil services and police also employed large numbers of locals, so there would have been social unrest if they had been dismissed from their posts after the transition to independence.

3.2 Comparisons of State Capacity

The previous chapter about the British Empire proposed that the intensity of state infrastructure and bureaucratization, whether they effectively controlled the whole territory, and their ability to effectively collect taxes, were important determinants of future success. High state
capacity made protection of property rights and rule of law possible, if the post-colonial state chose to implement them.

Using two of the same metrics used in the previous chapter, the number of policemen per capita at the time of independence (see Figure 1 below), and the level of tax revenue per capita (see Figure 2 below), we see that Taiwan and Korea compared favorably to the British colonies such as Hong Kong and Singapore, which had the highest levels of British investment in state capacity. It should be noted that in some colonies, such as India, the British used local intermediaries (such as the Indian zamindars) as tax farmers. These tax collectors would be allowed to keep some of the tax receipts for themselves, so long as they gave the required share to the British. The figures for tax receipts only record what was received by the colonial state.

It is noteworthy that not all the high-capacity British colonies were in Asia: several non-Asian colonies in other regions, such as Mauritius (in the Indian Ocean) and Trinidad (in the Caribbean) also inherited high-capacity states from the British. In the high-capacity British colonies, the British essentially built a new state from the ground up, as there were no existing elites to either resist their rule, or whom they could co-opt into their ruling structure. Therefore, these states experienced from the beginning a fully British legal structure, as well as bureaucracies and police forces fully created by the British, though staffed in part by indigenous residents.

In Taiwan and Korea, the Japanese colonial state was much more effective than the pre-colonial states at collecting taxes. The state collected revenue from land taxes, railways, customs, and receipts from newly established public monopolies. It used the newly created civil and police bureaucracies, who replaced traditional landowning elites, to collect these taxes, and unlike the British in some of their colonies, never relied on local intermediaries for this task.
In both Taiwan and Korea, the Japanese conducted successful cadastral land surveys, which boosted tax revenue, clarified property rights, and facilitated transactions. Later, the post-colonial governments would use these surveys to carry out successful land reforms soon after independence. The pre-colonial states had not been able to carry such a comprehensive land survey; the bureaucratic capacity had been absent, and some land-controlling groups had wished to hide the extent of their taxable lands. Although indigenous elites lost some independence from the state, they did secure Western-style, legal private property rights.

In Taiwan, for example, the cadastral survey was carried out during the first decade of colonial rule. The second decade added a periodic census and a natural resource survey. The census monitored labor supply and improved on a pre-existing household registration and mutual monitoring system, while the survey verified public ownership of resources to be licensed to Japanese capitalists.

Both the British and the Japanese aimed to make their colonies self-sufficient, that is, operating without deficits and fully financed by resources mobilized within the colonies, so that the empire could be maintained at minimal cost to the metropolitan taxpayer.

Figure 1 shows a graph of police officers per 1000 people in the British colonies, plus Taiwan and Korea, in 1940 for the Japanese colonies and 1955 for the British colonies. Similarly, Figure 2 shows a graph of taxes collected per 1000 people in the British colonies, plus Taiwan and Korea, in 1940 for the Japanese colonies and 1955 for the British colonies. Using these two metrics, it is evident that only a few British colonies matched in these metrics the investment by the Japanese in state-building in Korea and in Taiwan.
Figure 3.1: Police Officers per 1000 people at Time of Independence vs. HDI in 2018

Figure 3.2: Total Taxes per 1000 people at Time of Independence vs. HDI in 2018
3.3 Motives for Colonial State-Building

As explained in the British Empire chapter, the British were more likely to invest in state capacity in smaller colonies where the cost would not be unreasonably high: for example, in areas where they would not face resistance from existing indigenous elites, or where no indigenous elite existed. Where they faced possible resistance from indigenous elites, the British were far more likely to enter into alliances with them if possible than to dispossess or fight them. In exchange for accepting British supervision, local elites were permitted to retain much of their power and control over local populations, so that the downward reach of the colonial state was in fact severely limited.

British goals in empire-building could be described as: assuring the supply of raw materials from the colonies for British industry; maintaining free trade, so that the colonies would be a market for British manufactured exports; geostrategic reasons, especially the prevention of their territories from occupation by rival colonial powers that might limit British trade; maintaining law and order; and, above all, minimizing the cost of the empire to the British metropolitan taxpayer. Many of these goals could actually be pursued and fulfilled with minimal investments in state-building.

Only in a few British-ruled and founded cities such as Hong Kong and Singapore, did the British establish a colonial state that could be said to be similar in capacity to the Japanese colonial regime in Taiwan. Here, the entire legal system was purely British, there was a high ratio of administrative officials to inhabitants, and the downward reach of the state to the local level was similar. There were no native elites for the British to co-opt. The stability provided by British rule of law soon attracted immigrants from the rest of Asia. The British were present as
administrators, merchants, and military officials, but they always made up a small proportion of
the population in these colonies in comparison to the much large number of Asian immigrants.

The Japanese had similar goals for their colonies, yet they were willing to make far
greater human and material investments, for several reasons. As Bruce Cumings has argued,
Japan’s colonialism was seen by the country’s leaders as a defensive reaction to the
encroachment of Western powers into Asia. The formal colonization of Taiwan and Korea was
also justified in terms of Japan’s resource scarcity and geopolitical vulnerability. The “lateness”
of Japanese colonialism in comparison to its Western counterparts resulted in a heightened sense
of urgency in which Japan’s carving out of its own sphere of influence in northeast Asia was
seen as vital to the country’s survival as an independent nation. Furthermore, unlike the British
and French empires which had colonies all over the world, many far from home, the Japanese
focused their efforts on only Korea and Taiwan, two territories near their home islands in Asia.
This made feasible a tight, integral linking of the colonial territories to the metropolitan market,
since physical distance was still a formidable obstacle to communication and trade in the early
twentieth century. It also made possible close and rapid trade connections. Japan soon enhanced
this possibility through laying railroads, opening ports, and making heavy investments in
communications sectors in its colonies. Also, Japan and its two major colonial territories shared a
basic and traditional agricultural commodity, rice, which made it possible for Japan to aim
toward the integration of its colonial economies with that of the metropole, whereas most
tropical European colonies could evolve only as export-oriented enclaves.

Second, while the British always regarded their African and Asian colonies as being
racially and culturally alien, the Japanese considered Korea and Taiwan to have in many respects
a shared racial and cultural heritage based on use of Chinese characters, a Confucian cultural
background, and other common cultural inheritances that had come from classical China. Therefore, Japan regarded its annexations as permanent and its colonial citizens as potentially assimilable. They required the colonized to adopt Japanese names and use the Japanese language. As Cumings notes, Japan’s colonization of Korea and Taiwan was more comparable to the historical relationship between say, England and Ireland, than to European colonization in Africa or Asia. Unlike the European colonizers, many Japanese officials actually believed that people from the colonies could grow gradually toward political, cultural, and social assimilation with metropolitan Japanese. This sense of cultural affinity with subject peoples made Japan unique among the colonial powers of modern times and profoundly shaped Japanese attitudes toward colonial governance once the empire was assembled.

Finally, Japan’s colonial policy was in many ways an extension of the reforms which had been carried out in Japan itself in the late 19th century by the Meiji government. In both Taiwan and Korea, Japan’s modernizing leaders faced many of the same issues which had characterized Japan at the outset of Meiji rule: a peasant society that was at times actively hostile to reform; the resistance of large segments of the traditional elite who occupied positions of wealth, privilege, and prestige; a rural bureaucracy which had become progressively weakened, corrupt, and inefficient; an underdeveloped and relatively stagnant agrarian economy whose uncertain harvests were a poor base for a rationalized tax structure; an arbitrary and uncertain land tenure system for which up-to-date and accurate data was lacking; and a Confucian-oriented educational structure which was ill-suited to the requirements of a modernizing state. To meet these problems, the Meiji modernization effort in Japan had concentrated on three main tasks: consolidation of military and political power at the center; creation of economic self-sufficiency through the expansion and exploitation of an agricultural base; and the transformation of society
through basic education and a variety of innovations in social engineering in order to develop new schools and attitudes among the people and to shape their loyalty and obedience to the state. In implementing these reforms in Japan, the Meiji leaders, convinced that modernization was crucial to Japan’s survival, had ruled as autocrats, undeterred by popular critics or by popular protest.

It is therefore not surprising that Japan set out to apply these same strategies, so recently successful at home, to the administration and development of its empire. The difference was that this was modernization ruthlessly imposed by an external power, rather than modernization from within, carried out by a faction of domestic elites.

3.4 Colonial State-Building in Korea and Taiwan vs. India and Singapore

In both Taiwan and Korea, the Japanese embarked on a highly intensive colonization that was matched by the British in only a few of their colonies. This section compares and contrasts Japanese efforts at state-building in Korea and Taiwan vs. British state-building in India and Singapore.

3.4.1 Taiwan before Japanese colonization

Japan acquired Taiwan as part of the settlement which ended the first Sino-Japanese War in 1895. Taiwan was Japan’s first major colony and territorial acquisition beyond its home islands. Though ruled by the mainland Qing dynasty as an adjunct to Fujian province from 1683-1885 and as a province in its own right from 1885 until the Japanese occupation, Taiwan was a frontier province where the Qing Empire’s state presence was minimal. When the government of Japan demanded in 1871 that the Qing government punish Taiwanese aboriginals who had murdered shipwrecked Japanese sailors, the Qing responded that the Paiwan were outside of
their jurisdiction. The Japanese sent a punitive expedition themselves to Taiwan in 1874. The feeble Chinese response was a blatant revelation of Chinese weakness and an invitation to further foreign encroachment in Taiwan.

The lack of an island-wide identity or a pre-colonial political order that commanded islanders’ allegiances worked to Japan’s advantage. Governing Japanese, hoping initially to compel islanders to submit to their authority, or, slightly later, to encourage the islanders’ more active support of the colonial infrastructure, did not have to compete against the entrenched and pre-colonial identity that continued to exist in Korea after its annexation after 1910.

Early Chinese settlement of Taiwan began largely in the early 15\textsuperscript{th} century with the end of the earlier Ming Dynasty prohibitions on Chinese maritime activity. The western coast of Taiwan proper, as well as the Penghu islands, became settled by farmers who planted and tilled pristine ground there during the spring and summer months before retiring to their homes on the mainland during winter. Fisherman from Fujian also began living in the Penghu islands during the peak fishing season. During this time of seasonal Chinese settlement, however, no formal Chinese government writ ran on either Taiwan or nearly islets. For some immigrants from the mainland, this loose government authority was in fact an attraction of the island. Other motives included the land available for settlement and the promise of few obstacles to settlement, except for resistance from scattered island aborigines.

Taiwan was eventually incorporated into the Chinese Empire by the Qing dynasty, but it soon gained a reputation as a hardship post for Qing administrators. Clashes between Han Chinese settlers and aborigines, riots directed towards representatives of the central government, and conflicts among Han migrants of similar affiliation were commonplace. Over the course of
Qing control of the island, Taiwan experienced more than a thousand disturbances of varying type and size. It became synonymous with instability and civil disturbance.

Taiwan’s continued existence as a frontier province up to the time of Japanese annexation in 1895 would actually prove to be fortuitous for incoming Japanese colonial administrators. As in all lands conquered by expanding powers at the time, a major goal of the Japanese colonial proconsuls was the establishment and maintenance of law and order on the island following their seizure of it. There was no clear focal point of resistance to the imposition of colonial rule during almost the entirely of Japan’s dominion over Taiwan. Since Japan, owing to its greater technological and military strength, succeeded in more effectively controlling the island than had ever been possible during the Qing administration, many islanders were sympathetic to aspects of Japanese control.

Unlike in colonial Korea, there was little pre-existing state structure to supersede in Taiwan. The gentry class was small, and indeed some local elites fled to the mainland to escape Japanese rule, reducing it further. State officials were brought in from Japan, though Taiwanese were later recruited and eventually accounted for 27% of state employees. By the end of the colonial era, there were 37,209 government officials, or 5.9 per thousand residents, compared to 3.9 in Korea in 1930. There were also about 40,000 persons working in agricultural parastatals, notably agricultural supporting institutions. The police force was dense as well. Apart from keeping law and order, the police played many other roles (described below).

Effective taxation in the rural sector was a defining feature of the Japanese colonial state in Taiwan. Other colonial states in natural resource-rich economies (especially in Africa) franchised away permits for plantation and mineral exploration, while collecting rents from the licensees. Japan, in contrast, maintained a smallholder system in Taiwan’s primary sector; even
sugar plantations were essentially based on tenant-owners rather than wage earners. Modernizing a smallholder-based agriculture required the expansion of the state apparatus, which in turn enhanced state capacity for extraction.

3.4.2 Bureaucracy and Policing in Colonial Taiwan

The most important aspect of the Japanese state that was constructed in Taiwan (and Korea) was the foundation of a modern bureaucracy, which allowed the state to penetrate throughout society. Japan had quickly developed a modern bureaucratic system for itself after the Meiji Restoration, which had centralized government and destroyed aristocratic privilege in order to initiate state-led development. Many of the bureaucratic innovations that the Japanese introduced in Taiwan, which was its first colony (1895), were later also implemented in Korea, which Japan annexed in 1910.

As a Japanese colony, Taiwan developed an efficient administrative system, an extensive infrastructure, an agricultural sector that was, after Japan, the most advanced in Asia, and modern commercial and financial institutions. The Japanese colonial government created new administrative systems of bureaucracy that reshaped the agriculture, unified currency, developed transportation and communication infrastructure, and modern education and health systems, all guided under a strong bureaucracy modeled after the successful Japanese system, and paid for with local taxation.

The governor-general of Taiwan directed a government that was semi-autonomous from Tokyo and highly authoritarian. He possessed enormous executive, judicial, and even legislative powers, far greater indeed than any single office in the home government. The bureaucrats were recruited from Japan’s civil service; their generally high level of competence is largely explained from the fact that senior and middle-level officials serving in the colonies were drawn from the
various ministries and bureaus of civil government in metropolitan Japan and were, for the most part, graduates of Japan’s imperial universities who had passed the rigorous civil-service examinations. Generally aloof and isolated from the indigenous peoples they administered, they were nevertheless imbued with a vigorous sense of public service typical of Japanese civil government and took their jobs seriously.

Taiwan’s modern police system was one of the most radical and effective innovations of the Japanese authorities in Taiwan. Created by the colonial governor Goto Shinpei in 1898, the omnipresent police force contributed greatly to the achievement of Taiwan’s internal order. The communal armed strife which had wracked the island for most of Qing rule finally came to an end. The colonial police force was designed along the lines of the Meiji police insofar as it was highly centralized and well-disciplined, playing a major role in social and economic reforms. It was remarkable in comparison with police forces in other colonial states both for its intensiveness and extensiveness.

Goto enlisted recruits in Japan for the Taiwan police force with great care and deliberation. Among other inducements, the prospective policemen were offered excellent wages. Once in Taiwan, they were put through a well-conceived training program lasting for many months. The vernacular language of the Chinese majority in Taiwan, Hokkien, was taught at the training school. After completing the training, the policemen were sent into the field to take up their duties. In addition to Japanese colonial police personnel, positions for lower and local levels were also open to ethnic Chinese in Taiwan.

The police became the backbone of regional administration. Aside from regular policing duties, the police oversaw the collection of taxes, the enforcement of sanitary measures, and works connected with the state salt, camphor, and opium monopolies. They were also
responsible for the movements of aborigines and the illegal entry of Chinese immigrants from the mainland. They superintended road and irrigation improvements, introduced new plant specimens to farmers, and encouraged education and development of local industries. They also instructed people in complexities of land registration and the purchase and sale of government bonds and stocks. They were charged not only with preservation of the peace but also with exercise of censorship, supervision of public assembly, regulation of public health, and control of traffic. They exercised a wide and, in many respects, arbitrary authority over community life, so they were feared as well as respected.

Another important administrative reforms undertaken by colonial officials in Japan was the renovation and rehabilitation of the Chinese imperial baojia system of collective responsibility for maintaining law and order in the village. Though introduced in Qing-dynasty administered Taiwan, the system had weakened under their administration. Under the baojia system, 10 households were organized into a pai; several pai were organized into one jia; and several jia made up one bao. Under Japanese direction, the baojia system became an enormously effective mechanism for information gathering, militia mobilization, and search and seizure of suspected dissidents, as well as for general administrative purposes which required the use of local manpower. Using Japanese police power in combination with these indigenous institutions, Japan was able to extend tight bureaucratic control even to remote regions.

Some of the duties of the Japanese policemen were assumed by the district commissioners in the British colonies, but with the exceptions of the British-founded cities such as Singapore and Hong Kong, there was no equivalent institution, certainly none that penetrated society so deeply and densely, in most of the other British colonies. The Japanese police system represented an enormous investment by the Japanese in state-building in Taiwan.
The ability of the colonial state to collect taxes was bolstered by a cadastral land survey in 1901, followed by a land reform in 1905, whereby absentee landowners were dispossessed and cultivators, who themselves often took on tenants, were given title to the land and held responsible for paying tax based on estimates of land productivity. The land survey resulted in a sharper definition of ownership of the land placed upon the official tax registers. The increase in revenue from land taxes assisted greatly in bringing about the achievement of colonial Taiwan’s financial self-sufficiency. So effective was the police force that rarely did Japanese colonial governments have to call upon regular military forces, although the garrisons were large, to preserve order.

3.4.3 Bureaucracy and Policing in Colonial Korea

Taiwan had been a peripheral, lightly governed region of the Qing Empire, so many of the Chinese settlers appreciated that the Japanese invested so much in developing the island, since the Qing had failed to do so. In Korea, which had for centuries been the center of an independent state, significantly more repression was required at onset of colonial rule.

As in Taiwan, the Japanese ended up playing a larger direct role in colonial rule, including a much larger role for the military and police, than was the case in most European overseas colonies. Also, as in Taiwan, the near geographical contiguity and shared cultural and racial traits caused the Japanese to consider their rule to be permanent, with the expectation of eventual full integration of the colonies into an expanded Japan.

Unlike in Taiwan, however, the Japanese annexed in Korea not a frontier island periphery neglected by their central government, but an entire ancient state with its own proud history. For Japanese rule to be effective, the pre-existing state had to be dismantled. In 1907, the Japanese dismantled the Korean army, repressed those who “mutinied”, incorporated other army officers
into a Japanese-controlled gendarmerie, and forced the Korean monarch to abdicate. The
monarchial state was therefore destroyed and replaced by a cabinet-style government run by
Japanese bureaucrats. The appointments of these and other lower-level bureaucrats were
governed by “elaborate rules and regulations” which in the main followed the lines of the
Japanese imperial services. Elements of the highly developed Japanese style of bureaucratic
government were thus transferred directly to Korea.

While the British in India also created a competent civil service, the Japanese colonial
project, as in Taiwan, was distinct in both the extent and the intensity of its bureaucratic
penetration. There were some 10,000 officials in the Japanese-Korean government in 1910; in
1937 this number had reached 85,000. By contrast, for example, the French in Vietnam ruled a
colony of similar size with only 3,000 officials. The presence of Korean bureaucrats, trained and
employed by the Japanese, was also sizable: nearly 40,000 Koreans qualified as government
officials on the eve of the Second World War. While most of the Koreans did not occupy senior
positions in the colonial government, they still became an integral part of a highly bureaucratic
form of government over the four decades of colonial rule. During WWII, as the demand for
Japanese officials grew elsewhere, many Koreans moved up in the bureaucratic hierarchy. This
sizeable cadre of Japanese-trained Korean bureaucrats took over the day-to-day running of a
truncated South Korea, first under the American military government and eventually when a
sovereign state was formed.

The Japanese created a successful link between a highly concentrated power center in
Seoul, the capital, and a densely bureaucratized periphery. All bureaucracies face the problem of
how to ensure that central commands are implemented by lower-level officials, which requires
ensuring that lower-level officials respond mainly to those above them in the bureaucratic
hierarchy, rather to personal interests, or the interests or societal actors with whom they interact. The Japanese in Korea were aware of this problem and continued to experiment until they arrived at a satisfactory arrangement.

In colonial Korea, circumstances helped to establish authority links between the center and the periphery. Ruling arrangements in Seoul were highly authoritarian – the power of the Japanese governor-general in both policymaking and implementation was absolute. The Japanese also made other policy innovations. When confronted with corrupt regional or local officials, the central authorities experimented with paying these officials higher salaries, in the hope that, if more satisfied, they would do a more conscientious job. When this did not work, the colonial authorities centralized further, leaving local officials with even less discretion and subjecting them to more rules. If such efforts also failed to secure full compliance, Korean officials were replaced with more compliant Japanese officials, at least until more suitable Koreans could be found for the job.

A version of the police system that the Japanese had established in colonial Taiwan was also established in Korea. As in Taiwan, the colonial police force was designed along the lines of the Meiji police: it was highly centralized and well-disciplined, and played a major role in social and economic reforms. From 6200 gendarmes and police in 1910, the force grew to 21,000 in 1922 and more than 60,000 in 1941 (Robinson and Eckert). At the height of colonial rule, there were so many police that the lower-level policeman “knew every man in the village” (Chen). While senior police officers tended to be Japanese, over half of the force was made up of Koreans, often of the lower class. These Koreans were trained by the Japanese in Korean police academies, established expressly for that purpose, and there was no shortage of applicants. Beyond formal training, the Japanese maintained very close supervision over the police force; for
example, during the period 1950-1920, about 2,000 policemen, or 10 percent of the total, were sternly disciplined annually for violating police rules.

As in Taiwan, this extensive and closely supervised police force, which penetrated every Korean village, performed numerous functions other than standard police duties of maintaining law and order. Police were also empowered with control over “politics, education, religion, morals, health and public welfare, and tax collection”. The police, who were outfitted in military uniforms, replete with swords, also had summary powers to judge and punish minor offenders, including by whipping. In some villages, the local police compelled villages to switch from existing food crops to cash crops, and to adopt new techniques in rice production so as to facilitate exports to Japan.

The police successfully incorporated village elders and others into a ruling alliance. They buttressed their already extensive powers by working with, rather than against, indigenous authority structures. Many Koreans came to despise local elites as collaborators. Although many of the landed elite were eventually eliminated as a political force via land reforms shortly after the Korean War, much of the colonial police was incorporated directly into the new state structure of South Korea.

In Taiwan, it is obvious that the Japanese enormously increased state capacity in what had been previously a neglected frontier periphery of the Qing Empire. In Korea, however, even the center of the pre-colonial state had a limited downward reach in society in comparison with the Japanese colonial state that followed. This state had a highly centralized apex with, first, near absolute powers of legislation and execution to set and implement “national” goals; and second, pervasive, disciplined civil and police bureaucracies. Although the pre-colonial monarchy also had enormous formal powers, the Japanese colonial state was far more able to implement them.
The increased capacity of the colonial state in Korea to undertake economic tasks was evident regarding state capacity to collect taxes. The pre-colonial state had been incapable of extracting taxes, especially revenues from landowners, due to the direct control that landowners exercised over state offices. Land revenue in 1905, the year Japanese influence in Korea began to grow, was some 4.9 million yen; by 1908 this had jumped to 6.5 million yen, or a real increase of some 30 percent in three years. Subsequently, numerous other sources of revenue were added to that obtained from land – for example, railways, post office, and customs – and receipts from the ginseng monopoly and such public undertakings as salt manufacture, coal mines, timber work, and printing bureaus. The jump in revenue intake was remarkable: whereas the total revenue in 1905 (land and other revenues) was 7.3 million yen, by 1911, one year after formal annexation, the total revenue intake was 24 million yen, or an increase of more than 300 percent.

Several factors helped to explain this increased state capacity. First, the colonial state, backed by its superior coercive power, broke the stranglehold of landowning groups on the pre-colonial Joseon state. Though the precolonial landowning elite was permitted to keep their land and make profits from selling the crops grown by their tenants, all other state power was now entirely in the hands of Japanese bureaucrats. Second, the colonial elite utilized the newly created civil and police bureaucracies to collect taxes. Specifically, as early as 1906, thirty-six revenue-collection officers were posted throughout Korea to identify cultivated land, owners of the land, and the revenue due from the land. While the rate of taxation on land was not increased, it was regularized. Additionally, uniformed revenue officers worked in conjunction with local police officers in the process of tax collection.

As in Taiwan, the Japanese successfully carried out a cadastral land survey between 1910 and 1918. The pre-colonial state under the Joseon Dynasty had repeatedly discussed such a
comprehensive land survey but never managed to carry it out; the bureaucratic capacity was absent, as was the power to confront land-owning groups that wanted to hide the extent of their taxable lands. By contrast, the colonial state made an exhaustive land survey a priority. Over a period of eight years, the Japanese invested 30 million yen in the project. The survey “mapped all plots of land, classified it according to type, graded its productivity and established ownership” (Eckert et al, Korea Old and New). Japanese civil servants supervised the entire project. Korean landowners had no choice this time but to co-operate, but they eventually benefited; local land-investigation committees, for example, which were responsible for the “ownership, location, boundaries, and class of land,” were composed of “land-owners themselves”. As a result of the survey, the colonial state secured a revenue base and, less obviously, enhanced its control over the Korean agrarian sector by bringing in the landowning classes as ruling partners. What the Korean landlords lost in terms of autonomy from and influence over the traditional Joseon state, they made up first by securing new Western-style, legal private property rights and later gained enhanced profits from their land (Eckert et al.). The relative successful penetration by the colonial state of the agrarian periphery in Taiwan and Korea, instead of the indigenous landed elites maintaining significant control, stands out as a unique display of state efficacy in the comparative history of colonialism. Although the landowners had supported the cadastral surveys because it re-enforced their property rights under the colonial regime, the post-colonial governments in Korea and Taiwan used the cadastral surveys to effectively implement land reform shortly after the end of Japanese colonialism.

The colonial state therefore restructured its relationship with the Korean landed classes. The highest landowning (Yangban) elite who held office in the monarchy were obliged to retire with a pension. As career bureaucrats took over official functions, the landed class’s direct
control of the state weakened. The successful land survey further confirmed the supremacy of the new state, as the capacity of the landed classes to evade the reach of the state shrank in its wake. Yet the state did not wish to alienate the landowners, but rather to induce them to be active partners in executing the state’s new goals. The Japanese introduced a new legal code (based on that of Meiji Japan) that created Western-style legal private property, thus securing the control of Korean landed groups over their land in perpetuity. While the Japanese in the process ended up owning significant amounts of agricultural land in Korea, most Koreans who controlled land prior to the arrival of the Japanese maintained and even expanded their landownership. Moreover, many among the landed elite were incorporated into local governance, cooperating with and helping local agents of the state maintain control over villages. Direct bureaucratic penetration, therefore, was buttressed by the authority of local influentials, rather than outsourced to them.

The colonial state in Korea, as in Taiwan, undertook numerous other projects of economic value. The colonial government invested heavily in infrastructure, and ran a number of economic enterprises directly, such as railways, communications, opium, salt, and tobacco. As in Taiwan, Japanese also invested significantly in Korean primary education. Among the other Asian colonial regimes, only the U.S. colonial government in the Philippines made a similar investment in primary education of colonial subjects. However, unique to the Japanese colonies was the number of state-private sector alliances some have seen as crucial to Korea’s subsequent economic success.
3.4.4 Bureaucracy and Policing in Colonial India

India was central to Britain’s role as a global power in the nineteenth and the first half of the twentieth century: Balance-of-payment surpluses with India enabled Britain to run deficits elsewhere in the world, and India provided a second military base from which imperial ambitions in East Africa and East Asia could be pursued more economically.

British territory in India was originally administered by the East India Company, which maintained armies and collected taxes to protect its trading interests. A rebellion by Indian soldiers and princes against the British in 1857 was decisively crushed. India formally became a colony, as the British Crown took over control from the East India company, which was in any case bankrupt as a result of the costs incurred in crushing the rebellion. The direct involvement of the British state reflected the growing importance of India for British global ambitions and therefore the need to control it more effectively. First, the British wanted to ensure that there would be no more mutinies, meaning that British rule had to be centralized, efficient, and despotic if necessary. Power was increasingly centralized in a single office in London, the Secretary of State in India, which implemented numerous centralizing reforms. In addition, the British believed that one lesson from the mutiny was that they must respect “the strength and tenacity of the traditional institutions of India”. The resulting political strategy was to ally with and strengthen the position of traditional Indian elites, especially the gentry and aristocrats. Although the British won a decisive military victory against the rebelling Indian princes, the princes survived and even flourished in the next century as junior partners in the colonial ruling alliance. Finally, as in all the other British colonies, the colonial state had to operate without deficits and be financed by resources mobilized within India.
Since the gentry and aristocracy were now part of the ruling alliance, there were limits to the amount of resources that the British could mobilize from them. The resources were just sufficient to construct a modest laissez-faire state that collected taxes, maintained order, and provided a legal framework for private economic activities. In addition to an effective armed force, a judiciary and a small but professional civil service was needed. British efforts at state construction in India were focused on precisely these areas.

Compared to Japan’s intensive colonization of Taiwan and Korea, British colonization of large colonies such as India was considerably more limited in its downward reach. Although growing political centralization, supported by organized armies and (after 1853) a civil service, characterized the apex of the emerging colonial state, the political reality just below the apex was considerably more varied. The British entered into a variety of ruling alliances with traditional Indian elites to facilitate the essential tasks of collecting taxes and securing order. In some parts of India, this arrangement involved British rulers in alliance with Indian zamindars (landlords). The British created private property in land and introduced British common law to support the sale and inheritance of such property. In exchange for more secure property rights, Indian landlords were obliged to transfer a set amount of agrarian taxes to the British and to maintain order within their domains. This arrangement limited the downward reach of state power, leaving much influence in the hands of traditional elite.

Banerjee and Iyer (2005) describe the historical origins of the differing types of British rule in India. In some parts of India, British rule was more direct and reached deeper into Indian society, with British civil servants being directly responsible for collecting taxes from peasant proprietors. Yet in other parts, in two-fifths of India, Indian princes continued to rule under British supervision. The local princes were allowed considerable latitude in how they governed
so as long as they accepted British sovereignty and agreed to pay tribute. Basic laws, including those of tax extraction and public expenditure, were immune to British influence and varied from one princely state to another. Even in the majority of the areas where British rule was more direct, the need to accommodate the gentry limited the reach of the state. There were constraints on the capacity to tax elite agrarian incomes or to pursue any progressive social legislation which they opposed.

In conclusion, because the British made accommodations with “regional and local strongmen” in India, this legacy continued on into the post-colonial period. This accommodation reduced the effectiveness of British (and later Indian) rule, limiting the penetrating ability of both governments. The British subsidized local indigenous rulers in an effort to make their own governance less costly.

The small size and infrastructural weakness of the colonial state forced the British to employ local intermediaries in much of the supposedly directly ruled territories as well. Zamindars, taluqdars, and other tax-collecting landlords are the most notable examples. These colonial agents were supposedly carried over from precolonial times and were employed in approximately 20 percent of colonial India, including all of present-day Bihar, Rajasthan, and present-day Bangladesh. In order to exploit their services, the colonial state gave them personal possession of large tracts of land, the power to collect taxes from the peasants living on the land, and the right to keep the majority of the revenue for personal use. In order to perform their duties, the landlords managed their own patrimonial administration. As explained in the subsequent section, the strength of local intermediaries did not disappear in postcolonial India, despite the fact that they lost most formal powers (Kohli 1987; Reeves 1991).
As in the other three cases described in this chapter, colonial India had a relatively well-institutionalized civil service. The British had introduced an exam-based civil service system to India as early as 1853, before the mutiny, and about the same time as such a system was created in Britain itself. Over the next several decades, this civil service became deeply routinized, becoming the Indian Civil Service (ICS) in 1892. The ICS was the heart of the colonial state, collecting revenues (sometimes with assistance from local landowners) and maintaining order. The ICS came to be described by many observers as the “steel frame” that held India together. So significant was its role in providing orderly governance that even Indian nationalists essentially kept this colonial service intact after independence.

Given the size of India, the ICS was a relatively miniscule ruling elite. For example, India’s population in 1931 was some 350 million. The colonial state employed nearly a million people, the vast authority clerks and petty officials with some minimal education. By contrast, the ICS during much of its duration consisted only of some 1,000 officers. Nearly half worked as district officers, responsible for revenue, law, police, and general administration. The remaining and more senior officers worked either at the provincial level, representing the central government, or in the central government itself.

ICS officers in the second half of the nineteenth century were nearly all British. Most came from upper-middle-class backgrounds, and were educated at Oxford or Cambridge, as well as other universities in London, and joined the civil service as young men after passing the British Civil Service exam. Between 1904 and 1913, some one-third to one-half of the top twenty candidates of the British Civil Service exam opted to serve in India. One reason no doubt was the high pay: the top British ICS officials were among the highest-paid government officials in the world at that time. The ICS attracted considerable talent, but all were “generalists” who
did not really have any specialized knowledge. This was a highly professional civil service with entry based on a competitive exam and an internal merit system that cut through personalism, patronage, and nepotism.

Still, there were limits as to what the ICS could do. The Indian state had a limited focus on collecting revenues and maintaining order. ICS officials were generalists and unprepared for complex and specialized tasks. Second, though competent, the elite service was a miniscule group that sat atop a much larger, less professional, and less capable group of public servants. Finally, as noted above it had to strike political bargains with traditional Indian elites and fragment its authority in order to manage rule over the vast population. The presence of ICS officers was thus a lot thinner in some parts of the country than others. After independence, the successor of the ICS helped to maintain India’s unity and maintain law and order, but the state’s ambitions and capacities to pursue state-led projects were constrained.

Despite the limitations, the ICS made long-term contributions to state formation in India. First, because the British maintained an all-India service, the ICS helped to give meaning to the political unity of India. Second, it was a competent and efficient civil service that enabled limited but reasonably good government.

### 3.4.5 Bureaucracy and Policing in Colonial Singapore

Singapore is one of several cities in Asia that can be said to have been founded by the British. Other examples of cities mainly founded by the British in Asia include Mumbai (Bombay) and Calcutta in India; Yangon (Rangoon) in Myanmar; Penang and Kuala Lumpur in Malaysia; and Hong Kong, now a special administrative region of China. However, Singapore is the only one of these cities that subsequently became an independent country on its own, due to its expulsion from the Federation of Malaysia in 1965. Though it may have seemed a
disadvantage at first to be politically separated from its natural economic hinterland, Singapore did inherit from the British the most developed part of the British administration in Malaya.

As in India and other large colonies, British rule in Malaya was not uniform, and combined direct and indirect forms of rule. British colonialism in the Malay Peninsula began with the construction of three directly ruled, trade-focused city-colonies in the late eighteenth and early nineteenth centuries (Malacca, Penang, and Singapore). With continued British colonial expansion during the late nineteenth and early twentieth centuries, the remainder of Malaya was divided into nine Malay states that were incorporated into the British Empire in two phases (the Federated Malay States in 1895 and the Unfederated Malay States between 1909 and 1914), and each group had a different political status. Among the Federated Malay States, the sultans allied with the British and were allowed to maintain their titles and some privileges, although the colonial powers usurped most of their legal-administrative powers and ruled through a centralized and bureaucratic state based in Kuala Lumpur. In the Unfederated States, the same process occurred although the sultans maintained greater autonomy. Finally, both Sarawak and North Borneo were separate colonies until their merger with independent Malaya in the 1960s, the latter being a British protectorate governed by the British North Borneo Company, and the former being ruled private for over a century by British subjects (the so-called “white rajas”). Thus, with city-states, federated states, unfederated states, and separate colonies that were either company dominated or privately controlled, colonial rule in Malaysia was extremely heterogenous.

As in the other British-founded Asian cities, Singapore benefitted from being the administrative center of British rule. Unlike in the Malay states, there were no pre-colonial elites with whom the British could have formed a ruling alliance. By the early twentieth century, a
large police force was available to maintain law and order, and there was a fully British legal system. Singapore was also a major base for the British Army. The security of Singapore soon attracted large numbers of immigrants from other parts of Asia, especially India and China.

One of the greatest legacies of colonial rule in Malaysia was the transformation of the ethnic make-up of the peninsula. A large number of migrants poured into British Malaya from India and, especially, China during the late nineteenth and early twentieth centuries. By the time of Malaysia’s independence in 1957, slightly over half of Malaysia’s population was ethnically Chinese. Around 5 percent were of Indian origin, and the rest were Malays. The Chinese were the majority of the population in all the major cities (Singapore, Penang, and Kuala Lumpur), and they dominated the urban economy, whereas the Malays were primarily rural peasants. The resentment of Malays at the greater average prosperity of urban Chinese Malaysians had major implications for post-war politics for Malaysia and eventually resulted in the expulsion of Singapore from the federation when Singapore’s ruling party opposed special advantages for Malay citizens.

Originally, Singapore and Malaysia did not have a separate civil service. Singapore’s Civil Service only became separate from that of Malaysia in the late 1950s. However, the majority of colonial officials were stationed in the cities, especially in Singapore. The MCS, unlike the ICS in India, remained primarily British until independence. One reason was that the British for the most part did not recruit ethnic Chinese or Indians into the MCS, as they were considered temporary sojourners, even though many eventually stayed in Malaya. The relatively few indigenous civil servants were all Malay, mainly from an aristocratic or elite background. A large pool of well-educated Chinese did exist, but they were mostly already well-employed in urban commerce. As recent immigrants, most Chinese and Indians of the period also did not
consider Malaya to be their permanent home, and they instead followed closely political developments at in India or China.

When Singapore finally became independent, many institutions from the colonial civil service were maintained. Although almost all British and Malays left soon after independence, it did not prove difficult for Singapore’s government to replace them with well-qualified Chinese candidates.

### 3.5 State Intervention in Economic Development in the Japanese vs. British Colonies

One of the most notable differences between Japanese-ruled Taiwan and Korea, and the British-ruled colonies, was the active role that colonial government in Taiwan in improving economic productivity and creating an export-oriented economy. Although, unlike Korea, Taiwan developed little industry during the colonial period, its agricultural productivity also improved greatly and it became a major exporter of rice and sugar to Japan. When rapid increase in rice production became a goal, Taiwan’s Japanese rulers utilized the knowledge acquired during the Meiji transformation and concentrated their efforts on spreading the use of improved seeds, fertilizer, and irrigation. Rice production grew rapidly and somewhere between one-half and two-thirds of this growth resulted from improvements in land productivity.

The Japanese colonial government periodically made significant efforts to boost agricultural production in Korea. Unlike Britain’s main concerns with commercial crops in its colonies (which in India included, during different periods, cotton, tea, and opium), Japan focused on Korea’s main food product, rice. During the early phase the Japanese focused their efforts on land improvement, especially on irrigation, drainage, and reclamation of arable land. Later efforts focused on the use of improved seeds, fertilizer, and irrigation. As a result, rice
production between 1920 and 1935 in Korea grew at nearly 3 percent per annum and elsewhere between one-half and two-thirds of the growth resulted from improvements in land productivity.

Almost all of the surplus rice from Korea was exported to Japan; the increases in production Korea did not lead to an improvement in Korean food consumption, and in fact per capita grain consumption may have even decreased, due to a combination of population growth and the absence of many non-agricultural labor opportunities, which increased the burden on tenants and on small farmers (Suh 1978). Given the steady growth in production as consumption for the majority of the population declined and given the considerable inequality in landownership, it is likely that the incomes of landowning groups grew enormously. The rates on return on agricultural investment were very high for most of the period, and income inequality widened. Since the Korean landowning groups prospered under colonial government, they became part of an implicit ruling alliance between the state and the property-owning elites, as in India. The difference was that in British India, the state did not help to increase agricultural productivity, and the alliance was secured primarily byLetting landowners collect taxes on the peasants in their estates for the British.

Productive agriculture has been a necessary first component of rapid economic growth in industrializing countries. While many developing countries, such as those in Africa, are still attempting an agricultural revolution, and others, such as India, did not undergo significant productivity gains in agriculture until the “green revolution” of the mid-1960s, Taiwan and Korea were already experiencing an enormous improvement in agricultural yields in the first half of the twentieth century. Rapid increase in agricultural production provided both food and inputs to sustain an industrial drive, and also yielded high incomes. After land reforms were implemented in Taiwan in the early years of the KMT regime, the productive agricultural base
and related incomes also contributed to the emergence of a domestic market for manufactured goods.

Even more than Meiji Japan, the colonial state in Taiwan established itself as the key actor directing economic change. Even after decolonization, these efforts left a legacy of a bureaucratic infrastructure that facilitated technology-intensive agricultural development. Public subsidies from the colonial state helped improve the profitability of private producers. This pattern of an alliance of the state and producers, centered around technology and other subsides, became an important characteristic of postwar Taiwan’s industrial economic development.

The contrast with British India in this realm of state building is especially stark. The British mobilized only enough resources from the taxes which they collected to develop some basic infrastructure, as well as maintain law and order. The colonial state in India presided over a fairly primitive agrarian economy and did little to improve its productivity; according to one estimate (Kumar 1986), agrarian productivity in India at independence was probably not much higher than it had been in the Mughal period. Nearly 85 percent of the population remained illiterate, and even during the first half of the twentieth century, the economy grew at under 1 percent per annum. Unlike the Japanese interventions in their colonies, the direct role of the British in India was much more modest. In the first half of the twentieth century, more than half of public revenues were spent on running the state itself, and another 20 percent went for infrastructure. Very little was allocated for primary education, for extension and research in agriculture, or for industry. Methods of revenue collection created negative incentives for landowners and peasants to invest in agriculture, and the openness of the economy discouraged investments in new industry. The state was unable to tax Indian collaborators, the agrarian elite, further, which limited public expenditures. Given the commitment to laissez-faire, there was also
reluctance to intervene to improve agricultural productivity in India or to support industry – even British-owned industry.

In British India, there was no close or systematic cooperation for economic growth between the colonial state and private producers. In India, no government departments were created to develop and promote new agricultural and industrial technologies, and no or little public subsidies were provided to promote industry or increase agricultural yields. The limited role of the state came to be reflected not only in the design of tax collection and expenditures of the limited public monies (mostly on financing an army and bureaucracy), but also in the limited types of activities that the state learned to master and in the generalist nature of state bureaucracies.

3.6 Transition to Independence in the Japanese Colonies

The following sections show how and why state capacities developed during colonial rule were either reinforced after independence or undermined.

Japanese rule in Korea and Taiwan abruptly came to an end in 1945 with Japan’s defeat in the Pacific War. Taiwan was returned to the Republic of China, and soon afterwards became the last redoubt of the Chinese Nationalists after their defeat on the mainland in 1949. Korea was divided into U.S. and Soviet occupation zones and suffered a devastating civil war from 1951-1953. This section examines how state capacity developed during the Japanese colonial period was maintained in both states during the transition to independence and laid a foundation for the spectacular economic growth that they experienced during the 1960s and beyond.

The overwhelming concerns of both states’ leaders, Chiang Kai-Shek and Syngman Rhee, in the first ten postwar years were similar: fighting Communism, maintaining personal
power, and constantly negotiating and re-negotiating aid from the United States. National re-unification and recapturing territory lost to the Communists, as well as maintaining political and economic stability, rather than economic growth, were the priority in both regimes during their early years. In fact, however, Taiwan and South Korea shared certain key developments during this period that laid the foundations for future economic growth. First, much of the bureaucracy and police from the effective, though also highly repressive, colonial state was maintained, or even rebuilt, by the successor states, partly with American assistance. Second, a class of native entrepreneurs that had its origins in the colonial period helped to jumpstart development. Taiwan (as well as Hong Kong) also benefitted from a large group of highly skilled entrepreneurs and capitalists, mainly from Shanghai, that was fleeing Communist China. South Korea similarly benefitted from the exodus of entrepreneurs from the North. Third, in both countries, the cadastral land surveys that the Japanese had carried out were now used to re-distribute land in a fairly egalitarian manner, partly under U.S. pressure, to blunt the appeal of Communist ideology. Fourth, building on a good colonial base, both states succeeded in rapidly improving education. These developments can be thought of as the “initial conditions” on which the subsequent growth “miracles” were built.

3.6.1 South Korea under Syngman Rhee: Maintenance of the Colonial State

After Japan’s defeat in WWII, Korea was divided into a Communist north and an American-controlled south, and an externally aided civil war followed. South Korean politics during the first postwar decade was dominated by Syngman Rhee, who ruled from 1948 until he was forced out of power in 1960. During his presidency, South Korea achieved only mediocre economic growth, compared to the decade that followed, and was heavily dependent on U.S. aid.
Nevertheless, the emerging South Korean state during this period still laid the foundations for the spectacular economic growth that occurred after Park Chung-hee became president in 1962.

Rhee was a highly authoritarian ruler whose main priorities were securing personal power, fighting Communism, suppressing domestic opposition, and maximizing U.S. aid to South Korea. In spite of Korea’s relatively poor economic performance during his regime, a number of important developments were of long-term economic significance. First, some essential structures of the colonial state survived, including a centralized civil bureaucracy and a well-organized police force. Second, a class of native entrepreneurs emerged during this period. Some of them had gotten their start in the colonial period, while others migrated from the north. Most of them benefited from the sale of Japanese investments at very low prices, U.S. aid and related recovery, and some economic protection. Third, land reforms eliminated large landowners as a political and economic force, with positive consequences. Aside from contributing to equality, compensation received by landlords found its way back into the economy. Finally, leftist political forces and labor unions were brutally repressed, which allowed successive regimes to focus on growth in alliance with indigenous capitalists.

When U.S. forces occupied South Korea after the Japanese surrender in 1945, their main goal was to create a stable, pro-American regime, and therefore sought to work with the Korean upper classes. The latter turned out to be mainly industrialists and landlords with some Western education and former colonial officials. Creating a pro-American order in South Korea meant preserving the effective but repressive state infrastructure inherited from the Japanese, even if it meant supporting an autocracy, as long as it could keep order and was anti-Communist.

With the establishment of a pro-American political order as its central goal, the U.S. occupation force in South Korea chose to maintain the colonial bureaucracy. Initially, of course,
a majority of the senior civil servants were Japanese, and many Koreans expressed resentment when the Americans asked senior Japanese officials to stay on to facilitate continuity. The Americans therefore kept a few Japanese civil servants as advisers, but re-staffed the state structure with Koreans. This pattern of Japanese-designed institutions staffed by Koreans eventually came to characterize the civil service, the police, and the judiciary (Cumings, Kohli).

Koreans had staffed around 20 to 25 percent of positions within the colonial civil service, mostly at intermediate and lower levels. During WWII, with Japanese personnel needed elsewhere, quite a few Korean officials had already moved up the hierarchy. Americans quickly promoted other Koreans with the help of Japanese advisers and rebuilt the civil service. It helped that the headquarters of the old colonial bureaucracy had been located in the south, in Seoul. In addition, many senior bureaucrats from the north migrated south and were absorbed into the bureaucracy. In general, enough Koreans who had passed the Japanese civil service exam and were subsequently trained in the colonial service, were able to staff the bureaucracy. Even below the national level, “capable Koreans for the most important jobs proved not too difficult to find”, and by mid-1946, “Korean administrators were in control of most of the government functions” (Meade 1951). Therefore, the infrastructure of the colonial civil service, now staffed by Koreans, was maintained. During the Korean War, this bureaucracy ran daily government, generally following Japanese precedents, and subsequently helped with the war recovery and with facilitating stability. Rhee was a patronage-oriented leader who valued the personal loyalty of senior bureaucrats more than their professionalism, so there was a fair amount of turnover in the upper echelons of the bureaucracy. Nevertheless, continuity with the colonial service survived. Data collected as late as 1968, twenty-three years after the end of colonial rule, documented that
of the 2,339 higher civil servants, some 75 percent had still come out of the colonial civil service (Wright, 1975).

The bureaucracy was especially effective in tax collection. South Korea was better at collecting direct taxes than most developing countries during this period. It is estimated that direct tax as a percentage of total taxes in South Korea during the 1950s was around 35%, considerably higher than most countries at Korea’s level of development (Jones and Sakong 1980). Effective collection of direct taxes demonstrates that the bureaucracy rebuilt on the Japanese colonial base was effective and available to be used by the political leadership. Tax collection was important enough to Rhee, in fact, that he even retained Japanese-trained civil senior civil servants as heads of related bureaus in order to facilitate tax collection (Lee 1968). Also, the fact that the Korean state could collect direct taxes relatively effectively helps to explain why in subsequent periods Korea depended less on taxing foreign trade for public revenue than did many other developing countries.

A similar pattern of continuity with the Korean state structure characterized the police, even more so than in the case of the civil bureaucracy. Around 30% of the colonial police had been made up of Koreans. The Americans reopened Japanese police academies, and with the help of Japanese advisers, promoted Korean officials to senior positions (Sawyer 1962, Greitens 2016). The size of the police force grew over its already sizable colonial base, nearly doubling the intensity of police penetration within South Korea. The continuity in personnel was remarkable: as late as 1960, when Rhee was forced from power, those who had been with Japanese police constituted about 70% of the highest-ranking officers. Under the successor regime, the police continued to be a highly centralized and effective agent of control. They were present in all parts of the country, shared “close links to village heads and bureaucratic officials,”
and were “feared by the general population” (Han 1974). In terms of functions, beyond the usual areas of law and order, the police continued to be assigned important political and economic responsibilities, just as in colonial times.

Finally, the Republic of Korea Army, which grew from only 5000 men in 1946 to 50,000 in 1950, and 600,000 by 1953, also had a significant Japanese connection. Senior officers in the early army, including Park Chung-hee, consisted mainly of Korean veterans of the Japanese army. The Americans used Korean advisers who had served in the Japanese army to recruit these officers. Over time, the army became the “preserve” of officers with a Japanese military background. After the war, as opportunities for promotion in the army grew fewer and as the country’s politics became more chaotic, the coup coalition of 1961 emerged out of the rank of frustrated intermediate-level officers.

In conclusion, the infrastructure of the colonial state was maintained in South Korea. This outcome was largely a product of American political goals in South Korea, although continuity also served Syngman Rhee well. Unlike Germany or Japan after the war, where the need to create pro-American political orders led to more drastic political reform, including democratization, in South Korea the Americans saw the main threat as Communism. For the Americans, preserving the colonial state and stability was an effective means to counter that threat. Working quickly from the colonial base, the Americans rebuilt a centralized and pervasive bureaucracy. It laid the groundwork for economic growth when a regime came to power that was more focused on this goal than Rhee.
3.6.2 Korea under Syngman Rhee: Economic Development Policies

Syngman Rhee assumed power in South Korea in 1953, propped up by the Americans. Coming from the landed class, and already in his sixties, he ruled as a personalistic autocrat whose main ideologies were nationalism and anti-Communism. In fact, the scope of his power was constrained, given the U.S. military presence, South Korea’s dependence on U.S. foreign aid, and the division of the country. Rhee worried mainly about warding off challenges to his personal power, especially from the left, and focused on Korean re-unification and maximizing U.S. aid. As Jones and Sakong (1980) write, “Rhee’s concerns were not with economic growth, but with short-term objectives of reconstruction and maintenance of minimum consumption standards, both of which were to be achieved by aid maximization rather than investment and production”. South Korea’s poor economic performance during his presidency is sometimes attributed to adopting ISI rather than the export-oriented development model that his successor Park Chung-hee adopted, but the state under Rhee also had no serious involvement in facilitating investment or promoting technology, unlike the developmental Japanese colonial state, or the Park Chung-hee regime that followed.

Rhee concentrated on using state power to repress the left. He used the police and intelligence networks that Korea had inherited from the Japanese against his political opponents. Factories, universities, and political groups were all infiltrated by agents charged with weeding out “communists”. With the left largely eliminated, the political alternatives in South Korea came to be mainly on the right. Unlike many other developing countries, socialism was not considered a legitimate ideology in South Korea. In practice, South Korea eventually undertook some programs also initiated by socialist governments elsewhere, such as pursuing land reform and establishing state-owned enterprises, but such policies were conceived mainly as actions in
defense or in support of capitalism. Labor unions were also rapidly suppressed. A national-level labor organization briefly organized after the war was destroyed in 1945, replaced by a “regime-controlled organization exercising top-down coordination of workers in the interest of business and the state”, highly similar to the Japanese style of organizing labor during the colonial state.

In the countryside, as noted above, a comprehensive land reform was implemented by U.S. and Korean authorities in South Korea in 1945-1950, making use of colonial-era Japanese cadastral land surveys. While, unlike in the north, the institution of private property was retained, authorities confiscated and redistributed all land held by the Japanese colonial government, Japanese companies, and individual Japanese colonists, and Koreans with large landholdings were also obliged to divest most of their land. By the time of the Korean War in 1950, the land situation in South Korea had already undergone considerable change: land controlled by owner-operators had increased from some 36% to 73%. Although U.S. attempts to persuade South Korea toward further land redistribution had been repeatedly frustrated by Rhee’s government, during the Korean War, as the northern forces moved down, capturing large parts of the South, they redistributed land behind the lines to build political support among the peasantry. When the northern forces were pushed back, the Americans formalized some of this redistribution and undertook even further redistribution, this time with Rhee’s cooperation.

As a result of the land reform, land ownership became quite egalitarian. In 1955, smallholders occupied nearly half of the total amount of cultivated land. While old landlords were not completely eliminated, land-related conflicts declined. The landowners took their compensation and invested it into industry and education, such that the “education explosion” that followed was financed primarily by the dispossessed landed classes.
Rapid decolonization and the Korean War were of course devastating to South Korea’s economy. Industrial production in South Korea recovered to its prewar levels only in the early 1960s. During the Rhee period, South Korea’s industries therefore underwent economic destruction and recovery, the latter with the help of considerable U.S. aid.

This recovery was cut off by the onset of the Korean War in mid-1950, which destroyed nearly two-thirds of South Korea’s industrial capacity and left nearly one million dead. It would take South Korea nearly a decade to recover from the war. Most of Rhee’s regime can therefore also be seen as a slow recovery from war-related destruction assisted by massive grant aid from the United States. What makes South Korea unique as a “developing” country is that it already possessed significant experience of industrialization.

After decolonization, the mines and manufacturing plants previously owned by the Japanese changed ownership several times: following a brief period of de facto control by Korean workers, the properties were first vested with the U.S. military, then transferred to the South Korean government under Rhee, and eventually sold by Rhee at rock-bottom prices to private Korean entrepreneurs (Woo, *Race to the Swift*). Similar to Taiwan, the Korean experience of de-colonization therefore involved a large-scale, non-revolutionary transfer of property from Japanese to domestic capitalists. Such a transfer of ownership strengthened emerging Korean capitalism. Many entrepreneurs from the north had moved south. Though most of these were relatively small operators, quick transfer of Japanese properties to select individuals instantly created potentially bigger capitalists.

Along with the land reforms, the transfer of Japanese-owned mines and manufacturing plants to Korean entrepreneurs rapidly created a private enterprise economy operated mainly by Korean owners. Land redistribution had recreated positive production incentives for the land
tiller, and South Korea had inherited fairly advanced technology from the colonial state, including improved seeds and plant varieties, fertilizers, and a well-organized irrigation system. Although industry was damaged or destroyed during the Korean War, as the cases of Germany and Japan also demonstrated, it is easier to rebuild a war-torn, industrializing economy that it is to commence industrialization in a traditional agrarian society. Although the war caused enormous physical destruction, there remained knowledge of industrial technology and management, a viable group of entrepreneurs, and a trained and disciplined work force.

The economic recovery was supported by a massive inflow of foreign aid from the United States. Between 1953 and 1960, U.S. aid to South Korea, nearly all of which was a grant, amounted to some 10% of Korea’s GNP per year. U.S. aid was central not only to economic survival following de-colonization, but also the post-Korean War reconstruction. U.S. aid ended up making a substantial contribution to resuscitating South Korea’s war-destroyed economy and thus to longer-term growth. Infrastructure was quickly rebuilt, electric power supply was re-created, and a variety of mines and factories were restored and reopened. One actual major accomplishment during Rhee’s regime was the revival of South Korea’s textile industry: “by 1957 the industry had achieved complete import substitution [in many categories] and was beginning to explore possible export markets.” (Eckert) This textile industry spearheaded South Korea’s export drive in subsequent years.

Another contribution of U.S. foreign aid was in the area of education. The Rhee period experienced considerable expansion of education, with literacy rates climbing up to almost 70%. Both U.S. foreign aid and domestic Korean resources were important in this development. American funds generally helped to build the infrastructure, such as school buildings, whereas significant private Korean resources, especially from the dispossessed landed elite, seeking
opportunities for their children, provided complementary inputs. Korean schools continued with inherited Japanese traditions, which were in line with their common Confucianist heritage: respect for authority and teachers, a government-managed system of entrance exams, and a curriculum more oriented to state and economy than to the liberal arts.

Rhee’s regime itself has been criticized by subsequent observers as not having achieved much economic development, but some observers (Woo, Kohli) suggest that some progress was still made. Given the very low rate of investment, for example, the growth achieved was remarkable (Woo). One explanation might be that a unit of investment went further in rebuilding an established though war-damaged economy than it would have if industrialization were starting from scratch. Although Rhee favored an ISI regime and an overvalued exchange rate, Korea at the time had an average rate of tariffs of only 40% at a time when other major states trying to implement ISI, such India, Brazil, or Mexico had tariffs over 100%. Furthermore, numerous exchange rates were used: some applied to imports, yet others applied to exports, so that the overvalued exchange rate did not have such a strong effect of discouraging exports as in most ISI regimes.

Rhee’s government undertook very little economic planning. Also, having privatized most Japanese-owned mines and factories, Rhee never promoted state enterprises; rapid development of the state sector in South Korea occurred only subsequently in the Park era. Therefore, it might be said that in fact Rhee was not systematically pursuing any statist development agenda: there were no state enterprises and the trading regime did not discourage exporters.

In conclusion, economic development in Rhee’s Korea was mainly a story of recovery from post-colonial dislocation and war-related destruction. Industrial recovery was especially
impressive between 1953 and 1957, though subsequently an American-imposed stabilization program aimed at controlling inflation hurt economic growth and contributed to Rhee’s downfall. U.S. aid helped to rebuild the colonial infrastructure and factories, and thus helped to generate modest economic growth.

Most economic accounts of post-war Korea begin with the Rhee period, suggesting that it represented a statist, ISI-phase that was followed by the more market-oriented, export-oriented model adopted by Park Chung-Hee, during which Korea’s economy grew in spectacular fashion. In the view of this project, many of the foundations for Korea’s economic growth were actually laid during the colonial era. Developments during the Rhee period set the stage for the subsequent high growth of the economy. Rhee was concerned mainly with maintaining political stability and therefore ignored the economy, contributing to low domestic savings and corrupt relations with capitalists. However, the state and the economy inherited from colonialism and then rebuilt with American support ended up provided some of the important building blocks for Korea’s subsequent growth.

3.6.3 Taiwan under Chiang Kai-Shek

Within a relatively short decade, from the mid-1940s to the mid-1950s, Taiwan was transformed from a Japanese colony to a province of postwar China, and then from an island frontier to the center and the final power bastion of the exiled Nationalist Chinese state. The departing senior Japanese bureaucrats were mainly replaced by bureaucrats from the mainland. At first, the KMT ignored the colonial legacy left by the Japanese, but after 1949, when Taiwan became its last refuge, many of the bureaucratic and policing features from the Japanese colonial state were re-instated.
As in Korea and India, many locals were employed in the colonial civil service and police in Taiwan. In October 1945, around 43% of the 13,000 strong police-force was Taiwanese, as were 55% of the civil service positions. The most important priority for the KMT during the 1945-1949 was its effort to win the war on the mainland, so few resources were allocated for Taiwan. It shrunk the civil service to half its previous size and replaced many Taiwanese with inexperienced but politically connected mainlanders, instead of promoting experienced Taiwanese or recruiting them for entry-level jobs. Many of the mainland bureaucrats and policemen could neither speak Japanese, then the local lingua franca, nor the local Chinese dialects. This caused serious problems of communication, as few Taiwanese at that time spoke the Mandarin dialect, the official language of the Republic of China.

Finally, in organization terms, the KMT disregarded and dismantled the baojia system of communal organization that had been utilized effectively by Japanese authorities and that might have compensated for numerical and social shortcomings (Greitens 2017). Taiwanese police officers and patrolmen who had experience working closely with baojia heads were fired, and changes in police location severed the previous symbiotic relationship that had existed between the police and local hoko heads.

Many mainlanders viewed the Taiwanese as disloyal to China and tainted by colonial education, while many Taiwanese compared the new regime unfavorably to the former Japanese administration, especially in terms of public order and corruption. The distrust between the two sites erupted in a tragic uprising on 28 February 1947, which was suppressed with the executions of some 28,000 native Taiwanese, largely members of the Taiwanese elite.

After the mainland was lost, and Taiwan became the KMT’s last redoubt, however, their strategy changed. They had no choice now but to concentrate on ruling Taiwan and improving its
Taiwan. The top bureaucrats were now replaced by mainland China’s administrative elite. Many highly trained professionals were recruited to take charge of economic planning and development of state-run industries. This economic elite was composed of economists and engineers who had studied abroad and thus had years of fieldwork experience (Wang, 127). They received the full authorization of the government to co-operate with the American aid officials in the design and promotion of economic development in Taiwan. There was an exodus of migrants with a good education, technical skills, administrative ability, and entrepreneurial experience. Their specialty and loyalty also contributed to the consolidation of the Nationalist government in Taiwan.

In addition, the KMT now began to actively focus its recruitment efforts on native Taiwanese as well. The KMT increased its membership from 50,000 members who crossed the Straits in 1949 to over 280,000 by the Seventh Party Congress in October 1952. Over half were Taiwanese. The Anti-Communist Youth Corp, established in 1952 and headed by Chiang Ching-kuo, was the only intercollegiate organization allowed by law; it was designed to entertain monitor, and recruit students, especially Taiwanese. By 1980, almost 20 percent of the population were KMT members, and more than 67% were average Taiwanese.

To reinforce the security apparatus’ penetration of society, the colonial-era Japanese baojia policing system was re-instated and subsumed into the monitoring network operated by the party and local government, so that it was once again closely linked to the gathering of domestic intelligence and the deployment of local power.

As in Korea, the new government also used the colonial-era land cadastral surveys to implement a land reform, carried out under U.S. auspices in the 1950s. The land reform in Taiwan, overseen by the Sino-American Joint Commission on Rural Reconstruction, took place
in three stages: in the first stage, Japanese properties were seized, amounting to 20 percent of arable land. The second involved rent reductions whereby rents were limited to 37.5% of the value of the major crop. The final stage of the reform as the land-to-the-tiller stage in which an additional 16 percent of all arable lands were expropriated and subject to compulsory sale. As in South Korea, the reform played a key role in establishing an agricultural base for subsequent industrialization, as rising agricultural productivity provided a subsequent source of rapid labor transfers into industry as well as a significant source of domestic savings. Agricultural and processed agricultural goods provided a key source of foreign exchange during the 1950s, helping to finance the initial capital and raw material imports required by the growing industrial sector (Ho 1978, 106). The elimination of the traditionally powerful landowner classes was in fact crucial to establishing the state-society autonomy that would underpin subsequent development. It also meant that economic development in Taiwan was relatively equitable, particularly in comparison to Latin America and many southeast Asian countries, especially the neighboring Philippines (Kay 2002). Furthermore, land reform served to remove the threat of a socialist revolution in the countryside, thereby eliminating the last issue on which the Left could have hoped to achieve substantive rural support.

The colonial infrastructure left by the Japanese was therefore a major reason why the KMT were ultimately successful in Taiwan in a way that they had not been in mainland China. With their enormous party and state bureaucracies, military machine, security network, industrial assets confiscated from the Japanese, and the Americans now insulating them from external enemies, the Nationalists had control over the situation in Taiwan to a degree they never approached on the mainland. Furthermore, there was no viable opposition to them. Between 1947 and 1949, Taiwan’s intellectual and political elites had been liquidated. There was no
indigenous capitalist or financial class to challenge the regime economically. A land reform prevented discontent among the peasants. Because, on the one hand, the regime faced no more internal opposition, and on the other, as an external occupying force it had no base within Taiwanese society, it had free rein for activity.

3.7 Transition to Independence in the British Colonies

British rule in the subcontinent continued until 1947 in the case of India, when it was given independence and partitioned between the new republics of India and Pakistan, the latter having been created as a homeland for Indian Muslims. In the case of India, a nationalist movement led by the Congress party had been gaining momentum since the early 20th century, and there was already a tacit understanding that, in exchange for the Indian nationalists’ support of the war effort, independence would be granted to India soon after the war’s end. Of the four cases in this chapter, India was the only country that successfully implemented and maintained democracy after independence up to the present day, remarkable for a country of its size and diversity at its level of development. On the other hand, India’s economic performance was poor in comparison to Taiwan, South Korea, and Singapore until economic reform in 1990, though the performance of the sovereign state was still a considerable improvement over the nearly stagnant colonial economy, especially the pre-1930 period. Since the opening of the Indian economy in 1990, its economy has grown at much faster rates (currently second fastest in Asia after China), though it is still poor on average, and growth has been very uneven, with wealthy capitalists and skilled, urban middle-class workers reaping most of the benefits.

In the case of Singapore, the British resumed control in 1945 after Japan’s defeat in the Pacific War. Britain’s rapid and humiliating defeat in Malaya and Singapore during the war by
the Japanese had damaged British prestige, and there was a growing nationalist movement as well. Independence for British Malaya was delayed by the existence of several antagonistic major ethnic groups – the Malays, Chinese, and Indians – and the British desire to suppress a Communist insurgency (known as the Malay emergency) during the 1950s before independence would be granted. The Federation of Malaysia, which consisted of the Malay states, the Straits Settlements (including Singapore), and Sabah and Sarawak in northern Borneo was granted independence in 1963. Two years later, in 1965, Singapore was expelled from the federation, due to disagreements between its ruling party, the People’s Action Party (PAP), and the United Malay National Organization (UMNO). The fundamental problem was that Chinese-dominated Singapore disagreed with UMNO’s policy of special privileges for Malay citizens. In addition, if Singapore was included, the Chinese made up slightly over half of the federation’s population. After independence, Singapore has continued to be ruled as a one-party state by the PAP up to the present day. Although small and without natural resources, Singapore subsequently became another economic success story, classified as one of the Asian “tigers” alongside South Korea and Taiwan.

Both countries were influenced by their British colonial legacy. In the case of India, the limited reach and expertise of the British colonial state meant that there was a mismatch between the capacity of its successor state to successfully implement a statist development policy. On the other hand, in the case of Singapore, a very intensive British administration laid the foundation for a well-governed independent country that, like Korea and Taiwan, was able to promote economic development and rapidly improve education and welfare for its citizens.
3.7.1 India under Nehru: The First Decade of Independence

Under independent India’s first prime minister, Jawaharlal Nehru, a stable democracy took root and a statist model of economic development was adopted. Viewed comparatively, India’s democracy is remarkable for a country of its size, diversity, and level of economic development. The survival of democracy in India suggests that, under specific conditions, a country’s political structures are insulated from the underlying society and economy. Although the British colonial state was itself highly autocratic, many inheritances from the colonial state made democracy in India possible: a relatively centralized and coherent state with a well-developed civil bureaucracy; its limited but real experience of elections and of constitutional, parliamentary government; and its traditions of independent media and freedom of such associations as labor unions. India’s leaders adopted mass suffrage, committed themselves to a parliamentary democracy, and permitted the emergence of a variety of political voices and organizations. India is the only country among the four cases in this chapter to have remained consistently democratic since its independence in 1947: Polity IV has never given India a score of less than 7 for the entire period.

On the other hand, despite India’s consistently democratic governance, its economic performance between 1950 and 1980 has been mediocre compared with the other three countries in this chapter during the same period, even if it was still a considerable improvement when compared to colonial India (see Figure …). This poor performance was partly the result of the statist, autarkic model of development adopted by Nehru and his successors, until neoliberal reforms in 1990, that discouraged foreign investment and failed to encourage exports. The decision to adopt a statist, closed economy by India’s post-colonial leaders was a reaction to the
idea that the open, laissez-faire trading regime adopted by the British colonial state had de-
industrialized India and failed to achieve economic growth.

Another reason was that the India’s limited state capacity made the state-led development
model a poor fit for the country. India’s leaders were not particularly successful at either
promoting economic growth or improving conditions for the poor. Although India was the only
democracy out of the four countries in this study, and it was ruled by a party with a leftist
ideology, during the first decade of independence it failed to implement three achievements
implemented by rightist authoritarian governments in South Korea and Taiwan: increasing
agricultural productivity, land reform, and massively expanding public education, all of which
proved crucial to subsequent economic development.

In fact, the need for the leaders of a poor country such as India to win fair elections,
which the leaders of the other cases did not have to worry about, may have also had some
negative developmental consequences: 1) The alliance of the ruling party with local landowners,
who had a client-patron relationship with rural peasants continued as in colonial times, since this
was the most effective way to get votes from the landowners and their clients; 2) The expansion
of patronage appointments in the civil service, especially through reservations for lower-caste
candidates, was an easy way to win their votes but decreased the professionalism of the civil
service and its insulation from politics.

While relatively large in absolute terms, the central British colonial state was miniscule in
relation to the size of the population. As explained above, the central state’s tiny size had
prevented it from reaching down to the local level and often required additional tiers of colonial
control that depended on local intermediaries.
One reason for India’s post-colonial failure to increase agricultural productivity and carry out land reform successfully could therefore be considered an area of continuity from British colonial rule: the ruling party’s inability to break away from the colonial pattern of forming an alliance with important land-owning elites to facilitate rule. A majority of Indians lived in the countryside, and most of them operated within a variety of patron-client relationships. One easy way to build political support in such a social setting was to cultivate the support of the patrons – generally the highest, landowning elite castes – who, in turn, could sway the political behavior of their dependent clients, generally poor peasants. The party built long chains of patronage that extended from the center to the periphery. This ensured a popular base, at least for a decade or two, but eventually also led to the capture of the party by the aforementioned landowners. This made it difficult for the party to implement re-distributive goals such as land reform or taxing the agrarian sector. The colonial state had ruled in alliance with landowning traditional elites and generally had a good working relationship with Indian business groups. While Nehru clearly had a broader social base, the power alliances of India’s new rulers with propertied groups therefore also had strong continuities. While it is true that the extremely wealthy elites (such as the maharajahs and zamindars) were eliminated, the Congress Party still based its rural power on landowning elites, albeit smaller landowners, a “lower” gentry of sorts.

A comparison of India’s states provides evidence that rule through indirect collaborators may have left a negative developmental legacy. Using the percentage of each state’s total territory that was ruled by either princes or landlords during colonialism as a measure of indirect colonial rule, the extent of indirect rule is negatively related to each state’s literacy rate (-0.47) and per capita GDP (-0.43), and positively related to infant mortality rate (0.48). Banerjee and Iyer (2005) calculated the percentage of district territory that was controlled by intermediary
landlords during British rule, and found that regions with landlords during colonialism have had significantly lower levels of economic and human development during the postcolonial period. Although they suggest that these differences are primarily caused by the effects of property rights enforcement on policy and investment, this analysis suggests that colonial rule through local intermediaries created a miniscule state that was dependent on local elites. The absence of indigenous intermediaries in other regions required a larger legal-administrative system to collect taxes, register property, and enforce rights; and these more directly ruled regions therefore had states with greater capacities to promote development.

The Congress Party made the decision to retain the colonial Indian Civil Service (ICS), now renamed the Indian Administrative Service (IAS). At the time of independence, the ICS was already about half-British and half-Indian. The "Indianization" of the civil service had been a key demand of Indian nationalists, which the British were willing to accommodate. As early as 1922, it was already possible to take the ICS exam in India (as well as in London). While most Indians who joined the ICS had not been socialized in British public schools and universities, some had been, and the rest were often trained in similar institutions established by the British in India. The departure of the British and a few Muslims (for Pakistan) after independence therefore did not represent a disaster for the ICS in terms of human resources (since upper-caste Hindus made up most of the indigenous ICS members at the time of independence, however, the departure of virtually all Hindus from Pakistan to India may have had considerably more negative consequences for Pakistan). The decision to retain the ICS was retained mainly, it seems, because of bureaucratic inertia: the transfer of power had been relatively peaceful, and the new Congress leaders saw it as crucial to maintaining law and order, as well as the unity of India. In addition, civil servants were an important constituency of the Congress Party.
The colonial bureaucracy that India’s leaders inherited was professional, especially the elite Indian Civil Service (ICS) officers. However, there were still several legacies from colonial rule that impacted the post-colonial civil service negatively: Besides the relatively small size of the bureaucracy at the time of independence and its limited downward penetration, there was also the problem that the ICS contained few specialists in economic development that could implement the leaders’ ambitious development goals. Its primary goal under the colonial state had been to maintain law and order; it had never been intended to implement complex development projects.

The new IAS service reflected the structure of the ICS and still relied for staffing on a highly competitive exam that mainly tested general rather than specialist knowledge. The small fraction of candidates who passed the exam were then trained in more or less the same way as ICS officers had been, first in an institute and then on the job, apprenticing under more senior officers. Internal promotions were made on the basis of merit and seniority, and an independent supervisory body helped to maintain the level of professionalism, especially until the late 1960s, when the IAS became more politicized. The IAS also adopted the core structure of the old ICS – namely, district officers that were responsible for revenue, and keeping law and order; new development functions were merely add-ons. It is also possible that, in the first generation after independence, the IAS lacked sufficient candidates with the right qualifications, even if the exams had tested for specialized knowledge. The IAS officers, like the ICS before them, were generalists, unprepared for such complex and specialized tasks as running factories, promoting exports, building technical institutions, and promoting scientific agriculture. Though competent, this service was a minute group that sat atop a much larger, less professional, and less capable
group of public servants. Also, as noted above, it still had to strike bargains with traditional Indian elites.

Another problem is that, although the IAS expanded in size after independence, its professionalism was gradually eroded by patronage politics. This became especially true during the administration of Nehru’s daughter and successor, Indira Gandhi (who served from 1966-1977, and 1980-1984). Mrs. Gandhi was a more populist politician than her father had been and declared that one of the new goals of her administration should be “poverty alleviation”. During her administration, a new policy was also introduced that reserved a certain percentage of IAS posts and university places to lower-caste candidates, an historically disadvantaged group. The size of the IAS quadruped between 1950 and 1983. This reflected the overall growth of the public sector, in which employment grew from some four million in 1953 to 10 million in 1983. The basic structure of the IAS in terms of its size within the overall public service or in terms of its distribution across various types of jobs did not undergo any dramatic changes, but there was an erosion of criteria for internal promotion, and greater premium placed on connections and loyalty to politicians for seemingly desirable positions. In a poor but democratic country such as India, increasing the number of public sector jobs for low-income groups was an easy way to win their votes. It was certainly easier to reserve jobs in the civil service or university places for these groups than to achieve economic growth.

Nehru’s political preferences, expressed through the Congress Party, stressed the following: maintaining national sovereignty, the superiority of the state in steering progressive capitalist development, and the need for India’s poor to share in the fruits of development. The nationalist commitments translated into suspicion of an open economy and a preference for heavy industry. In spite of low domestic savings, foreign investment was discouraged. Indian
business groups benefited from protectionism and helped to sustain it. Protectionism was justified in terms of “export pessimism” and “protecting infant industry”. This could also be seen as an ideological legacy of the colonial era. The free trading regime of the colonial era had been interpreted by nationalists not only as killing infant industry and inhibiting the emergence of indigenous industrial capitalism.

Although there was a lot of rhetoric about the party’s commitment to improving conditions for the poor, this actually seems to have been rather shallow. India’s rulers were not revolutionaries. Compared to East Asia’s leftist and even rightist regimes (South Korea and Taiwan), there was no land reform, and little energy spent on promoting widespread access to primary education. The main source of growing public revenues was indirect taxation, especially of consumer goods. Indirect taxation sufficed in this early period because the government’s non-developmental expenditures were minimal: Nehru’s government spent remarkably little on health and primary education, given the party’s socialist rhetoric. The levels of political mobilization were also relatively low at this early stage, with much of the lower-class population enmeshed in traditional patron-client relationships.

The agrarian economy, in particular, was in poor shape. It had not grown much over the previous several decades; internal demand was limited; savings were low; experience with managing complex modern production was relatively scarce; and the health and educational conditions of the working population were very low. The agricultural sector was more or less ignored at the expense of industry during the 1950s. Agricultural growth was barely able to stay ahead of population growth, and much of this growth was extensive instead of intensive: the result of bringing more land under cultivation, rather than improving productivity.
Nehru preferred to emphasize heavy industry, which was more readily controlled from the political apex than agricultural or land redistribution. The imposition of substantial tariffs and quotas provided a protected environment in which industry could take root. The bulk of this growth was in the public sector: further development of electricity, railways, and communication, and in such areas as machineries and steel. South Korea’s state-owned steel company (POSCO) was only started in the late 1960s, yet today it is one of the world’s largest and most competitive steel companies. India’s state-owned steel industry began as early as 1950 but it grew up relatively inefficient, and not very competitive internationally. Steel production grew rapidly in the first decade but ran into serious problems by the 1960s, when it was starved of new investments and thus of new technology and modernization. Policy making was in the hands of generalists, the IAS bureaucrats, who had poor relations with plant-level management. In addition, pricing and distributional policies were politicized with damaging consequences. Steel prices were kept below market price and became a public subsidy to a variety of industries, including private sector industries. Although justified in terms of the needs of rapid industrialization, the policy could be sustained only as long as ample public resources to support such subsidies were available. A critical constraint was the state’s limited capacity to undertake direct taxation, especially in the countryside, where formal political penetration was minimal. Controlled prices were also a constraint on steel industry profits, reducing its capacity for self-sustaining investments.

Some indicators of India’s lower state capacity to manage development included: the role of generalist bureaucrats, poorly trained to manage public sector industries, and the growing political interference by lower-level political elites who treated public sector industries as one more resource in their patronage networks. Instead of asking business what it could do and how
it could help, the state itemized what private business could not do and then raised numerous barriers to what it could do. The growing maze of bureaucratic obstacles to private sector development led over time to corruption and to inefficient allocation of private sector resources.

In conclusion, there was considerable continuity between the colonial Indian state and the state during the first ten years of independent India. However, the limitations of this state to effectively implement policy also became apparent as India’s development model shifted from a free-trade, laissez-faire economy under the colonial British, in which the government did little to interfere with or promote private business, to a state-led development model in Nehru’s India, in which the state intervened heavily in the economy to undertake production directly, and to promote its indigenous entrepreneurs from global competition. The colonial inheritance enabled independent India to provide a moderately effective state that maintained order as well as protected private property, just as the colonial state had done, but it was considerably less successful at industrializing India under the state-led development model.

The most noticeable legacies from the colonial state that limited the effectiveness of state-directed development in India included poor monitoring and training of lower-level bureaucrats, though officials at the apex were usually skilled and competent; a limited ability to collect direct taxes, especially in the countryside, where formal political penetration was minimal; and a continued alliance between the ruling party and rural landowners. In spite of India being a democracy, this capture of the ruling party by rural elites meant that India failed to implement the land reform, as well as improvements in health and education for farmers, that South Korea and Taiwan implemented during the same time period that later proved crucial for high economic growth.
The Congress Party’s nationalist and socialist ideology discouraged foreign investment, and it had a poor relationship with Indian entrepreneurs, putting restrictions on what Indian business could do rather than providing effective state assistance other than protectionism. As in other states practicing ISI during the same period, limited exports created periodic balance-of-payment crises, and India was not taking advantage of its key resource, inexpensive labor; it also limited imports of new technology and discouraged economies of scale. Enhanced foreign investment might also have facilitated growth, not only via additional investments, but also and more importantly by contributing to better technology, management, and export promotion. India’s relatively poor economic performance in its first decades of independence, compared to South Korea or Taiwan, can therefore be attributed both to the closed, autarkic economic policies adopted, as well as the limited ability of the state to implement these policies effectively.

3.7.2 Singapore: Transition to Independence

In 1946, following the end of the war and the return of the British, Singapore separated from the Straits Settlements and was made a direct Crown colony. Hitherto, Singapore had been administered largely as part of the Straits Settlements or had strong administrative ties with the other Malayan states. A distinctly Singapore Civil Service did not develop just yet, as 11 departments were still run on a pan-Malayan basis. An agreement of 1934 to establish a common pool of senior officers in Malaya and Singapore was renewed in 1948.

Singapore is unique among the four cases as British rule lasted for almost two further decades after the end of the war, and the colonial state already started several organizations to improve mass welfare after 1945, both to justify the continuation of colonial rule and to fight Communist ideology. The postwar Labour government in the UK was also in the process of implementing a welfare state in Britain.
Many of Singapore’s key institutions date from colonial times. One example was the port authority. In 1913, the British had set up the Singapore Harbour Board to manage the ports, and maintain and develop new wharves. The Board provided housing and meals for workers in the 1930s and was active in promoting mechanization. At that time, shipping trade came under different departments.

The Central Provident Fund (CPF) also dated from the colonial era. It was legislated for in 1953 and put into force on 1 July 1955. Its central tenet established then remains the same to the present: compulsory contributions from workers and employees which go into individual accounts and accrue interest. The CPF was a key plank of the social service reform that was under way in Singapore after the Second World War. The postwar British administration, influenced by the welfare movement in Britain, reviewed the scope of social services in the colony, especially in light of massive poverty in the postwar period.

In 1959, Singapore gained self-government in all matters except internal security and external relations. The 1959 elections were the first to have a wide franchise of locals eligible to vote. This gave the vote to the majority of the 200,000 Chinese born outside Singapore and changed the electoral landscape.

A larger proportion of Singapore’s Civil Service at the time of independence still consisted of British expatriates than was the case in India in 1947. The Malayan Civil Service had been slower than the Indian Civil Service in recruiting indigenous personnel, even at lower levels. One of the primary reasons was that the British excluded ethnic Chinese and Indians from employment in the civil service, as they were considered only temporary immigrants to Malaya, even though many subsequently stayed. The relatively few indigenous employees of the MCS were well-educated Malays who mainly came from a wealthy or aristocratic background.
Likewise, there were no Chinese or Indians in any of the Malay army regiments. The Chinese dominated trade and business in Malaya, and they also made up the vast majority of the urban population in the three main cities: Singapore, Penang, and Kuala Lumpur. Nevertheless, the British still classified the Malayan Chinese as “foreign Asiatics” and temporary sojourners, although by 1950 a significant number of Chinese came from families that had already lived in Malaya for several generations. The idea of the Chinese and Indians as not being truly indigenous to the peninsula was also adopted by the UMNO, the United Malay National Organization, and used to justify preferential treatment for Malays after independence, especially since the Malays as a group were still mostly rural and much less wealthy than the Chinese.

In August 1965, Singapore was expelled from the Federation of Malaysia by a unanimous vote from the Malaysian Parliament. The expulsion came as a complete surprise to Singapore’s citizens, who had not supported or advocated for such a move. The UMNO, Malaysia’s ruling party, had fundamental disagreements with Singapore’s ruling People’s Action Party (PAP), led by Lee Kuan Yew. In particular, the PAP disagreed with the UMNO’s proposal of special privileges for Malay citizens, supposedly meant to help them “catch up” economically.

Lee Kuan Yew able to maintain the professionalism of the civil service. As the dominant ethnic group in Singapore, the Chinese also made up the majority of its ruling party, the PAP. The departure of nearly all British and Malay civil servants from Singapore gave the PAP a chance to re-staff the civil service with ethnically Chinese who were loyal to the party. Although previously almost no Chinese had served in the colonial administration, a large pool of well-educated ethnic Chinese was readily available. There was also an influx of well-educated Chinese from the rest of Malaysia. Of Singapore’s first cabinet, 4 out of the 10 members were ethnic Chinese born in Malaysia, and one was a Sri Lankan-born Tamil. The chief architect of
Singapore’s postwar economic policy, Goh Keng Swee, for example, had a doctorate from the London School of Economics. Because of the large pool of qualified candidates, it was not necessary for Lee to choose between loyalty and competence.

Second, now that Singapore was a city-state on its own, there was no need for Lee’s government to form a coalition with other regions, or an urban-rural coalition. In other countries, the need to form such a coalition may have resulted in patronage appointments from other members of the coalition. In addition, as a state that was now majority ethnic Chinese, there was no need to implement a reservation policy to satisfy the Malays, as the UMNO wished to do in the rest of Malaysia. The problem of reservations for certain disadvantaged groups was therefore not an issue.

Finally, the PAP government re-socialized the English-educated civil servants by recruiting non-English-educated graduates to reduce their predominance in the SCS and to correct the negative image of the SCS as "a preserve of the English-educated, and not representative of the local population". The PAP government widened the scope of recruitment into the SCS to include graduates who had been educated in Chinese-language schools as well.

3.8 Conclusion

In these four case studies, this chapter investigated the mechanisms through which state capacity developed under colonial rulers was maintained or undermined during the first decade after independence, as well as how this state capacity developed in the first place.

Both the Japanese and the British implemented colonies with high state capacity, but the Japanese built high-capacity states that penetrated to the local level in Korea and Taiwan, while the British concentrated their state-building efforts on important administrative and trade centers
that they had founded, such as Singapore. In British India, and much of British Malaya, colonial state-building efforts were much less uniform than the Japanese effort in Taiwan and Korea. In many areas, the British central state relied on local intermediaries to perform important state functions such as collect taxes, whereas the Japanese bureaucracy uniformly extended to the local level in Taiwan and Korea.

Both the British in India, and the Japanese in Korea and Taiwan, formed alliances with local landowners. The British did this by outsourcing some important state functions, such as collecting taxes, to the large landowners in many areas. The Japanese, on the other hand, won the loyalty of local landowners by helping them to increase agricultural productivity, and re-confirming their property rights by carrying out a land survey. Unlike the Japanese in Korea and Taiwan, the British did not do much to improve local agricultural productivity in India. The British state was laissez-faire and mainly concerned with collecting taxes and maintaining law and order.

In colonial India, local gentry and aristocrats were given the power to collect taxes from the peasants living on the land, and the right to keep the majority of the revenue for personal use, so long as they turned over a certain percentage of the taxes for the British. There were no efforts by the British Indian government to increase agricultural productivity, and most Indian landowners lacked the knowledge and technology to increase productivity themselves without outside assistance.

In Korea and Taiwan, what the Korean landlords lost in terms of autonomy from and influence over state during the monarchy, they made up first by securing new Western-style, legal private property rights and later gained enhanced profits from their land, thanks to the efforts by the Japanese state to increase agricultural productivity through irrigation projects, as
well as improved seeds and fertilizer. While the Japanese in the process ended up owning significant amounts of agricultural land in Korea, most Koreans who controlled land prior to the arrival of the Japanese maintained and even expanded their landownership. Moreover, many among the landed elite were incorporated into local governance, cooperating with and helping local agents of the state maintain control over villages. Direct bureaucratic penetration, therefore, was buttressed by the authority of local influentials, rather than outsourced to them.

The Korean peasant, like the Indian peasant, did not really benefit from this arrangement in the colonial period: it is estimated that per capita consumption of rice actually remained the same or even declined during the Japanese colonial period, due to population growth and lack of non-agricultural labor opportunities. However, the incomes of Korean landowners greatly increased, as did returns on agricultural investment. The landowning class in Korea however, mostly disappeared after the war as a result of land reforms in both north and south, made possible by the same Japanese cadastral survey which was supposed to protect their property rights "in perpetuity". In India today, rural landowners remain a significant political force.

Both colonial powers aimed to extract enough taxes from their colonial territories so that they would be self-sufficient and not require subsidies from the metropolitan taxpayer. The Japanese were able to extract more in taxes from Korea and Taiwan than the British did in India, thanks to bureaucracy that extended to the local level, as well as comprehensive land cadastral surveys. However, the Japanese colonial state also used these resources to invest in developing the local economies of their colonies, and they succeeded in improving agricultural productivity, whereas the British mainly maintained only a laissez-faire state whose primary purpose was to maintain law and order.
In constructing these higher-capacity states, the Japanese did have to make a greater initial investment. The differences between the Japanese and British in their willingness to make this investment seems to be related to differences in colonial ideology: the Japanese were building a state in only two colonies, occupied by somewhat culturally similar peoples, that were close to home. Some Japanese colonialists believed that they could be transformed into integral parts of Japan. The British, on the other hand, had a much larger number of colonies all over the world, occupied by indigenous people whom they always regarded as culturally alien.

All of the colonies described in this chapter, unlike some in sub-Saharan Africa, inherited large and professional civil services. In all cases, elements of the colonial civil services were maintained, to provide continuity and maintain law and order during the transition to independence. In India, Taiwan, and Korea, natives already occupied many of the lower-level posts in the bureaucracy and the police at the time of independence, so it was mainly the senior-level bureaucrats, who had been British or Japanese, who needed to be replaced. In South Korea, the most important qualification to fill the senior-level posts was loyalty to Syngman Rhee, but since most lower-level bureaucrats remained in place, this did not greatly damage the professionalism of the civil service in the long run. In Taiwan, most senior-level posts vacated by the Japanese were at first filled with not very well-qualified bureaucrats from the mainland. Governance improved after Taiwan became the KMT’s last remaining Chinese territory in the 1950s, as the exodus from the mainland included a large number of talented, dedicated officials. Greater efforts were made by the KMT to recruit more well-qualified native Taiwanese. In India, the post-independence Congress party believed that continuing the Indian Civil Service was crucial to maintaining national unity. In Singapore, although there had been few ethnic Chinese in the Malayan Civil Service before independence, the civil service itself was retained, and the
vacancies left by the departing British officials gave Lee Kuan Yew and his ruling PAP party the opportunity to re-staff them with competent, ethnically Chinese bureaucrats loyal to the party.

Finally, the professionalism of the Indian Civil Service, compared to the others, in the decades after independence was significantly undermined by patronage appointments as the service expanded in size greatly. The reservation policy which reserved a certain percentage of spaces in the civil service for lower-caste candidates, made the service more inclusive but also damaged its competence because lower-caste appointees were less well-educated.
CHAPTER 4

The Persistence of State Capacity in Latin America

4.1 Introduction

The two previous chapters showed how state capacity developed under colonial rule during the early 20th century had a significant effect on development outcomes half a century later. This chapter shows that state capacity established after independence also strongly affected development outcomes in Latin America, the only large region in the developing world where most states were already independent by the early 20th century. Latin American states today show considerable variation in GDP and HDI levels. This chapter argues that this variation can likewise be traced to a significant divergence in the levels of state capacity achieved by these states in the early 20th century. By the early 20th century, some Latin American states had achieved more state capacity than others, but significant investment in mass welfare of citizens had not yet occurred. Yet state capacity in early 20th-century Latin America is a strong determinant of levels of health and education in the present day.

Although Latin America became independent from Spain and Portugal in the early 19th century, the political economy of most states in the first century of independence continued to resemble that of a colony. Besides the dependence on foreign capital and technology, as well as on primary product exports for foreign exchange, Latin American states were ruled by a wealthy oligarchy that opposed paying taxes to improve mass welfare. In many ways, the political economy of the Latin American states therefore strongly resembled that of countries still actually under colonial rule, with the difference that the elites responsible for making the decisions about state-building actually resided in the country that they ruled rather than in a faraway metropole.
This meant that different interests motivated their decisions about whether to invest in a state-building project than in the case of a colony administered by colonial rulers in the metropole.

It was not until later in the 20th century that Latin American governments came to power that were more interested in providing public goods for the masses and improving mass welfare. In the 20th century, periods of democracy alternated with periods of authoritarian rule. The ideology of the regimes in power also varied dramatically: in some countries, left-wing, populist governments, some democratically elected, alternated with right-wing military dictatorships. However, rather than regime type, one of the most important determinants of modern-day HDI levels remained the state capacity that countries had acquired by the end of the oligarchical period in the early 20th century.

Those countries that had developed high-state capacity were able to re-orient spending to provide better public goods. As in the former British colonies, a highly-educated and healthy population was a pre-requisite to subsequent economic growth. Most countries in Latin America did not fully democratize until the late 20th century, but leftist populist governments did come to power in several states. One might expect the improved provision of public goods to be most rapid in the countries with these leftist governments, as they would be expected to especially responsive to the demand of voters for improved public services. However, the evidence shows that state capacity at 1900 was in fact a better predictor of HDI than regime type. In other words, even countries ruled mainly by right-wing governments were able to provide public goods if they had high state capacity, while low-capacity states were also worse at providing public goods regardless of regime type.
4.2 State Capacity in Latin America: Historical Trends

This chapter looks at the set of countries in Latin America that were ruled by Spain and Portugal, and became independent at the same time (around 1821), that is, Spanish South America plus Mexico and Brazil. These countries have some core properties in common: a common colonial background and a common independence process, broadly similar political economies centered on primary product exports through the first century after independence, and the common absence of the sorts of wars and territorial conflicts that promoted state-building and public goods provision elsewhere (Centeno, 2002). Cuba and the Dominican Republic are excluded because Cuba was still under Spanish colonial rule under 1898, and the Dominican Republic did not become independent until the mid-19th century. The Central American countries are excluded because historic economic data about them is very limited in the period before 1950.

The Latin American countries in this study already showed highly significant differences in state capacity in 1900, and these differences have persisted over time throughout the 20th century to the present day. Figures 4.1 and 4.2 shows the current GDP per capita and HDI levels of the 11 Latin American countries.
Figure 4.1: Latin American Countries by GDP Per Capita, 2010 (Nominal)

Figure 4.2: Latin American Countries by HDI, 2010
Table 4.1 scores the 10 major countries of South America plus Mexico on various simple measures of state strength in three dimensions in the year 2010: coercive capacity, provision of public goods, and infrastructure.

The first two columns provide indicators of coercive capacity: military mobilization (measured as the average of the share of the population in the armed forces and military spending per capita) and the homicide rate, which measures the effectiveness of the state in reducing crime. The next column provides the literacy rate, which is an indicator of education, a basic public good. The final indicator is road density, which measures the effectiveness of a state’s agents at penetrating the territory within a country’s borders.

When these territories are averaged across each dimension, they show a significant intra-regional variation in state capacity: Uruguay and Chile score as the strongest states, with Brazil, Argentina, and Mexico lagging somewhat behind. The weakest states are Peru, Bolivia, and Paraguay.

This ranking of countries is similar to how they were arrayed a century ago. Despite some significant data limitations and problems with comparability across countries, it is possible to assemble a similar set of indicators for state capacity as of 1900. Coercive capacity is captured by the same military mobilization measure as in Table 4.1. The literacy rate captures the provision of basic public services. Railroad density in 1900 is used to reflect the spatial reach of state agents and infrastructure. Argentina, Uruguay, and Chile perform better than do the other countries on all dimensions, scoring in the top four of rankings for every measure. At the other end of the spectrum, Bolivia, Peru, Colombia, and Ecuador are among the weakest states in the region. Mexico, Brazil, Paraguay, and Venezuela fall in the middle.
A comparison of the rankings for 1900 and 2000 shows that they are very strongly correlated. Figure 1 shows that the relative levels of state capacity across the region have remained strikingly stable over the 20th century. Countries below the regression line, such as Mexico and Colombia, saw their ranking improve over the course of the 20th century, while those located above the line, such as Argentina, saw their ranking decline between 1900 and the present day. Although there are some deviations from the line, the general pattern is one of striking stability over the past century. Relative levels of state capacity in 2000 are very well-predicted by those in 1900. This implies that the origins of contemporary variation should lie in the pre-1900 era.

**Figure 4.3: State Capacity Ranking 1900 vs. State Capacity Ranking in 2000**
Table 4.1: State Capacity Rankings, c. 1900

<table>
<thead>
<tr>
<th>Country</th>
<th>State Capacity (1900 - 1910)</th>
<th>Military Spending Per Capita (1900 - 1910)</th>
<th>Military Size Per Capita (1900 - 1910)</th>
<th>Military Size in 1900</th>
<th>Literacy Rate in 1900</th>
<th>Railroad Density in 1900</th>
<th>Railroads Ranking</th>
<th>Average State Capacity (1900)</th>
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<tr>
<td>Argentina</td>
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<td>4.23</td>
<td>3</td>
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<td>2</td>
<td>6.19</td>
<td>3</td>
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<td>8</td>
<td>18.5</td>
<td>11</td>
<td>0.88</td>
<td>8</td>
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<tr>
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<td>34.7</td>
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<td>1.82</td>
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<tr>
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<td>7</td>
<td>3.51</td>
<td>4</td>
<td>27.8</td>
<td>8</td>
<td>0.94</td>
<td>4</td>
</tr>
</tbody>
</table>

Source: COW Database

Table 4.2: State Capacity Rankings, c. 2010

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
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<tr>
<td>Argentina</td>
<td>107.37</td>
<td>2</td>
<td>2.01</td>
<td>10</td>
<td>5.0</td>
<td>3</td>
<td>96.2</td>
<td>2</td>
<td>0.083</td>
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<td>5.0</td>
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<tr>
<td>Bolivia</td>
<td>20.19</td>
<td>10</td>
<td>4.27</td>
<td>5</td>
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<td>11</td>
<td>0.73</td>
<td>11</td>
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<tr>
<td>Brazil</td>
<td>61.66</td>
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<td>1.89</td>
<td>11</td>
<td>29.2</td>
<td>9</td>
<td>83.3</td>
<td>10</td>
<td>0.186</td>
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<td>7.4</td>
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<tr>
<td>Chile</td>
<td>131.36</td>
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<td>6.76</td>
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<td>3</td>
<td>0.103</td>
<td>8</td>
<td>3.4</td>
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<tr>
<td>Colombia</td>
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<td>3.88</td>
<td>6</td>
<td>52.5</td>
<td>10</td>
<td>91.3</td>
<td>5</td>
<td>0.179</td>
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<td>4.97</td>
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<td>10.8</td>
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<td>50.1</td>
<td>7</td>
<td>0.152</td>
<td>5</td>
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<td>2.17</td>
<td>9</td>
<td>11.3</td>
<td>8</td>
<td>88.8</td>
<td>8</td>
<td>0.192</td>
<td>2</td>
<td>6.8</td>
</tr>
<tr>
<td>Paraguay</td>
<td>14.44</td>
<td>11</td>
<td>2.42</td>
<td>8</td>
<td>20.3</td>
<td>7</td>
<td>92.1</td>
<td>4</td>
<td>0.079</td>
<td>10</td>
<td>7.6</td>
</tr>
<tr>
<td>Peru</td>
<td>37.12</td>
<td>8</td>
<td>4.93</td>
<td>4</td>
<td>4.5</td>
<td>4</td>
<td>88.7</td>
<td>9</td>
<td>0.109</td>
<td>6</td>
<td>6.3</td>
</tr>
<tr>
<td>Uruguay</td>
<td>88.88</td>
<td>3</td>
<td>7.76</td>
<td>1</td>
<td>4.8</td>
<td>2</td>
<td>97.3</td>
<td>1</td>
<td>0.437</td>
<td>1</td>
<td>1.5</td>
</tr>
<tr>
<td>Venezuela</td>
<td>58.38</td>
<td>5</td>
<td>3.38</td>
<td>7</td>
<td>32.5</td>
<td>6</td>
<td>91.1</td>
<td>6</td>
<td>0.105</td>
<td>7</td>
<td>6.3</td>
</tr>
</tbody>
</table>

Source: COW Database, Mainwaring and Scully, MOXlad, CIA World Factbook

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4.3 Empirical Findings for State Capacity in Latin America and Modern-Day Development

Many accounts of state formation in early modern Europe assert that “war made the state” (Tilly 1975). Because the prosecution of war required the construction of a bureaucracy that could extract resources and manpower from society, and because weak states disappeared, war is said to have created strong states in the European context. Although Latin America did not experience the type of total war experienced in Europe (with the exception of Paraguay in the mid-19th century War of the Triple Alliance), measures of military spending and size remain good measures of state capacity that are not ordinarily correlated with economic development. I focus on military spending and size in this section because, in contrast to railroads and literacy, we do not expect the use of resources by the military to contribute directly to growth or the spread of the kind of welfare measures included in measures of HDI.

In this section, I consider two variables, military personnel per capita, and military spending per capita, as a measure of coercive state capacity in 1900. Both variables come from the Correlates of War database. During this time period, the states being examined were not fighting any war with an external power, did not face any major internal rebellion, and were not under military rule. Military spending per capita is used as a proxy for revenue collection, while military personnel per capita is a measure of how well states were able to enforce systematic, routine, and legalized conscription.

The state-capacity hypothesis in Latin America is tested by regressing the state-capacity variables in 1900 against the human development index (HDI) measure in 2017. Figures 1 and 2 show a highly significant ($p < 0.05$) correlation between both military spending per capita and military personnel per capita in 1900 vs. modern-day HDI levels.
Figure 4.4: Military Spending Per Capita in 1900 vs. HDI in 2010

Figure 4.5: Military Personnel Per Capita in 1900 vs. GDP Per Capita in 2010
4.3.1 Controls for Regime Types and Economic Development

To test the robustness of this relationship between state capacity in 1900 and modern-day HDI, a control variable for initial GDP per capita in 1900 is included in the regression.

In addition, control variables are inserted to measure the long-term effects of regime type and ideology on modern-day HDI levels in Latin America. Many Latin American countries since 1900 have alternated between democratic and authoritarian regimes, as well as leftist vs. rightist regimes. It is only since around 1990 that most Latin American states made a transition to democracy and have stayed consistently democratic for a long period.

To measure the effect of democratic regimes on HDI, I use two measures: (a) the average of PolityV scores for these countries from 1900 until 2017. PolityV ranks countries on a scale of -10 to +10 from most authoritarian to most democratic, based on their institutional features; and (b) the percentage of years from 1900 to 2017 that a country was under democratic rule. I rate a country as being democratic if its PolityV score for that year was greater than 5. I also wished to test if regime ideology during the twentieth century had an effect on HDI. Using data from Coppedge (2005), I also compiled a measure of the percentage of years from 1900 - 2005 in which countries were under rule of leaders or parties with a leftist ideology. The results for the Latin American states in this chapter are shown in Figures 4.9, 4.10, and 4.11.

Over the course of the twentieth century, most Latin American governments became more committed to improving mass welfare. One might expect countries that were under more years of democracy than authoritarian rule to have better HDI levels in the present day, under the assumption that the median voter would demand more public goods. Also, one might expect that countries that were under more years with a leftist rather than a rightist regime to have better
HDI levels in the present day, as leftist regimes would be expected to be more committed in making investments in social welfare.

However, I did not find any of the control variables measuring regime type or ideology to be significant. It seems that, independent of regime type or ideology, the state capacity of a country in 1900 is the best predictor of modern-day HDI levels.

At first it may seem surprising that spending on social welfare such as education or health is not strongly related to regime type. Countries with high state capacity, regardless of the regime type or ideology, appear to have done better over time at expanding social welfare than countries with low state capacity.

Democracies might expand public education because they are responding to the demands of their voters for it, but why then did some authoritarian regimes, including several right-wing regimes, in the 20th-century Latin America also decide to massively invest in public education? One reason might be that authoritarian rulers in independent Latin America, just as in post-colonial Africa or Asia, were composed of nationals rather than colonial rulers from the metropole. As such, they may have been interested in the improved education of their citizens in a way that the colonial rulers were not. Another reason might be ideological: the former Communist states are a good example. The 20th-century Communist regimes considered mass education and literacy to be a primary goal of their revolution, and every Communist regime invested enormously in education as soon as it came to power. Non-Communist, right-wing or economically conservative authoritarian regimes in other parts of the world have also invested massively in education: examples include Lee’s South Korea, Chiang Kai-Shek’s Taiwan, Lee Kuan Yew’s Singapore, Ataturk’s Turkey, and even Iran after its Islamic revolution, which contrary to popular belief expanded educational opportunities for lower-income women. Many of
the populist regimes that came to power in Latin America during the 20th century, such as the PRI in Mexico, though not democracies, believed that they had a popular mandate to govern and were therefore interested in improving public education. Third, authoritarian regimes may see education as an important tool to promote nationalism, spread propaganda, and indoctrinate the people, even if this might be balanced by the threat that a more educated populace might present a threat to their rule.

Finally, authoritarian regimes may have promoted education as a means of defensive modernization. Unlike in previous centuries, they realized that in order to become economically competitive, and to use and develop advanced technology, their citizens needed to be literate and technically competent. For example, Meiji Japan in the late 19th century instituted universal public education because Japan’s rulers realized that they could never “catch up” to the Western countries without it. Likewise, many authoritarian rulers also want economic growth, and for their citizens to use and develop advanced technologies, which requires an educated citizenry.

In conclusion, the evidence from Latin America appears to show that regime type is not a good predictor of HDI levels over time. Even states that are democratic or ruled by a leftist regime, and can be therefore be assumed to want to improve popular welfare, may have a difficult time improving social welfare if state capacity is low.
Table 4.3: Military Spending as a Determinant of Modern HDI Levels (Latin America)

<table>
<thead>
<tr>
<th>Dependent Variable is:</th>
<th>HDI Model(1)</th>
<th>HDI Model(2)</th>
<th>HDI Model(3)</th>
<th>HDI Model(4)</th>
<th>HDI Model(5)</th>
<th>HDI Model(6)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Military Spending Per Capita in 1900</td>
<td>.2127248*** (0.523)</td>
<td>.1220997** (.0339211)</td>
<td>.1515281** (.0384236)</td>
<td>.1236804** (.0376724)</td>
<td>.124044* (.0385367)</td>
<td>.1250886** (.043356)</td>
</tr>
<tr>
<td>GDP Per Capita in 1900</td>
<td>.0000192* (0.00006)</td>
<td>.000014 (8.77e-06)</td>
<td>.0000189* (9.30e-06)</td>
<td>.0000186 (9.76e-06)</td>
<td>.0000184 (0.0000109)</td>
<td></td>
</tr>
<tr>
<td>Average Polity Score (1900 – 2017)</td>
<td></td>
<td>-0.002529 (.0018598)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percent Years Democratic (1900 – 2017)</td>
<td>.0096587 (.0439209)</td>
<td>.0085373 (.049727)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percent Years Under Leftist Regime (1900 – 2017)</td>
<td>.0035125 (.019241)</td>
<td>.0028754 (.0217521)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>11</td>
<td>11</td>
<td>11</td>
<td>11</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>R^2</td>
<td>0.64</td>
<td>0.93</td>
<td>0.95</td>
<td>0.93</td>
<td>0.891</td>
<td>0.95</td>
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</tbody>
</table>

Note: *** p < .01, ** p < .05, * p < .1 Standard Errors in Parentheses
Table 4.4: Military Size as a Determinant of Modern HDI Levels (Latin America)

<table>
<thead>
<tr>
<th>Dependent Variable is</th>
<th>HDI Model(1)</th>
<th>HDI Model(2)</th>
<th>HDI Model(3)</th>
<th>HDI Model(4)</th>
<th>HDI Model(5)</th>
<th>HDI Model(6)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Military Spending Per Capita in 1900</td>
<td>.0224251** (.0071499)</td>
<td>0116491* (.0050305)</td>
<td>.0125427* (.0061389)</td>
<td>.0125703* (.0052823)</td>
<td>.0118255* (.0052639)</td>
<td>.0125794* (.0057223)</td>
</tr>
<tr>
<td>GDP Per Capita in 1900</td>
<td>.000024* (.0000106)</td>
<td>.0000227 (.0000122)</td>
<td>.0125703* (.0052823)</td>
<td>0.0000227* (0.000011)</td>
<td>.0000235 (.000012)</td>
<td></td>
</tr>
<tr>
<td>Average Polity Score (1900 – 2017)</td>
<td>-.0008218 (.0025881)</td>
<td>.000024* (.0000106)</td>
<td>.0000227 (.0000122)</td>
<td>.0125703* (.0052823)</td>
<td>0.0000227* (0.000011)</td>
<td>.0000235 (.000012)</td>
</tr>
<tr>
<td>Percent Years Democratic (1900 – 2017)</td>
<td>-.0446162 (.053638)</td>
<td>-.0382918 (.0594122)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percent Years Under Leftist Regime (1900 – 2017)</td>
<td>-.0127146 (.0249066)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>11</td>
<td>11</td>
<td>11</td>
<td>11</td>
<td></td>
<td></td>
</tr>
<tr>
<td>R²</td>
<td>0.52</td>
<td>0.88</td>
<td>0.89</td>
<td>0.90</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Note:* *** p < .01, ** p < .05, * p < .1 Standard Errors in Parentheses
4.4 Causes of Variation of State Capacity in Latin America

My findings about the long-term importance of state capacity raise the question: why did some Latin states achieve high state capacity by the end of the 19th century, while others lagged behind? Some of the proposed hypotheses have included: (a) Differences in the extent of colonial institutions inherited by the Iberian colonial powers; (b) differences in the human capital endowments of the newly independent Latin countries; (c) differences in levels of valuable export resources, since high resource levels may have helped to develop state capacity more rapidly; and (d) geographical differences.

This section empirically tests some of these hypotheses, as well as another idea that has been suggested by historians such as López-Alves (2000) and Soifer (2012): Regionalist tensions hindered the emergence and implementation of a strong state-building project in some Latin American states after they became independent in the early nineteenth century. Where a single dominant urban core existed and influenced government policies, it was easier for elites to reach consensus about extending central authority to build a strong state, and development proceeded in a center-periphery dynamic. By contrast, where multiple regional centers had distinct, self-sufficient economies, local elites put up resistance to the extension of central state authority. First, elites clashed because each region had distinct public good preferences. Second, where regions had self-contained economies, local elites saw less reason to support national integration projects.

4.4.1 Primary-City Dominance and State-Building in Latin America

The reasons for investment in an independent country differs from the reasons that motivate state building by rulers located in a faraway metropolitan center. In the latter case, the elites responsible for making the decisions about state-building do not reside in the colony, and
their calculations about whether to undertake a state-building project are determined by other factors. For example, the motivations of the British empire builders were aligned with those of citizens in the metropole and not primarily with the desires of their colonial subjects. The primary goals for British imperial policymakers were to minimize the cost of empire-building to the British taxpayer, and to maximize profits for British traders and business. Therefore, there is a pattern of underinvesting in expensive state-building when ruling through local elites and structures would suffice to maintain order and guard economic interests.

In an independent country, on the other hand, elites in the capital were interested in their own country’s development, but they faced competition from rival elites who may not have seen an extension of the capital’s power and influence to be in their interests. In the British Empire, the taxation required to fund state-building projects was mainly raised by levying taxes on colonial subjects, rather than on British elites or citizens in the metropole, as part of a policy of self-sufficiency for every colony. In the independent Latin American countries, by contrast, state-building had to be funded by taxes on the ruling elites themselves.

The hypothesis tested in this chapter is that a population structure marked by the dominance of the largest city made it more likely for successful state-building efforts in Latin America to emerge. Dominance of the largest city (almost always also the national capital, although there have been some exceptions) varies considerably among the Latin American states: some states in the region are notable for having extremely dominant capital cities, whereas in others, regional cities play a more important role. Where urban dominance of the capital is present, state-building is both more likely to be seen as a means to political and economic development, and less likely to be hindered by regionalist tensions.
The process of state-building in post-independence Latin America could be described therefore as the center extending its control over the national periphery, rather than as a faraway metropole deciding to invest in a colony where the preferences and desires of colonial subjects were considered unimportant. In countries where there is no single center, but instead multiple and competing centers and spheres of influence, the state-building process was more like joining together separate, regions with very different economic interests. The impetus to increase central state authority may be weaker in countries that have multiple regions of economic importance, where regional cities have the potential to be alternative centers of authority.

In the absence of external motivations for state-building, there are a few reasons why the existence of multiple important cities, and the absence of a single dominant capital city, might be an impediment to state-building.

1) Economically important regions are more likely to have different preferences about the location and types of public goods provided by the state (Soifer 2012, López-Alves 2000). Willingness to contribute to local public goods, such as railroads, is correlated with proximity to them, which facilitates access to the benefits that they generate (Alesina and Spolare 2005). Regions may argue over where to locate state services, since elites may be reluctant to pay for services not located in their home region. Alesina and Spolare (2005) argued that this dynamic has sometimes generated conflict over location of a capital city, since the seat of government generates a set of public goods as well as jobs. Thus, countries lacking a single dominant city may even see conflict over the location of a capital city, as was the case in 19th-century Bolivia. Also, the presence of multiple urban centers usually indicates the presence of distinct regional economies, each of which has elites with distinct preferences over the types of public and private goods that the state is to provide.
One of the most well-known Latin American historical examples is the conflict in 19th-century Ecuador between the Andean capital city of Quito and the coastal commercial city of Guayaquil, that centered on the distinct policy preferences of each region’s dominant economic sector (described in Rodriguez, 1985). In the 19th-century United States, regionalist tensions undermined state-building efforts both during and after the U.S. Civil War (Bensel 1984). Tensions between multiple important regions over public good priorities are sometimes resolved through compromises that must satisfy elites in all regions, at the cost of policy coherence, or through regionalist conflict, which may result in secession of one or more regions.

2) The absence of a dominant capital city is often accompanied by the presence of self-sufficient regional economies. Where this is the case, local elites may not always see the extension of national state authority as helpful to their self-interest. They may not be interested in funding with their taxes development in poorer parts of the country, and since they do not feel that they require economic assistance from the central government in developing their local economy, may give national state-building a low priority. The salience of regionalism may be compatible with robust local or regional political authority, but it is not a favorable context for the construction of national state power.

4.5 Alternative Hypotheses

Colonial legacies: Some scholars, notably Mahoney (2010), have traced diverging post-independence development to the extent of colonial penetration. However, this cannot account for the divergent outcomes in Mexico and Peru, the two colonial centers of power in Spanish America, or for the divergent outcomes between Chile and Colombia, which were both colonial peripheries. Other scholars have focused on the nature of colonial rule rather than its intensity to
account for the variation in state capacity. Mahoney (2010) argues that social and economic development in Spanish America were determined by the interaction of the type of colonial rule and its intensity. As the intensity of “mercantilist” colonialism increased, development suffered, while intensive “liberal” colonialism set off positive development trajectories. One problem with Mahoney’s hypothesis is that it is difficult to ascertain what is being measured in this theory, since his work does not provide anything empirical tests. Two of the regions most developed by the Spanish, Mexico and Peru, had diverging outcomes in economic development, with Mexico today being wealthier than Peru. Also, at the time of independence most of the Spanish American states still had frontiers that were not fully integrated into the state until well after independence. Such areas included the northern region of Mexico, the southern regions of Chile and Argentina, and the jungle regions of Peru, Bolivia, and Colombia.

**Human Capital Endowments:** Engerman and Sokoloff (2000) have argued that human capital endowments played an important role in national development of the Americas. In particular, countries with large numbers of indigenous and slave or slave-descended populations had a high level of inequality and therefore failed to fund mass benefits, since elites were less interested in funding mass education and other mass welfare benefits than would have been the case in a more egalitarian society.

**Resource exports:** All the Latin countries experienced a resource boom in the late 19th century as the countries stabilized politically. It is possible that in some countries the natural resource boom was large enough that it may have helped them take the lead in state-building.

**Size:** The country’s size is included as a control variable, because several authors have argued that smaller territories facilitate state development. For example, larger territories may be more expensive to administer (Herbst 2000). The size of the territory may also increase
transportation and information costs associated with representative government, and therefore the accountability that facilitates rulers’ access to revenue (Stasavage 2001). We might expect then that governments ruling smaller territories should be more effective.

The evidence linking territorial size and state-building is weak in Latin America, however. The two smallest countries in the region (Uruguay and Ecuador) are the strongest state and the second weakest. Among the cases, Argentina is by far the largest state, and yet it is one of the stronger ones.

**Terrain:** Some scholars have claimed that terrain poses challenges to state building and have identified several aspects of terrain that are said to matter. Mountainous terrain is said to be difficult for the state to penetrate, which may make insurgencies more likely (Fearon and Laitin 2003). Terrain ruggedness may also make transportation and infrastructure development more costly and challenging (Nunn and Puga 2012).

Control variables are introduced for mountainousness (percentage of a country’s terrain that is mountainous) and ruggedness (how irregular is the terrain). Mountainousness is measured using the data from Fearon and Laitin (2013). Ruggedness scores are drawn from the data described by Nunn and Puga (2012). Jungle scores for each country, following the data from Albertus and Kaplan (2013), are measured as the percentage of the national territory falling in climatic zones 1-4 (tropical rain forest or tropical monsoon type).

**4.6 Empirical Test of State-Building Variables**

This section makes an empirical test of some of the variables described above, by looking at how primary-city dominance, human capital endowments, resource exports, and geographical
differences are related to two measures of state capacity in Latin America in 1900: the literacy rate, and the density of railroads.

I use here primary-city dominance as a proxy for regionalist tensions within a state. To rule out the possibility that economic development affects urban primacy, I try to determine this measure for the earliest post-independence date in each country. To measure primary-city dominance, I divide the population of the largest city by the sum of that of the next three largest, and the primacy score can vary between 0.25 (if the four cities are equal in size) to 1 (if the largest city contains the entire population of the country), a measure also used by Ades and Glaeser (1995) and Zipf (1941). In Latin America, the urban primacy scores in the mid-19th century varied from Uruguay at 0.84 to Venezuela and Paraguay at 0.39. The scores for 1850 are shown in the graph below:
To test for Engerman and Sokoloff’s human capital hypothesis, I insert a control variable for the percent of the population that is white (that is, not indigenous or slave) in 1850. I also insert a control variable for exports as % of GDP in 1900, as well as mountainousness and ruggedness, as described above.
Table 4.5: Primary-City Dominance as a Determinant of Literacy Rates in 1900 (Latin America)

<table>
<thead>
<tr>
<th>Dependent Variable is</th>
<th>Literacy1900 Model(1)</th>
<th>Literacy1900 Model(2)</th>
<th>Literacy1900 Model(3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Largest-City Dominance</td>
<td>54.70356** (21.16547)</td>
<td>34.53813** (5.988037)</td>
<td>36.07242** (13.23193)</td>
</tr>
<tr>
<td>% white</td>
<td>.4926217*** (.0820032)</td>
<td>0.50313*** (.1068115)</td>
<td></td>
</tr>
<tr>
<td>Exports as % of GDP</td>
<td></td>
<td>0.1357626 (.8438896)</td>
<td></td>
</tr>
<tr>
<td>Mountainousness</td>
<td></td>
<td>4.142965 (20.02085)</td>
<td></td>
</tr>
<tr>
<td>Ruggedness</td>
<td></td>
<td>.7593565 (5.456603)</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>11</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>R2</td>
<td>0.43</td>
<td>0.90</td>
<td>0.91</td>
</tr>
</tbody>
</table>

*Note:* *** p < .01, ** p < .05, * p < .1  
Standard Errors in Parentheses
Table 4.6: Primary-City Dominance as a Determinant of Railroad Density in 1900 (Latin America)

<table>
<thead>
<tr>
<th>Dependent Variable is</th>
<th>RRDensity1900 Model(1)</th>
<th>RRDensity1900 Model(2)</th>
<th>RRDensity1900 Model(3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Largest-City Dominance</td>
<td>17.33957**</td>
<td>18.00513**</td>
<td>17.18369</td>
</tr>
<tr>
<td></td>
<td>(5.988037)</td>
<td>(6.393042)</td>
<td>5.506621</td>
</tr>
<tr>
<td>% white</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports as % of GDP</td>
<td>-.2042763</td>
<td>.4206265</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(.4073691)</td>
<td>(.4303554)</td>
<td></td>
</tr>
<tr>
<td>Mountainousness</td>
<td>-16.78334</td>
<td></td>
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</tr>
<tr>
<td></td>
<td>(8.023428)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ruggedness</td>
<td>5.422544*</td>
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<td></td>
</tr>
<tr>
<td></td>
<td>(1.989727)</td>
<td></td>
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</tr>
<tr>
<td>Size</td>
<td>-.0007066</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(.0005089)</td>
<td></td>
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</tr>
</tbody>
</table>

Note:*** p < .01, ** p < .05, * p < .1

Standard
Errors in
Parentheses

The results show that largest-city dominance in 1850 are highly significant in predicting both literacy rate in 1900 and railroad density in 1900. Among the other variables, the percent of the population that is white is also highly significant in predicting the percent of the population that was literate in 1900, but none of the other variables were significant. Ruggedness was also significant in a regression for railroad density in 1900, but none of the other variables were significant.
4.7 Case Studies of Particular Latin American Countries

How might regional tensions have impeded state-building? This section provides case studies for several of the Latin American countries in this chapter.

In the following three cases, although each country had peripheries not tightly linked to the capital and largest city, regional tensions over public good priorities were limited, and all economically productive and politically important areas were deeply embedded in the national economy with the capital at the center. Chile, Argentina, and Mexico in particular can be thought of as states where power emanated from a regional center to colonize frontier regions.

4.7.1 High Primary City-Dominance, Low Regionalism ==> Successful State-Building: Argentina, Chile, Mexico, Uruguay

Chile

Chile’s economic development is clearly a case of the capital extending its reach outwards. The country can be thought of as a narrow island isolated by the Andes to its east and deserts to its north. The country’s north-south orientation means that the only significant population centers at the time of independence were in the middle of the country, where there is a temperate climate suitable for settlement. At the time of Chile’s independence, the northern deserts were considered to have nothing of economic value, and European settlement did not extend south of the Bío-Bío river into Patagonia, whose native inhabitants (known as the Mapuche) the Spanish were never able to conquer and incorporate into their colonial system. The northern deserts only became economically significant with the discovery of nitrates and copper deposits in the late 19th century, and Patagonia had to be conquered from the native Mapuche, in a series of late 19th-century military campaigns.
Chile’s capital city in the mid-19th century, Santiago, was more than the size of the next three largest cities combined, which remains true today. The only other large center of population, the port of Valparaíso, is less than 100 km away and deeply embedded in Santiago’s zone of influence. While Santiago and Valparaíso had a population of nearly 200,000, only four other cities had more than 10,000. Of these, two (Talca and La Serena) were also firmly tied to the capital in economic and political terms by the early nineteenth century. These regions provided grain to Santiago, but also dependent on production from the central valley to fulfill basic needs (Saylor 2012). The other two, Concepción and Copiapó, were the focal points of the country’s northern and southern regions. Regional tensions were not completely absent in Chile: in the 1840s, southern landowners pressed the government for improved transportation, and mine owners in the north were negatively impacted by tax increases on copper exports, and infuriated by the refusal of the government to subsidize railroads from mines to ports (Saylor 2014). These tensions resulted in short-lived civil wars in the 1850s.

Nevertheless, the political importance of regionalism was limited. Deep ties between elites across rural and urban sectors, along with the consensus on economic openness, stemmed regionalism. Mine owners in the north, agriculturalists in the southern heartland and central valley, and merchants in the capital and in Valparaíso had no deep divisions in trade preferences. While there was some dispute about infrastructure priorities (Saylor 2012), there was a broad elite coalition that united Santiago and its peripheries that facilitated a concerted state-building project. A railroad network was constructed to link grain-producing regions to Santiago and Valparaíso. This satisfied producers and further reinforcing the hegemony of the capital and its port. Valparaíso’s flour exports as a share of the national total rose from 1 percent in the early 1850s to more than 52 percent by the late 1860s (Bauer 1975). Over time, Chile’s demographic
centralization deepened, and state-building proceeded as the extension of authority from the central valley into the north and south.

**Mexico**

Although Mexico’s urban dominance score is a bit lower than that of Chile, this somewhat understates importance of the capital in Mexico’s national economy. At the time of independence, Mexico’s northern states were sparsely populated. Half of the northern territories were lost to the United States in 1848, which would not have been able to annex these territories if they had been densely populated. Like the Chilean settlement of Patagonia, Mexico mainly settled and developed its northern states only in the late 19th century, in a process contemporary to the U.S. settlement and economic development of its Western states. This process of expansion from capital city to periphery was directed from Mexico City.

Mexico City’s importance was reinforced by centuries of colonial history, and by the pre-colonial dominance of the Aztec empire’s capital city, which was centered on the same site. Its 1850 population of 170,000 made it one of the largest cities in the Americas (as it still is today), and it was nearly twice the size of Puebla, the second-largest Mexican city at the time of independence (though it was surpassed in this title by Guadalajara by the late nineteenth century). None of the country’s secondary cities was important enough to emerge as an alternative core of political power. The main secondary cities at the time of independence, which were Puebla, Guadalajara, and Querétaro, were located not far from Mexico City and were deeply bound to it both in economic and political terms. The northern city of Monterrey (which had only a few hundred people at time of independence) did not seriously develop until the late 19th century, and the large metropolitan areas on the U.S. border today such as Tijuana and Ciudad Juárez are entirely 20th-century creations.
Although Mexico’s territory was immense, even far-flung regions were tied to Mexico City. The main port of Veracruz was deeply connected to the capital, and even goods from the Yucatán traveled on small boats to the port of Veracruz to be loaded onto large ships for export. Railroad construction, the rise of cattle farming, and the recovery of mining tied the northern states to Mexico City economically. The deep tensions that made Mexican politics unstable in the decades after independence until the dictatorship of Porfirio Díaz, Mexico’s first long period of political stability after independence, were fundamentally connected to disagreement about how much power the center should have, but it did not divide along regional lines. They pitted the center against the periphery rather than regions against one another. In other words, conflict was for control over an unquestioned center, and which policies the center would implement, rather than between Mexico City and challengers for national power, as was the case in Bolivia, Ecuador, and Colombia.

**Argentina**

The dominance of Buenos Aires reflected in the high urban primary score for Buenos Aires actually understates in some ways the importance of the city in Argentina’s political economy. Many of the other large cities listed in the 1869 census were located in the littoral provinces near the capital, and deeply tied into its economic orbit. Buenos Aires was the only major point of export for agricultural production from the interior. Although the early decades after independence saw massive center-periphery conflict in Argentina, the country never had the self-contained regional economies that marked cases like Colombia. Buenos Aires and the provinces had a shared economic interest in export promotion, and a shared commitment to developing links between zones of export production and the port of Buenos Aires.
Underneath the struggle between Buenos Aires and the provinces was a consensus on the model of state-led export-based development (Rock 1987, 120). The weakening of regionalist divisions accelerated with economic development. In part, this was driven by the rapid demographic and economic growth of Buenos Aires, which became ever more dominant relative to the rest of the country. But economic development in the interior also underpinned the robustness of the consensus around national unification.

Although it had precursors under Rosas, the first true manifestation of a statist developmental project in Argentina can be seen in the 1853 constitution, which called for a state project of education, immigration and colonization, railroad development, and the promotion of domestic production (Rock 1987). After a settlement between Buenos Aires and the provinces, the Mitre government that came to power in 1862 sought to put these ideals into practice. His administration created a bureaucratic apparatus, a tax system, and a national postal system, seeking explicitly to extend the reach of the state into the national interior. Notably, all this institutional development was undertaken before the 1865-1870 war with Paraguay. Sarmiento, returning to power in 1868, expanded the central state by undertaking a major educational development project (Rock 1987). A further agreement to protect flour, sugar, and wine production underpinned a consensus around the extension of railroads to Mendoza and Tucumán.

Succeeding governments continued these efforts, which included the “Conquest of the Desert” campaign of extermination in the 1870s which eliminated Patagonia’s native population. Rock (1987) describes the Roca government as similar to the Diaz administration in Mexico, undertaking a positivist project a peace and administration that was designed to attract investment and immigration seen as the “keys to progress”.
**Uruguay**

Uruguay was torn by civil war for the first fifty years after its independence, leaving it with a strikingly weak state in 1870 (López-Alves 2000). However, the conflict had no salient regional cleavage. Instead, the *Blancos* and the *Colorados* differed on how the economy should respond to political tensions in Brazil and Argentina (Kurtz 2013). In short, reflecting its strikingly high urban primary score, as well as its small size, Uruguay had no salient regionalism, or any sense of self-contained regional economies. The Liberal project that emerged placed the extension of state authority at the center of the agenda for development, and this effort was sustained for the last quarter of the nineteenth century (Rock 2000).

LaTorre, who came to power in the 1870s, sought to extend the state’s reach into the interior as a way to stimulate economic development through policing, communication and transport infrastructure, a judicial system, education, and bureaucratic development (López-Alves 2000). The core element of this effort, as Kurtz (2013) points out, was the creation and enforcement of property rights – the state’s intervention in the rural economy, in other words, was seen as a central element of development. The Uruguayan consensus held that the extension of state authority into the interior was central to achieving economic development and political stability.

State building was a central element of the Liberal project of the late nineteenth century, culminating with the massive initiatives of the two Battle administrations after 1903. As Kurtz (2013, 211) writes, a “political consensus about the expansion and strengthening of state institutions” emerged during this time. The Battle reforms used the state capacity built up by this time period to massively expand both the strength and scope of the state in areas such as economic management, social programs, labor regulation, and taxation, especially of the
agricultural sector. This was the last step in the emergence of the region’s most effective state
during the initial state-building era.

**4.7.2 Low Primary-City Dominance, Low Regionalism ==> Unsuccessful State-Building: Bolivia, Colombia, Ecuador**

**Ecuador**

Ecuador is the classic case of a Latin American state in which regionalist tensions
undermined a potential unified state-building project. The resulting state was so weak that the
country did not even conduct a full national census until 1950, more than a century after
independence. The country’s political economy was polarized between Quito, the capital located
in the highlands, and the coast seaport of Guayaquil, which was at least as powerful in political
and economic terms. Because of the power of Guayaquil, state-building could not unfold as the
extent of Quito’s influence over the national territory. This could be considered a classic
eexample of tensions between regions with distinct public goods preferences, which manifested in
disputes over tariffs, education, water management, public works, sanitation, and transportation.
An especially intense dispute centered around the construction of railroads linking Quito to the
coast. Elites in Guayaquil resented being taxed to pay for this major undertaking (Henderson
1997).

Because there was little money economy elsewhere in the country, the flow of trade
through Guayaquil “provided the state with opportunities to impose a variety of direct and
indirect taxes,” which were seen as unjust and fed regionalist rhetoric and conflict (Rodríguez
1985). This led to pressures for the decentralization of tax revenue, which the national
government was forced to grant.

Regionalist tensions in Ecuador drove five major domestic conflicts in the nineteenth
century, and “intermittent civil war” from 1895 to 1916 (Rodríguez 1985). As the price for
domestic peace, regionalist leaders insisted that all areas simultaneously receive a share of public projects” (Rodríguez 1985). The national congress, desperate to maintain political stability, simply approved every public works project proposed by any of its members, thus making impossible effective national decision-making and a concerted development effort. Despite ample revenues from cacao exports, a state-building project was very slow to emerge due to tensions between Quito and Guayaquil over development priorities.

Colombia

Unlike in Argentina, Chile, or Mexico, there was not a single predominant urban center in Colombia that dominated the entire country at the time of independence. The capital was in Bogotá, but important rival regional centers at the time of independence included Popayán and Medellín. This meant that the regions, much more than those in the countries in the first section, oriented around their capital cities rather than being linked to the national capital. As of 1870, Cundinamarca, Bogotá’s state, ranked only fourth among Colombian states in population, behind Boyacá, Cauca, and Santander. The city of Bogotá remained the same size in 1870 as it had been in the 1840s, and its share of national population actually fell over the course of the first fifty years after independence. The self-sufficiency of Colombia’s regions led policy makers to pursue goals at the regional, rather than national, level.

This had two effects. First, instead of Bogotá dominating the country, it had to share economic power with important rivals in other regions. As late as 1863, there was a proposal to move the national capital to the state of Panama, then part of Colombia (Park 1985). Second, because regional cities were large enough to absorb much of local economic production, trade within the country was limited. Colombia was described as “a mosaic of isolated regions” (Palacios 2006). Plans to develop internal commerce as a means to economic development
tended to focus on fairly local projects rather than ones that crossed regions. One scholar argues that “there was little to draw elites automatically to the capital”, and there was no vision of Colombia as a single economic unit centered on Bogotá.

It is not so much that these regions were separated by purely geographic obstacles, as this was true of the countries in the first set of cases as well. The difference is that Colombia’s regions both had distinct political economies and were economically self-sufficient. As a result, Colombia “differs from other countries of similar size in the deep imprint its regionalist sentiment has left on the pattern of national development” (Park 1985).

Because each of Colombia’s regions had a large enough population and a diverse production profile, they were largely self-sufficient. As a result, the gains perceived from the potentially costly process of integration were limited, and there was no imperative to undertake an effort to overcome regional tensions. The integration of a national market, and therefore transportation improvement, was less fundamentally important to Colombians than to political elites in the other cases. Instead, regions were tied into the world economy “without the presence and involvement of the central state”.

Trade between Colombia’s regions was minimal throughout the nineteenth century. Even food and basic commodities were rarely exchanged across regions. Even as the coffee export boom took off, peasants continued to grow food for local consumption, and large haciendas cushioned against fluctuating coffee prices by producing food, sugar, and beef for local markets. Instead, regions evolved largely independent of one another in economic terms, and pursued economic policies chosen with regional rather than national imperatives in mind.

Colombia had a series of minor commodity booms over the course of the period under investigation, culminating with the much larger coffee booms. However, because the boom was
regionally concentrated, they drove a certain amount of infrastructure development in particular locations. Tobacco, for example, led to improvement of Magdalena River steam navigation. But none of these resulted in attempts to “promote other exports or promote regional integration by trade” (McGreevey 1971). Even the coffee booms had limited effects on infrastructure, as most of the coffee-producing regions remained unconnected to the railroad network as late as 1920. The limited transport development that did occur linked each region to the external market, rather than unifying the country and its economy. There was a failure to coordinate track widths across regions. Even where multiple train lines intersected, goods could not easily pass from one region to another.

**Divergent Preferences in Infrastructure Development in Colombia’s Regions**

Most scholars of Colombia portray it as divided into four distinct regions: the Atlantic coast, Cauca, the Central Cordillera, and the Eastern Cordillera, during the first century after independence. Because of their distinct political economies, Colombia’s four salient regions had divergent preferences about public good priorities, reflected most clearly in the divergent infrastructure improvements prioritized by each region.

The Atlantic coast preferred infrastructure development linking the region to the interior since that would increase the flows of exports through its ports of Cartagena, Barranquilla, and Santa Marta. The Central Cordillera and the Eastern Cordillera prioritized transport on the Magdalena River that would allow mining and agricultural production to reach export markets. These co-partisans of improved Atlantic trade infrastructure strongly disagreed on specifics of transport improvements. The fourth region, Cauca, preferred transport to the Pacific coast and its ports.
Tensions were sufficiently high that many Colombian elites were considering secession in the 1860s and 1870s (Park 1985). Conflict revolved around proposals to improve links from highland production centers to the Magdalena River, since transport for the 150 miles between Bogotá and Honda, the capital’s river port, cost more than shipping all the way from this port to England. Each potential route favored some parts of the states through which it would pass at the expense of others.

A common means of defusing tensions was to fund enough projects to keep all important regional interests satisfied. While it reduced (but did not eliminate) conflict, this strategy drove budget deficits and diluted any concerted attempt at infrastructure development. This was a consistent problem in Colombia throughout the second half of the nineteenth century. As deficits worsened, and major infrastructure projects fell incomplete, the national government was forced in the mid-1880s to make massive cuts in public works appropriations.

Another strategy involved allowing the states to work the public works decisions instead. As part of the settlement of the 1876-1877 civil war, funding was allocated to each state for transport projects it chose. Despite a constitutional ban on the practice, states funded them through road taxes on goods in transit. This internal “tariff warfare” highlights the centrality of regional rather than national interests. Rather than a national development plan, Colombia saw a variety of state-level projects designed and implemented independently, while interstate railroads were abandoned.
Bolivia

With one of the lowest urban-primacy score, Bolivia was one of the most fragmented Latin American states. The country saw high regional tensions, conflicts between regions over public good provision, and an elite consensus that, when it did emerge, made little effort to extend state authority. Political stability emerged late, only after Bolivia’s 1880 defeat in the War of the Pacific, in which the country lost its coastal provinces, which contained not only access to the sea but also the massive nitrate-producing regions. The war defeat firmly convinced elites that stable government was sorely needed, and the revival of silver mining, provided a fiscal foundation for its emergence.

However, a state-building project failed to emerge to Bolivia. Elites agreed on an export-based economic model, but they agreed on little else (Klein 2003). There was no broad support for national unification or the centralization of political authority. Mine owners’ interests in the state essentially began and ended with transportation development, and their preferences here (for a railroad linking the mines to the coast) diverged from those of other regional and sectoral actors. Conflict between the mining territory of Potosí and Sucre and the growing city of La Paz erupted in full-fledged civil war in 1899.

Because traditional agriculture largely and increasingly served local markets, rural elites had no interest in forging the political consensus needed to extend state authority. Tin-mining elites funded a railroad linking their mines to the Chilean port of Antofagasta with private funds, choosing not to seek state support. With the construction of the railroad, intra-regional trade in the south collapsed, and the balkanization of Bolivia deepened.

Elites looked to the state increasingly as its coffers swelled with tin export revenue, but each region’s politicians brought distinct visions of development to the table. The city of Santa
Cruz, for example, desired a railroad line connecting it to the capital. But to satisfy the distinct preferences of elites in the country’s many regions, it required an immense foreign borrowing program that only resulted in debt. This model was replaced with an explicit not to centralize political authority.

Lacking a single national center, or any national market, Bolivia was an archipelago of fragmented economic regions only loosely connected to the tin-mining boom that filled government coffers. Under these conditions, even political stability brought no concerted state-building project. Bolivia closely resembled Colombia in its low level of a pre-dominant urban center but also in the trajectory of absent state development that followed.

**Change Over Time: Venezuela**

In Venezuela, a sharp increase in the primacy of the capital city of Caracas seems to have been associated with an increase in public good provision. In the early decades after independence, Venezuela was deeply fragmented. Each of its Atlantic ports had “close links to its own hinterland” and a salient regional economy (Ewell, 1984). Some of the regions, such as Maracaibo and Guyana, saw little benefit from national integration (Tarver and Frederick, 2006). The political solution to this conflict resembled that of Colombia: The 1864 Constitution empowered local political actors at the expense of the national state. Though political elites envisioned a project of development through immigration and transportation development, this was expected to unfold through private initiative rather than state provision of public goods.

After the 1870s, the country saw an increasing concentration of population and economic activity in Caracas, as the population of the capital doubled in succeeding decades. This went along with a decline in the salience of regional divisions, and a rise in economic ties between the capital and many formerly self-sufficient regions (Ewell, 1984). This shift away from regional
fragmentation in demographic and economic terms coincided with increased public good provision by the national government. Under President Castro (1899-1908), the country saw the “timid beginnings” of state involvement in public good provision, including the development of a national telegraph and rail network (Ewell, 1984). This escalated under the dictatorship of Juan Vicente Gómez (1908-1935), which saw concerted efforts at public good provision, including the construction of the country’s national highway system, as part of a project of political administrative, and economic centralization.

The rise of Caracas as a single national center seems to have coincided with a decline in regionalism and an increase in public good provision. This shift over time provides further support for the importance of regionalism as a factor in accounting for variation in public good provision.
Figure 4.7: Comparison of State Capacity Measures in 1900 vs. 2000
Figure 4.8: Illiteracy Rate in 1900 vs. Illiteracy Rate in 2000
Figure 4.9: Road Density in 2000 vs. Railroad Density in 1900
Figure 4.10: Primary-City Dominance vs. Railroad Density in 1900

Figure 4.11: Primary-City Dominance vs. Literacy Rate in 1900
Figure 4.12: Average Polity Score vs HDI in 2018

Figure 4.13: Percent Democratic vs. HDI in 2018
Regime Type in Latin America

Figure 4.14: Average PolityV Score from 1900 – 2017

![Bar Chart showing average PolityV scores for Latin American countries from 1900 to 2017. The chart displays the scores for Colombia (COL), Chile (CHL), Uruguay (URU), Ecuador (ECU), Venezuela (VEN), Peru (PER), Argentina (ARG), Brazil (BRA), Bolivia (BOL), Paraguay (PAR), and Mexico (MEX).]
Figure 4.15: % Years Democratic from 1900 – 2017
(PolityV Score > 5)

Figure 4.16: % Years Leftist from 1900 -2017 in Latin America
(based on Coppedge’s data)
Figure 4.17: % White in 1850, Latin America

Figure 4.18: Exports as % of GDP, Latin America
CHAPTER 5

Conclusion

5.1 The Long-Term Persistence of State Capacity

This project showed that state capacity established in an earlier period can have persistent, long-term effects on economic development, as well as health and education outcomes several decades later.

In the second chapter, I found that measures of state capacity in 38 former colonies of the British Empire at the time of independence strongly predict modern-day levels of GDP and HDI in the independent countries. Using three measures of colonial-state capacity – taxes collected per capita, the size of the colonial police force per capita, and extent of the British legal system – I found that all three variables strongly predict modern-day per capita income as well as educational and health indicators, after controlling for initial conditions, as well as geographical and other precolonial variables. The analysis also suggests that the reasons that the British established colonies with greater state capacity in some territories but not in others do not appear to be related to natural or geographical advantages that would predict modern-day economic performance, or even to how much economic potential they thought the territory might have. The investment of the British in state capacity is significantly and positively related to precolonial population density. I suggest that this relationship might show either that the presence of a settled indigenous population with some form of political structure above the village level facilitated indirect rule, that large and rebellious populations could not easily be ruled, or both. The British were more likely to establish an intense colonial administration where it was inexpensive to do
so. In particular, it was less costly when there was little indigenous resistance to British colonization, and where there were no native polities through which they could rule indirectly.

In the next chapter, I showed how the state capacity developed under colonial rule in four Asian countries (Taiwan, South Korea, India, and Singapore), under two different colonial rulers (Japan and Britain), was maintained and affected policy-making and implementation in the first decade after independence. This chapter investigated the mechanisms through which state capacity developed under colonial rulers was maintained or undermined during the first decade after independence in South Korea, Taiwan, India, and Singapore. All of these countries maintained their colonial civil service after independence, but the penetration of the civil service to local levels of government was much higher in South Korea, Taiwan, and Singapore than in India. South Korea, Taiwan, and India also had more well-qualified locals to replace departing British officials. Finally, the professionalism of the civil service in India was significantly undermined by patronage and the reservation system for certain ethnic and caste groups.

Finally, I showed that state capacity established after independence also strongly affected development outcomes in Latin America, the only large region in the developing world where most states were already independent by the early 20th century. Latin American states today show considerable variation in GDP and HDI levels. This chapter demonstrated that this variation can likewise be traced to a significant divergence in the levels of state capacity achieved by these states in the early 20th century. By the early 20th century, some Latin American states had achieved more state capacity than others, but significant investment in mass welfare of citizens had not yet occurred. Yet state capacity in early 20th-century Latin America is a strong determinant of levels of health and education in the present day. In addition, there is
no relationship between the years that a state was ruled by a democratic or leftist regime, and its modern-day economic development, or its modern-day levels of health and education.

5.2 State Formation During Colonialism

Chapters 2 and 3 examined the legacy of colonial rule in modern-state building in the former British Empire and two former colonies of Japan. A large majority of the present-day world’s modern states were under some kind of colonial rule at the beginning of the twentieth century. The comparative historical analysis suggests that colonialism was a major force capable of creating states and molding basic state forms. Colonial rule was a system of political control meant to enhance the political and economic interests of the ruling power, and there is no doubt that it was highly repressive and extractive for most people living under colonial regimes. The purpose of state-building by the metropolitan powers was not mainly to enhance the locals’ welfare, but to control territories, people, resources, and economic opportunities for the benefit of the metropolitan countries. These colonially constructed political institutions, as we have seen, proved to be highly resilient after independence, influencing and molding the shape of sovereign developing country states. As Chapter 2 showed, however, the pattern of colonialism varied, as did its long-term legacy. The forms of colonialism that may have seemed to be the most repressive and extractive were sometimes also the forms that left behind stronger state structures for post-independence governments to inherit. After independence, the post-independence governments were able to use these effective, inherited state structures to promote economic development, and rapidly improve health and education outcomes for their citizens.

The sharpest contrast in the patterns of colonialism in this study was evident in the role of the Japanese in Korea and Taiwan, on the one hand, and by the British in colonies where state-
Building efforts were minimal, as was the case in most of British-ruled Africa. In Korea and Taiwan, the Japanese invested enormously in developing state capacity, by creating a huge bureaucracy that penetrated down to local levels, as well as a very well-organized, well-trained, and experienced police force. The civil service was professional, selected by examination, and overseen by the central government. Some metrics that measure this include the increased ability to raise tax revenue in colonial Korea and Taiwan compared to the pre-colonial states, and the number of police and colonial officials per capita, which were all much larger than the average in contemporary European-ruled colonial states.

British colonialism in the much larger, worldwide British Empire was much more varied. In some British-founded colonial cities, such as Hong Kong and Singapore, the British did indeed establish a high-capacity colonial bureaucracy and state similar to what the Japanese established in Korea and Taiwan. In many of the British colonies, however, particular those that were acquired at the end of the nineteenth century in Africa, the effort that the British expended in state-building was minimal. In Africa, the British mainly wanted a revenue base to finance colonial rule and to use that colonial rule to facilitate trade, as well as to keep European competitors out, and they created the ruling arrangements to satisfy these minimal needs. The result, in much of Africa, was poorly formed states without a central authority, without a national civil service, and without any real capacity in reach down into society to facilitate such elementary government functions as systematic taxation. Instead, the British relied on various intermediaries at the local level to perform these functions. The British used this minimal state to promote trade and financed the operate of the colonial state mainly by taxing this trade. In contrast to India, the option of creating in Africa a significant centralized state, staffed by both British and educated native servants, was never seriously pursued. Instead, the British sought to
use existing authority structures, justified by the ideology of “indirect rule”, a strategy that meant that post-independent African states inherited relatively little state structure in contrast in other cases within the British Empire.

The British in India left behind a considerably more effective state than in much of Africa, so British India represents an intermediary case in the level of state-building compared to the Japanese in Korea or Taiwan, and the British in most of Africa. British rule in India was of much longer duration than in most of Africa. Control of India lay at the heart of British imperial expansion in the nineteenth century, and a centralized state in India was important to these plans. The British left behind a state that was relatively well-constructed at the apex but did not effectively reach down to the local level.

The colonizing powers also adopted alternative ruling strategies. These strategies varied because the colonizers also differed in their understanding of how best to control and exploit colonized people. The British sought to rule their colonies via limited, laissez-faire states. Britain, as an early industrializer with a limited, laissez-faire state at home, sought to construct a similar state in its colonies. Such a strategy fit well with the British interest of trading manufactured goods in exchange for the raw materials of the colonies. Such a limited governance approach also required obtaining the co-operation of indigenous, traditional rulers, who extracted taxes from their low-productivity subjects so that British rule could be self-financing. By contrast, the Japanese were late developers who in their home country had used a state-led model of development. This was the model that they transmitted to Korea and Taiwan.
5.3 Regime Type in Latin America and Economic Development

In Latin America, the region of the developing world with the longest history of independence, this project did not find any strong relationship between the number of years that a country was democratic, and its long-term economic performance. Nor was there any strong relationship between the number of years that a country was governed by leftist regimes and its contemporary record in improving health and education outcomes for its citizens. By contrast, there is a strong relationship between measures of state capacity of these countries in the early 20th century and modern-day economic as well as welfare outcomes.

5.4 Policy Prescriptions

State-building, in terms of building a state that reaches down to the local level and performs effective functions such as collecting taxes and policing, is a difficult and expensive task. The British Empire had only established minimal state structures in the majority of its colonies by the time that they became independent in the 1950s and 1960s. The colonies where the British had invested more in state-building were the ones that subsequently achieved developmental success. By contrast, the Japanese invested heavily in state-building in its two main colonies, Korea and Japan.

For donor countries that wish to accelerate economic development of recipient countries through foreign aid, such programs are unlikely to be successful without a massive investment in improving the state capacity of these countries to provide public goods to their citizens.
Furthermore, some countries condition their decisions about whether to give foreign aid on regime type: for example, whether the country is a democracy. Yet a democratic country with low state capacity may be much less successful at economic development than an authoritarian regime with high state capacity. As this project has demonstrated, the ability of a state to effectively tax and police its citizens is a better predictor of economic success than whether its citizens can elect their leaders in free and fair elections.
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Chapter 1: Introduction


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**Chapter 4: The Persistence of State Capacity in Latin America**


