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Does Governance Matter? Yes, No or Maybe Some Evidence from Developing Asia

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Does Governance Matter? Yes, No or Maybe

Some Evidence from Developing Asia

By

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January 2006

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Abstract

Does Governance Matter? Yes, No or Maybe
Some Evidence from Developing Asia

This paper seeks to explore the relationship between economic growth and governance performance in Asian developing economies. This exploration yields some interesting conclusions. First, notwithstanding its tremendous economic achievements, the state of governance in Asia is not stellar by international comparison. Indeed, a majority of these countries seem to suffer from a governance deficit. Second, contrary to our expectation, data do not suggest any strong positive link between governance and growth: paradoxically, countries that exhibit surpluses in governance *on average* grew much slower than those with deficits. The paper ends with some conjecture about this apparent paradox.

Key words. *Governance, Institutions, Growth and Asia*

JEL Classification: O10, O40, O53

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I. INTRODUCTION

There is a general consensus in the development community that governance has a critical bearing on economic and social outcomes. To begin with, good governance is considered the life blood of economic growth. It has been suggested that good governance, by promoting more efficient divisions of labor, more productive investment and faster implementation of social and economic polices, will lead to higher economic growth (United Nations 2005). Economic growth aside, good governance is thought to be indispensable to all manner of favorable development outcomes—from alleviating poverty to eliminating illiteracy to reducing infant and maternal mortality. However, a good deal of the policy discussion on governance is essentially axiomatic—it presumes a relationship between good governance and desirable economic and social outcomes—and not causal, grounded in systematic empirical analyses. Nevertheless, despite the absence of robust empiricism, governance has figured prominently in the international development agenda. Besides being incorporated in the Millennium Development Goals (Goal 8 affirms 'a commitment to good governance—both nationally and internationally'), governance is a large determining factor in the allocation of aid under the Millennium Challenge Account of the US government and the IDA[1] resources of the World Bank.[2]

[1] The International Development Association (IDA) is a World Bank affiliate. It provides assistance to the world's 81 poorest countries where the vast majority of poor people reside. This assistance is in the form of interest-free loans and grants for programs for promoting economic growth and improving living conditions

[2] Other multilateral development banks, including the Asian Development Bank (ADB), follow an aid allocation formula similar to that of IDA.

This paper begins with a brief discussion of the meaning of governance and the quantitative indicators used to measure it. It then goes on to make an assessment of the relative performance of Asian economies vis-à-vis the global average. This assessment allows us to partition the Asian economies into 'governance- deficit' and 'governance-surplus' countries.[3] However, further analysis of the economic growth performance of these two sets of countries yields an apparently paradoxical result: countries that exhibit deficits in their governance performance have on average consistently outperformed those that are governance surplus. This finding, however, does not provide a resounding attestation to the critical role of governance to economic development. The concluding section offers some conjecture for this curious finding and its implications for policy.

II. WHAT DOES GOVERNANCE MEAN?

Governance, according to the American Heritage Dictionary, is 'the act, process or power of governing: government.' Good governance is what a good government does; ergo, bad governance is what a bad government does. Therefore the first step in defining governance is to agree on what constitutes a good government. Different definitions have highlighted different aspects of governance. First, some have underscored the *political regimes,* relating to political contestability and processes, political and civil liberties, and legitimacy of the government. From this perspective, democracy, human rights, participation and freedom of the press: these are some of the critical elements of governance. Second, some have emphasized *economic management*. This definition focuses on the soundness with which the government exercises its authority in the management of a country's social and economic resources. According to this perspective, sound economic management, which

[3] The terms 'governance- deficit' and 'governance-surplus' countries are due to Kaufmann (2004).

requires the support of an efficient bureaucracy, should be grounded in a transparent, participatory and accountable decision-making process. Good governance thus conceived would result in the improvement in the provision of public services and in efficacious economic management that helps avoid delays of execution, malfeasance and corruption, and other costs of distortions.

Third, some have emphasized the quality and content of *economic policy* to address the country's development problems. From this perspective, the quality of governance is reflected in the capacity of the government to design, formulate and implement appropriate policies. However, designing an appropriate set of policies is much easier said than done. Appropriate policies depend not only on the specific objective of development—whether it is economic growth or poverty reduction or lower inequality—but also on the social, political , cultural and historical contexts . In other words, there is no magic solution applicable to all countries at different stages of development—or in other words, there is no 'one size fits all' policy.

The classical view amongst economists, famously articulated by Smith (1776), has been that a good government protects property rights and keeps regulations and taxes light. In other words, the good government is relatively non-interventionist. However, this 'minimalist view' of government no longer holds wide sway and has been replaced by less orthodox views that assign more expansive roles for the government. In particular, in recent years, the Washington-based international financial institutions have advocated a set of neo-liberal policies, widely known as the Washington consensus (Williamson 1990). However, these policies have become the subject of wide-ranging debates in the development community before they could approach anything close to a consensus[4].

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[4] The Washington consensus has proven sterile in rekindling growth. Despite the widespread application of these policies through structural adjustment programs in the 1980s and

Finally, some have taken a more expansive view and focused on formal and informal institutions—particularly, the *legal and judicial framework*— which define, regulate and mediate the interactions between the government and citizens, including the private sector and civil society. This definition highlights the separation, independence and effectiveness of the judiciary, the enforcement of contracts and the rule of law. The latter means the supremacy of law, which applies equally without discrimination to all individuals as well as the government.

In short, as should be obvious from the above brief discussion, governance remains a broad, multi-dimensional concept that lacks operational precision. It has often been used as an umbrella concept to federate a whole assortment of different, albeit related, ideas.

International financial institutions (IFIs), which are precluded by their charters from making forays into the political arena, have adopted a narrower, economic-

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1990s, growth rates in the developing world declined, compared to the 1960s and 1970s when these countries emphasized state intervention and import substitution. As the failure of the Washington consensus policies became gradually apparent, new additional policies were appended to them. This augmented agenda of policies has come to be known as the Washington consensus plus. The new agenda, which has grown out of often hastily cobbled together programs, is very ad hoc. The ad hoc nature of the Washington consensus plus agenda has been underscored by the former chief economist of the World Bank, Joseph Stiglitz. According to Stiglitz (2004), 'what was added (to the agenda) depended on the criticism that was being leveled, on the nature of the failure that was being recognized. When growth failed to materialize, 'second generation reforms', including competition polices to accompany privatizations of natural monopolies, were added. When problems of equity were noted, the plus included female education or improved safety nets. When all of these versions of the Washington consensus plus too failed to do the trick, a new layer of reforms was added: one had to go beyond projects and policies to institutions, including *public institutions*, and their governance.' The infecundity of the Washington consensus in promoting economic development in poorer countries has led Stiglitz to conclude that there is no consensus about effective development strategies except that the Washington consensus did not provide the answer.

technocratic approach to governance. This approach is concerned more with economic policies and effectiveness of state for sound economic management than with such issues as the equity of the system or the legitimacy of the power structure. Consequently, the multilateral institutions have generally eschewed such political issues as democratization and human rights. Accordingly, the World Bank defines governance as ' the manner in which power is exercised in the management of a country's economic and social resources for development' (World Bank, 1992, p.1). In more concrete terms, the World Bank's involvement in governance has *primarily* focused on sound development management—emphasizing public sector reform, public expenditure control, fiduciary management, modernization of public administration and privatization.

Similarly, the involvement of the International Monetary Fund (IMF) in good governance has been limited to macroeconomic management. From the perspective of IMF, '[Good governance] is primarily concerned with macroeconomic stability, external viability, and orderly economic growth in member countries' IMF (1997). More particularly, it focuses on two principal areas of governance: improving the management of public resources through reforms covering public sector institutions; and supporting the development and maintenance of a transparent and stable economic and regulatory environment conducive to efficient private sector activities.

Finally, the Asian Development Bank (ADB), which is the first multilateral development bank to adopt a formal governance policy in 1995, defines *a la* the World Bank governance as 'sound development management'. However, the ADB definition is focused essentially on the 'ingredients of effective management [of public resources]'. While ADB recognizes the importance of good policies, it acknowledges, in light of 'the experiences so far, especially within the region', the

existence of plurality of views on good policies as well as political systems (ADB, 1995).

In sum, the IFI-approach to governance, which is embedded in the prevailing economic orthodoxy of economics, seeks to make a functional separation between development management and politics. It assumes that public policy involves technical and economic questions that can be solved, independently of the politics of the country. However, such a separation is often not feasible in practice—indeed, part of the failure of the economic reform programs of the IFIs in the 1990s, critics argue, is due to the insufficient consideration given to the issues of political economy of policy reform.

III. MEASURING THE QUALITY OF GOVERNANCE

If defining governance has been a challenge, measuring it is even more. Despite this challenge, there has in recent years emerged an active enterprise devoted to the task of measuring the quality of governance. Production of indicators of governance and institutions is now the preoccupation of many organizations and individuals. These indices are however, quite heterogeneous. Some reflect process while others seek to capture performance. They also tend to differ in terms quality and coverage—geographical as well as temporal. Some of these data sources include: the World Bank; International Country Risk Guide; Freedom House; Business Environmental Risk Intelligence; World Economic Forum; Heritage Foundation; Transparency International. Finally, the Kaufman, Kraay, and Zoido-Lobotan (KKZ) index on governance, which seems to have emerged as the industry standard, is derived from an amalgam of governance data from a wide diversity of sources.

The KKZ dataset—which are available from Kaufman et al. (2002) and have been further updated in Kaufman et al. (2003)—present information on six aggregate indicators. These six indicators are voice and accountability, government effectiveness, political stability and absence of violence, regulatory quality, rule of law, and control of corruption. Voice and accountability includes indicators measuring various aspects of political process, civil liberties, and political rights. Government effectiveness incorporates measures on the quality of public service provision, the quality of bureaucracy, the insulation of the civil service from political pressures, and the credibility of the government commitment to policies. Regulatory quality measures the incidence of market-friendly policies as well as the burdens from excessive regulations. Rule of law includes indicators that measure the confidence of the agents in—and their compliance with—the rules of society. The final set of indicators measures the perception of corruption in the government.

These six aggregate indicators which are part of the KKZ index are culled from 25 different sources, constructed by 18 different organization including the World Bank, International Country Risk Guide, Business Environmental Risk Intelligence, Freedom House, and others (see Table 1). These indicators are essentially based on perceptions of governance—derived from the polls of experts and surveys of businessmen or the citizens in general. The governance estimate for each indicator is derived from individual sources in each period and is normalized so that it has a mean of zero and standard deviation of one. This implies that virtually all the scores lie between -2.5 and 2.5, and the aggregate indicators are really measures of relative performance of a country in a particular period. The higher the score of a country, the better is its performance in terms of governance.

Table 1. Sources of Governance Data for the KKZ Governance Indicators

Source	Publication
Afrobarometer	Afrobarometer Survey
Business Environment Risk Intelligence	Business Risk Service
Business Environment Risk Intelligence	Qualitative Risk Measure in Foreign Lending
Columbia University	State Capacity Project
Economist Intelligence Unit	Country Risk Service
European Bank for Reconstruction and Development	Transition Report
Freedom House	Nations in Transition
Freedom House	Freedom in the World
Gallup International	Gallup Millennium Survey
Gallup International	50th Anniversary Survey
Gallup International	Voice of the People Survey
Heritage Foundation/Wall Street Journal	Economic Freedom Index
Institute for Management and Development	World Competitiveness Yearbook
Latinobarometro	Latinobarometro Surveys
Political Risk Services	International Country Risk Guide
Price Waterhouse Coopers	Opacity Index
Reporters Without Borders	Reporters Without Borders
Global Insight's DRI McGraw-Hill	Country Risk Review
State Department / Amnesty International	Human Rights Report
World Bank	Business Enterprise Environment Survey
World Bank	World Business Environment Survey
World Bank	Country Policy and Institutional Assessments
World Economic Forum	Global Competitiveness Report
World Economic Forum	Africa Competitiveness Report
World Markets Research Center	World Markets Online

Source: Kaufmann, Kraay and Mastruzzi (2003)

IV. DMCS IN THE GLOBAL GOVERNANCE LEAGUE

In this section, we use the popular and elaborate KKZ index to infer the quality of governance in Asian developing countries. In particular, we confine ourselves to ADB's developing member countries (DMCs): how they fare in relation to the international standard. However, it should be noted that as countries differ in their income levels, they would also differ in terms of quality of governance. It is expected that the countries that are economically better off would attain higher levels of governance. It would, therefore, be unfair to compare the quality of governance in Switzerland with that in Nepal [5]. To compare an apple with an apple, we first derive an *average international line* that indicates the expected international governance level for that particular income level. This line is derived by regressing the KKZ governance levels of countries against per capita income levels. For this regression, we use the KKZ composite governance index (which is the weighted sum of all six individual indicators, with each indicator being assigned an equal weight). The per capita income used for this regression is the 'real' income of countries in 2003, which is measured in terms of 2000 purchasing power parity (PPP) dollars. The regression uses data for 151 countries from all over the world for which the KKZ governance indices are available for 2002. As expected, the regression line is upward-sloping, indicating that higher the income level the better the quality of governance.

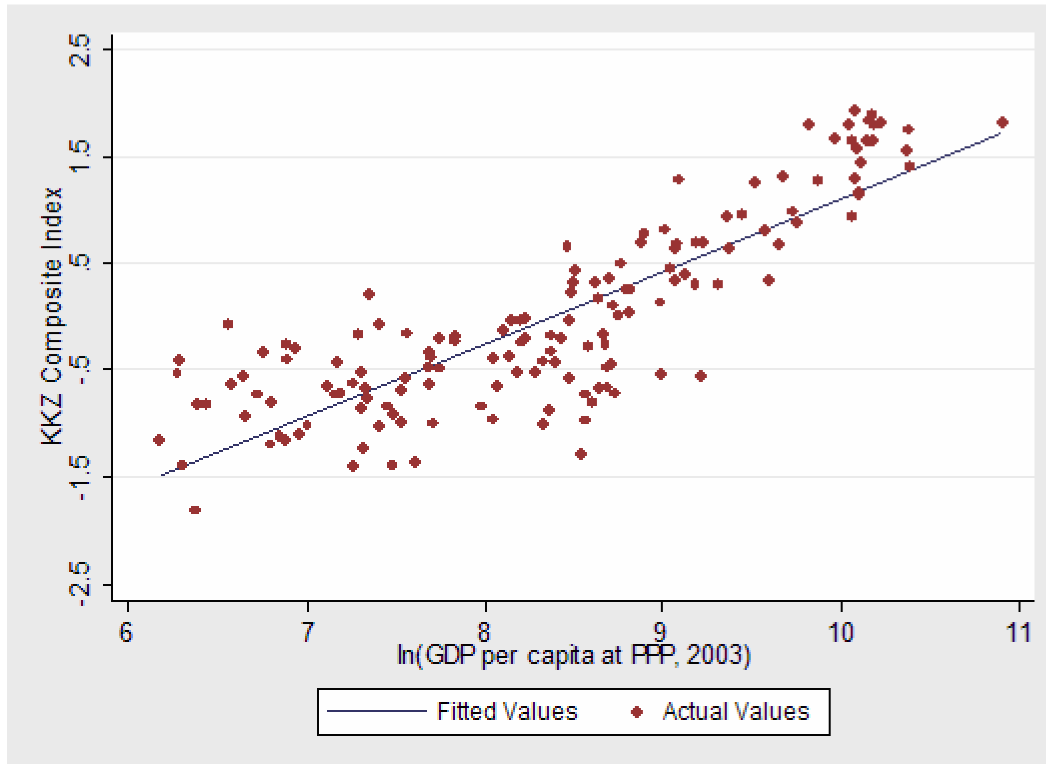
Figure 1 graphs the regression line that represents the reference international line—that is, the expected level of quality of governance for various real income levels. The countries that lie above this line are those whose quality of governance is above the

[5] Poor countries are often too poor to afford good governance. Among other things, good governance requires a well-functioning and adequately paid civil service and judiciary, proper information technology for registering property and ensuring transparency in procurement, and sufficient equipment and training for an efficient police force. All this requires substantial financial outlays (UN 2005).

level expected of their income levels. The countries that lie below the line are those whose quality of governance falls short of the level expected of their income levels.

It may be noted in passing that such regressions between governance indicators and real income, as attempted here, are not new. Kaufmann and Kraay (2002) have used similar regressions between individual governance indicators and real income to assess the state of governance in its different dimensions in Latin America and the Caribbean. A similar empirical exercise has been carried out by Radelet (2004) who finds no evidence that Africa's governance, on average, is worse than anywhere else after controlling for income levels.

Figure 1. Governance and Real Per Capita Income



Note: The figure plots the governance indicator against real GDP per capita in 2003. The governance rating in the vertical axis is the (equally) weighted average of six indicators of governance compiled by Kaufman et al. (2003). The estimated regression is given by governance = -5.64 + 0.67 ln (GDP per capita). The coefficients of the regression are significant at the 1 percent level and R^2 is 0.71.

How do the DMCs fare in this comparison of 'governance gap'? Our calculation suggests that of the 29 DMCs, for which the KKZ governance indices exist, ten countries fare better than the international average for their income levels. The remaining 19 countries fare worse than the international average—that is, they suffer from governance deficits of varying magnitudes.

Table 2

Country Classification by Governance Performance

Above-average Performers	Below-average Performers
• Hong Kong • India • Malaysia • Mongolia • Nepal • Singapore • Solomon Island • Vanuatu • Samoa • Sri Lanka	• Azerbaijan • Bangladesh • China • Fiji • Indonesia • Kazakhstan • Republic of Korea • Kyrgyz Republic • Lao PDR • Pakistan • Papua New Guinea • Philippines • Tajikistan • Thailand • Tonga • Turkmenistan • Uzbekistan • Cambodia • Vietnam

Source: Author's estimates

Table 2 reports the governance performance of 29 DMCs. As Table 2 indicates, the performance of the DMCs, which are often dubbed as the most dynamic group of countries in the world, does not look particularly impressive, relative to their income levels. About two thirds of the countries perform worse than the corresponding averages and suffer from governance deficits of varying degrees.

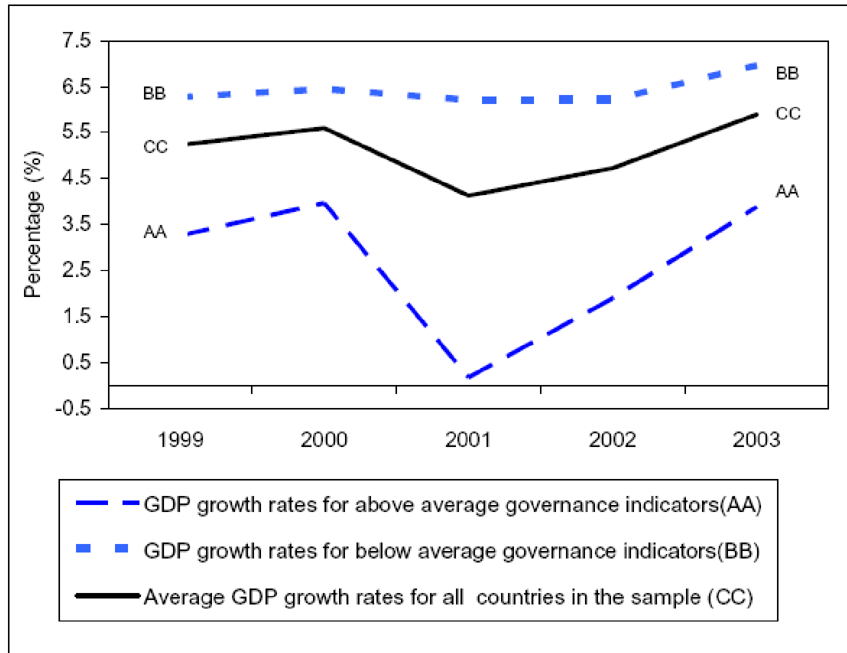
In a recent paper, Kaufmann and Kraay (2002) have noted that the strong empirical relationship between per capita income and the quality of governance is essentially due to the strong causal relationship running from governance to per capita income.

Their empirical work suggests that the causal relationship running from income to governance is either weak or negative. If we take this result seriously, then there is no virtuous circle running between income and governance[6]. Thus, given this one-way causation from governance to income, it is to be expected that the countries that experience a governance surplus can in general hope to achieve a more rapid economic growth compared to those that incur a deficit.

How is this expectation borne out in reality in the context of Asian developing economies? To check, we compare the economic growth performance of the governance-surplus countries in the last 5 years (1999–2003 for which complete data sets are available) with the growth performance of the governance-deficit countries. Figure 2 plots the average annual growth rates of these two sets of countries. It should be noted here that to exclude the possibility of the results being driven by large countries, we have used simple—rather than weighted average—for growth rates. *AA* is the growth curve for the governance-surplus countries and *BB* is the growth curve for the governance-deficit countries. Surprisingly, the countries with presumably better governance fare worse in economic growth than those with worse governance. Indeed, the average growth rate of the governance-surplus countries is less than half that of the governance-deficit countries. Moreover the governance-deficit countries have a lower variance in their growth rates (at 0.1) than that of the governance-surplus countries (at 2.6).

[6] Kaufmann and Kraay attribute this lack of virtuous circle to 'state capture'—what they describe as the undue and illicit influence of the elite in the shaping of laws, policies and regulations of the state. According to this explanation, this state capture by vested interests allows the elites to benefit from the status quo of misgovernance and hence they continue to resist demands for change even if incomes rise.

Figure 2. GDP Growth Rates in Asian Economies



Source: Author's calculations. Data are derived form World Bank (2004)

Figure 2. GDP Growth Rates in Asian Economies

Source: Author's calculations. Data are derived from World Bank (2004)

How does one explain this seemingly paradoxical result? One conjecture is that this is largely due to what economists call *convergence*—that is, poor countries tend to grow faster than the richer countries. However, on the face of it, it does not seem particularly plausible, as both groups include an assortment of countries at different stages of development with different income levels.

However, to investigate the question more rigorously, we next estimate a parsimonious growth equation, which is specified as follows: *gdp growth* = *a* + *b (ln gdp*

per capita) + c (governance) + errors, where *a, b*, and *c* are the parameters to be estimated[7]. Our regression involves 29 Asian DMCs for which relevant data are available[8]. The estimated equation is given by: *GDP growth*= 4.26 – 0.06 *ln GDP per capita* (in 1999) – 1.91 *Governance*.

The coefficients of the regression are found insignificant, except for governance which is significant at 5 percent level of significance and R^2 of the regression is .15. Note that the regression does not provide any evidence of convergence. Figure 3 is the partial scatter plot between growth and initial income. The partial scatter shows the unexplained portion of GDP growth against the unexplained portion of initial income (that is, unexplained by the other right-hand side variables in the regression). Thus, the figure depicts the partial correlation between GDP growth and initial income, after controlling for other variables in the regression. Clearly, Figure 1 does not show any correlation, either positive or negative, between GDP growth and initial income and hence, provide any support for the convergence hypothesis. Similarly, Figure 4 is the partial scatter plot between growth and governance. Again, it does not suggest any positive relationship between growth and governance. Indeed, if there is a suggestion there in the scatter plot , it is in the opposite direction!

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[7] In light of the findings of Kaufmann and Kraay (2002) that governance is largely independent of income, we have treated governance as an exogenous variable in the regression equation.

[8] The explanatory variable, GDP growth, is the average annual GDP growth for five years, 1999-2003. The initial income refers to GDP per capita in 1999 (expressed in 1995 international dollars). All these data are derived from World Bank (2004). We use the KKZ composite index to represent the governance variable.

Figure 3: Partial Plot of GDP growth and Initial Income

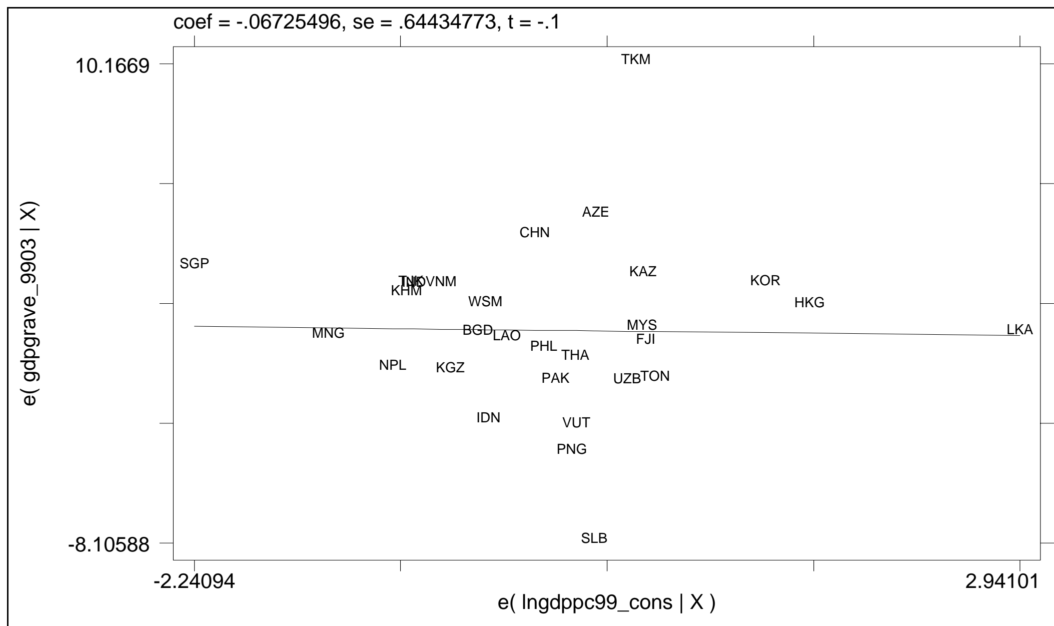
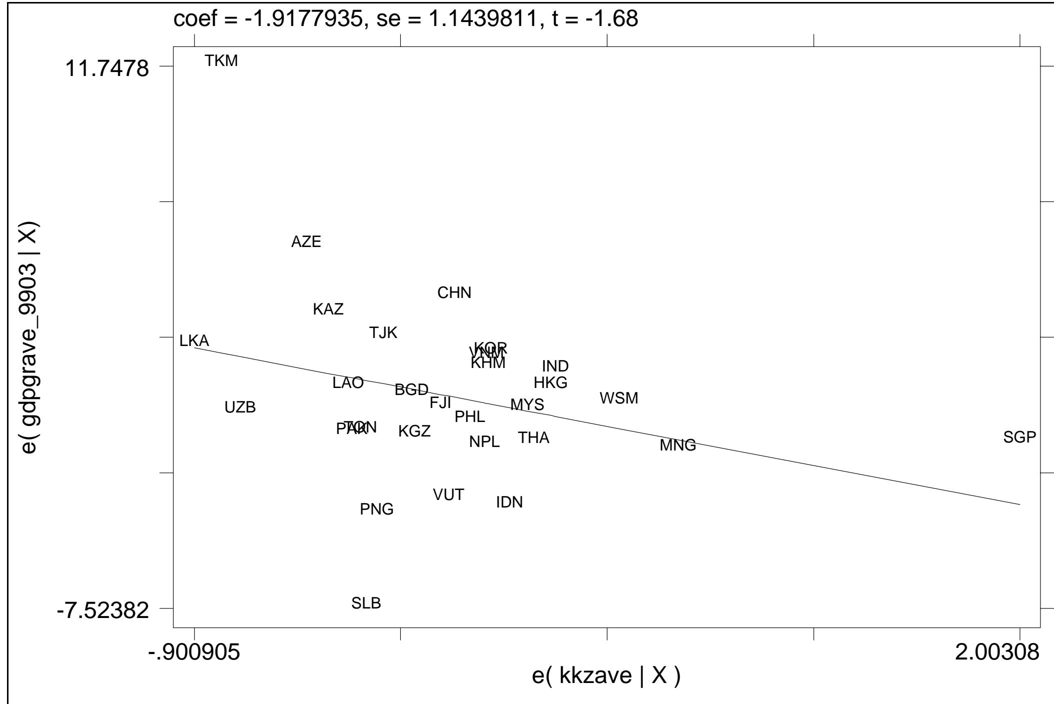


Figure 4: Partial Plot of GDP growth and Governance



V. RESULTS: WHAT DO THEY LEAD US TO?

The foregoing analysis suggests two conclusions. First, despite the enormous economic dynamism of the DMCs, everything is not well in these countries as far as governance is concerned. These countries are by no stretch of imagination the paragons of governance at the global stage (when such comparisons control for income differences). Second, the comparison of growth performance of governance-surplus and governance-deficit countries throws up a big puzzle: that the countries exhibiting a deficit in governance tend to outperform those exhibiting a surplus—and by a large margin. This certainly does not provide a ringing endorsement to the

general notion that governance makes a critical difference in the growth outcomes of countries.

How does one explain this apparent paradox? It may be instructive to look beyond the average to the performance of individual countries. A conspicuous example is China. Though the country has in recent years undertaken an extensive reform program , it is , as noted by Qian (2003), in many ways heterodox and deviates significantly from the current conventional wisdom. This reform program has been characterized by partial and often two-track liberalization, limited deregulation, financial repression, an unorthodox legal regime and the absence of private property-rights. Though the country does not fare well by the conventional metric of governance, it is a superstar when it comes to economic growth. It has created, within the short time span of a generation, a kind of growth and development miracle hitherto unknown in human history.

A comparative study of Vietnam and the Philippines by Pritchett (2003) notes a similar paradox. While Vietnam has undertaken a program of Chinese style of reforms leading to divergent and heterodox institutions, the Philippines has followed a path that is more traditional and adheres to today's current wisdom. Though the Philippines fares better than Vietnam in terms of the conventional measure of governance, the former has virtually economically stagnated and the latter is fast 'booming out of a poverty trap'.

Does this suggest that governance is unimportant for economic and social development? Perhaps that may not be exactly the right lesson to take from this exercise. The more correct inference would be that the conventional measures of governance such as the KKZ are too coarse to capture the nuances of governance-

growth interactions. This has been further corroborated in the recent reviews of the aid effectiveness literature (see, for example, Quibria 2005).

The main reason that these indices fail to capture the nuances of interactions between governance and growth is that they are based on an implicit model of governance which exists in institutions available in western advanced economies. The larger the gradient of the state of governance of a country from the benchmark, the lower it scores in the traditional metric of governance. However, economic growth—or for that matter, the broader indicator of economic and social development—does not move monotonically with the diminishing gradient of governance from the benchmark. This point has been forcefully and cogently argued by Qian (2003, p.304):

> The problem is a naïve perspective on institutions. The naïve perspective often confuses the goal (i.e., where to finish) with the process (i.e., how to get there) and thus tends to ignore the intriguing issues of transition paths connecting the starting point and the goal. It is like neglecting the "transition equations (or "equations of motion") and the "initial conditions" in dynamic programming. Although building best-practice institutions is a desirable goal, getting institutions right is a process involving incessant changes interacting with initial conditions.

Although building best-practice institutions is a desirable goal, the experience of China in this respect is highly illustrative. It has not jettisoned the whole existing traditional framework of governance, but has made gradual and modest experimentation—whether it relates to property rights or to internal and external economic liberalization. Indeed, as Rodrik (2003) argues, modest changes in institutions and the structure of governance can produce large growth payoffs, but the required changes need to be highly context-specific. Similarly, Dixit (2004, p.4) notes, 'it is not always necessary to create replicas of Western-style [governance] from scratch, it may be possible to work with such alternative institutions as are

available, and build on them'. This provides some general lessons for policymakers in developing economies as well as officials in international development agencies.

In particular, one lesson worth emphasizing is that improving governance is a gradual and deliberate exercise in incrementalism that needs to build on the existing structure. There is a path dependency in institutional reform that precludes either wholesale transplanting an alien framework or selective cherry-picking. By necessity, such an exercise in reform needs to be anchored in deeper analysis, informed by a country's history, polity, and society, something that is not often available in abundance in a harried aid bureaucracy.

VI. CONCLUDING REMARKS

To sum up, notwithstanding the tremendous economic achievements of developing Asia, the state of governance in these countries—if measured by the KKZ composite index, a popular index of governance—is in no way stellar by international comparisons. Indeed, a large majority of developing countries in Asia, according to this indicator, seem to suffer from various degrees of governance deficits, compared to the international averages, relative to their incomes. What is apparently highly paradoxical is that countries that exhibit deficits in their governance indicators *on average* register a much higher growth on a sustained basis compared to those that exhibit a deficit.

This of course suggests two possibilities. The first possibility is that the link between governance and economic performance is not as strong or immediate as is widely presumed. It has been suggested that governance has only a second-order effect on economic performance. The first-order effect on economic growth comes from human as well as social capital that shapes the productive capacities of a society

(Glaesar et al. 2004). Improvements in one may not go hand in hand with the other, thereby creating a disconnect between the two. According to this line of reasoning , mere improvements in governance—unless accompanied by commensurate improvements in human and social capital—will not result in superior growth outcomes.

The second possibility is that while governance and economic performance are strongly correlated, the conventional measures—such as the KKZ composite index—fail to capture the nuances of governance-growth interactions. In this connection, two points are worth emphasizing.

First, as noted among others by Rodrik and Mukand (2005), sound economic principles—such as incentives, competition, fiscal prudence, sound money, and property rights—do not translate into unique institutional and governance solutions, but need to be adapted to particular economic and social contexts. This may imply different configurations of institutions of governance in different times and locations. These institutions can be quite heterodox, particularly in the context of the poorer and transitional economies, and deviate significantly from Western-style governance. Measuring and quantifying these heterodox institutions of governance from a common, conventional yardstick can be both difficult and challenging. As many transitional economies in Asia—particularly, China and Vietnam—have embarked upon unconventional institutional innovations, these innovations fare poorly when viewed from the lenses of conventional wisdom. However, many of these innovations have proven to be appropriate for these countries and resulted in high growth and rapid economic and social transformation.

Second, all dimensions of governance are not equally critical for growth or economic development at all stages of development. It is not the aggregate score on

governance but the performance on the critical components that matters. As noted, among others by Quibria (2002) the miracle economies of East Asia at their earlier stage of economic transformation emphasized more on the economic dimensions of governance, relating to government effectiveness and regulatory quality, rather than those political dimensions relating to voice and accountability or control of corruption. Thus, though many of the miracle economies did not fare well in terms of conventional measures of governance, they posted robust growth. A similar picture seems to be implicit in recent data as well. Many of the high-growth economies have carefully ensured property rights—or variants of them—but not necessarily been meticulous about political liberalization. This would suggest that it is not the aggregate score on governance but the scores on some particular components on governance—those that are critical in relation to the stage of development— that are important for economic growth.

In the absence of further empirical scrutiny, the above explanation, though plausible, remains conjectural. There may be other equally plausible explanations of the apparent growth-governance paradox. If the above story contains a kernel of truth, it has two obvious implications. First, there is country- specificity with regard to appropriate governance and institutions and this specificity stems from differences in history, geography or initial conditions. To match this specificity of local conditions, there is a need for experimentation to ensure that the system of governance and local conditions dovetail. Second, while aggregate measures of governance—such as the KKZ and other indices —may be helpful for some purposes, they can be somewhat misleading for others (as they are often bereft of important qualitative nuances). Therefore, one should handle these indices with care—and refrain from their indiscriminate and mechanical application, particularly when it comes to important policy matters.

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