DEBATING DECENTRALIZED DEVELOPMENT: A RECONSIDERATION OF THE WENZHOU AND KERALA MODELS

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The Wenzhou model represents a successful case of indigenously generated petty capitalism, while the Kerala model represents a developmental success in terms of education, health care, and grassroots participation. Given the remarkable achievements of these localities, observers have suggested that their experiences are worthy of emulation and replication. This assumption has three limitations. First, although both models sound inspiring, their success depends upon particular conditions that are unlikely to be found in other localities. Second, neither “model” has proven to be fiscally or politically sustainable. Third, local developmental strategies that yield productive results initially may ultimately undermine themselves.

Model, n. A person or thing eminently worthy of imitation; a perfect exemplar of some excellence. Also: a representative specimen of some quality.


I. INTRODUCTION
In both the study and practice of development, a sharp dichotomy exists between cases of developmental failure versus success. Given that the latter are scarce relative to the scores of developmental disappointments, if not disasters, when a positive example is discovered, it tends to acquire a near-canonical status in the field. Among practitioners of international development, certain types of activities and policy interventions become known as “best practices,” which are then recommended and reproduced around the world by aid agencies and other donors. In academia, the components of a developmental success story become known as a “model,” which then attracts the attention of scholars who seek to identify the causal mechanisms underlying its success, and explain why other patterns of development have not performed as well. While state-centric theories of the 1980s lead to a focus on various national-level developmental models, the rise of fiscal decentralization (and fiscal federalism) since then has called attention to the political economy of sub-national development.

It is within this context that the developmental experiences of two localities in China and India—Wenzhou and Kerala, respectively—warrant consideration by comparativists. Wenzhou is best known within China as a locality that developed a vibrant private
sector in the early reform era, that is, before private enterprise was formally sanctioned by Beijing. Meanwhile, Kerala is known internationally as a locality that has a relatively low per capita GDP, but performs impressively well on human development indicators. In short, the Wenzhou model represents a successful case of indigenously generated petty capitalism, while the Kerala model represents a developmental success story in terms of literacy levels, quality of health care, and grassroots participation. Given the remarkable achievements of these localities, observers have called their experiences “models,” thereby suggesting that they are worthy of study and emulation.\textsuperscript{2} This article critically analyzes the assumptions underlying popular conceptions of these models and makes three arguments. First, although both models sound inspiring, their success is contingent upon a particular mix of conditions that is unlikely to be found in other contexts, even within the same country. Second, over time neither “model” has proven to be fiscally or politically sustainable. Third, local developmental strategies that yield productive results initially may ultimately undermine themselves over time.

The article proceeds as follows. The first two sections outline the key positive features of the Wenzhou and Kerala models, respectively, as they are typically portrayed in the media and scholarly literature and review the main explanations for their success. The third section presents the debates generated by the models with a focus on some of their limitations. The final part of the article reflects upon the theoretical and empirical implications of either idealizing or demonizing developmental models that are contextually and politically contingent.

II. THE WENZHOU MODEL

Wenzhou is a rural mountainous locality with a population of 7 million people on the coast of the southeastern province of Zhejiang in China. It was especially impoverished during the Mao era (1949-1976) due to demographic and political reasons. Wenzhou has limited arable land as it consists primarily of mountains and tributaries, yet it also has a relatively concentrated population, which means that even subsistence agriculture posed a challenge for its inhabitants. Exacerbating the disadvantages of the low arable land-to-population ratio were national policies that intentionally deprived the southern coastal provinces of Zhejiang, Fujian, and Guangdong of capital investment due to their propinquity to Taiwan and thus, geostrategic sensitivity. The center concentrated its industrial belt inland so that it would be better protected in the event of a Chinese Nationalist and/or US invasion from the southeastern coast. Hence, on the eve of reform in the late 1970s, Wenzhou’s rural per capita GDP of 113 RMB (US$34)\textsuperscript{3} was 15 percent lower than the national average (Wenzhou Municipal Statistics Bureau, 2003). One decade later, however, Wenzhou was nationally known as a prosperous locality with a vibrant private sector based on household factories, specialized wholesale markets, informal financial intermediaries, and a steady supply of merchants who were willing to travel and live all over the country to market their products. In a series of reports and monographs, Chinese economists and policy makers began to refer to the rise of the “Wenzhou model.” The latter policy makers even made the relatively arduous trip from Beijing to witness the model in action and to conduct field surveys.\textsuperscript{4}

The original accounts of Wenzhou’s economic success in the mid- to late- 1980s described the emerging model as having the following characteristics: (i) the private
rural household as the primary productive unit; (ii) production of low-end consumer items employing simple, labor-intensive technology; (iii) horizontal division of labor among households as reflected in the development of specialized commodity markets; and (iv) extensive sales, purchasing, and marketing networks throughout the country. These are the most frequently cited ingredients underlying its particular pattern of political economy during the reform-era, though a fifth component—reliance on informal sources of finance—is also a fundamental part of the model (Zhang and Mao, 2003). Taken together, the five elements have been associated with impressive economic performance, which in Wenzhou’s case, is defined as rural industrialization lead by the private sector. Between 1978 and 2002, Wenzhou’s GDP increased at an annual average of 18.6 percent, and the share of the state sector in industrial output shrank from 35.7 percent to 2.5 percent (Wenzhou Municipal Statistics Bureau, 2003). By 2002, the private economy accounted for over 97 percent of the locality’s industrial output, of which 93.5 percent was generated by small and medium enterprises.

What set Wenzhou apart from other localities in the first decade of reform was not only its growth in standard economic indicators, but also the fact that this growth was driven by private businesses and private finance during a period when the political status of the non-state sector was still highly controversial. Indeed, it was not until 1988 that the National People’s Congress approved the establishment of “private enterprises” (siying qiye) with more than eight employees. Yet between 1978 and 1986, the number of registered individual businesses (getihu, with less than eight employees) went from 2,800 to 140,600, and by the end of 1986, small private businesses accounted for 35 percent of the locality’s industrial output, 40 percent of retail sales, 50 percent of local transportation services, and 65 percent of the total volume of shipping services (Xie and Ren, 2000, p. 18). Meanwhile, due to restrictions on businesses with more than eight employees, these figures underestimated the true scale of the private sector. To avoid official harassment during the early years of reform, larger private businesses registered themselves as collective enterprises, which were considered part of the non-state sector because they were supposed to be run by local governments—in contrast to state-owned enterprises, which were considered nationally owned and managed. This strategy of disguising a large private enterprise as a collective one was popularly called, “wearing a red hat” because it cloaked a capitalist operation in a more ideologically acceptable form. By 1986 it was estimated that 89 percent of all collective enterprises in Wenzhou were wearing red hats (Ibid). And during the 1983 to 1985 period, local economists estimated that up to 95 percent of all financial flows in the locality were occurring outside of the state banking system (Liu, 1992, p. 298). Wenzhou’s reform-era development thus came to be associated with not only success in rural industrialization, but also a high degree of local initiative and even disregard for national regulations that stood in the way of its entrepreneurs.

Throughout the 1980s, there were several phases during which national political campaigns were highly critical of bourgeois liberalization, spiritual pollution, and corruption—all undesirable symptoms associated with the spread of market forces (Baum 1996; Young 1995). As such, during those periods it also became politically sensitive to imply that Wenzhou’s petty capitalism might serve as a model worthy of replicating in other parts of the country. In fact, the word “model” (moshi) became so politically charged
in the 1980s that less controversial terms like “style/pattern” (geju) and “representative case” (dianxing) came to replace “model” in official discussions of Wenzhou. Since Deng’s 1992 Southern Tour, broad political and ideological consensus at the national level for continued reform has tempered the stigma associated with its reputation for being unapologetically capitalist, opportunistic, and well-off. Nonetheless, care in employing politically neutral (or correct) terminology continues in analytic works by Chinese scholars.

Generally speaking, Chinese explanations for the dynamism of Wenzhou’s private sector tend to combine cultural, geographic, economic survival, and political explanations that point to the locality’s unique qualities. Most accounts of Wenzhou start out by noting that Wenzhou has always possessed a rich commercial tradition, which was never fully suppressed under communism. Present-day city maps and publications proudly describe Wenzhou people as the “Jews of China.” An additional popular explanation is that Wenzhou people have had no choice but to engage in petty commerce due to its paucity of arable land, and as discussed above, low levels of industrial and infrastructural investment during the Mao era kept the locality relatively undeveloped and isolated. For all of these reasons, the typical narrative goes, Wenzhou people have always been willing to work extremely hard, suffer (“eat bitter” or chiku), and travel far to make a living.

Studies of Wenzhou among western scholars have also highlighted some of the locality’s more exceptional characteristics, but they have also been somewhat more analytical and therefore comparative in their explanations for Wenzhou’s contemporary political economy. Ya-Ling Liu (1992), for example, offers a critical juncture argument by tracing Wenzhou’s localism and renegade capitalist tendencies to its particular “liberation” experience during the communist revolution. Because communist liberation of Wenzhou in 1949 was achieved by indigenous guerrilla forces rather than Mao’s Red Army, Liu argues that local cadres maintained the alliances that they had developed with Wenzhou landlords and merchants during the pre-1949 period. As a result, the socialist state never developed the capacity to carry out collectivization successfully and eradicate private economic activity in Wenzhou (Forster, 1990). Kristen Parris’ (1993) analysis similarly stresses the collusion of lower-level cadres and citizens in obstructing central policy to facilitate economic development; and agrees with Liu’s assessment that Wenzhou’s case exposes the post-1949 government as a “sporadic totalitarian state” with limited success in imposing its will on uncooperative localities. Following Timothy Mitchell (1991) and Jeffrey Isaac (1987), however, Parris also suggests that the boundaries of state and society are shifting through a process of “chronic negotiation.” Notwithstanding the conceptual complexity of employing the term “society” in the Chinese context, this basic insight points to an ongoing process of mutual monitoring between central policy makers and local staff of the state, between the official policy environment and economic actors. That is, the Wenzhou model represents a particular mode of interaction between state and society and central and local governments.

While the above explanations focus on explicating the political sources of localism among Wenzhou’s cadres and entrepreneurs, the other main approach to understanding the Wenzhou model among political scientists emphasizes the material incentives underlying its reliance on private sector development. Specifically, Susan Whiting and
Jieh-min Wu have both observed that in contrast to localities in southern Jiangsu, which inherited well-developed rural industry based on communes and brigades from the Mao era, localities such as Wenzhou started out the reform era with a very low level of industrial development and limited land and capital resources (Tsai, 2002; Whiting, 2001; Wu, 1998). As a result, when fiscal reforms gave local governments a greater share in locally generated revenues, local officials faced an incentive to permit economic activities that yielded the greatest profit. In Wenzhou’s case, the latter took the form of private household factories engaged in labor-intensive manufacturing processes and a network of traders who marketed and sold local products throughout the country and abroad.

Ultimately, both the political and resource-based explanations for the Wenzhou model are portable beyond Wenzhou itself. Many other rural mountainous localities were impoverished and then experienced similar levels of spontaneous privatization of collective land and private household production in the early years of reform. Wu (1998, p. 99) points out that a number of localities in Anhui shared similar resource endowments as Wenzhou, and the same could be said of various localities in Fujian and Guangdong before overseas Chinese/foreign investment became more readily available to finance industrial development. In short, despite the designation of a certain pattern of development as the “Wenzhou” model, it is not necessarily as unique as locals might like to believe, which raises the broader issue of what elements are indigenous to a particular locality versus what elements can be cultivated. In order to consider this issue in comparative perspective, the next section discusses the Kerala model.

III. THE KERALA MODEL

Kerala is a southwestern Indian state with a population of 31 million, a per capita GDP of roughly US$470/year, and a popularly elected communist government. In contrast to the Wenzhou model, which is considered successful by virtue of its performance on conventional economic indicators such as growth in GDP, industrial output, and degree of private sector development, the measures of developmental success in the Kerala model are based primarily on human development indicators (HDI). Although the state of Kerala was not established until 1956, by the 1970s its relatively high level of social development had already attracted international attention (United Nations, 1975). This was further documented by a string of observers (Dreze and Sen, 1995; Franke and Chasin, 1992; Kannan 1988), including the anthropologist Richard Franke who argued that villagers in Nadur were extremely impoverished in terms of material possessions and wage income, but that the quality of their lives were high relative to those in other parts of India and even by the standards of advanced industrialized countries. As of 1991, the per capita GDP in Kerala was $298, which was lower than the national average of $330 in India and the world average for developing countries of $350. Yet the infant mortality rate in Kerala was only 17 per 1,000 live births, as compared to 85 in India and 91 in other developing countries. The adult literacy rate was 91 percent versus 52 percent in the rest of India and 55 percent in developing countries. And Kerala’s fertility rate was also lower: in 1991, it was 20 births per 1,000 females versus 31 births in India and 38 births in developing countries (Franke, 1995). Table 1 shows that a decade later, Kerala was still performing well in terms of HDI, and its GDP had increased relative to the national average.
Table 1
Quality of Life Indicators, 2000-2001

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Kerala</th>
<th>India</th>
<th>Low-Income Countries (a)</th>
<th>United States</th>
</tr>
</thead>
<tbody>
<tr>
<td>Per Capita GDP $</td>
<td>469</td>
<td>460</td>
<td>420</td>
<td>34,260</td>
</tr>
<tr>
<td>Adult Literacy Rate (%)</td>
<td>91 (b)</td>
<td>58</td>
<td>39</td>
<td>96</td>
</tr>
<tr>
<td>Life Expectancy in Years</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Males (d)</td>
<td>68</td>
<td>63 (c)</td>
<td>59 (c)</td>
<td>74</td>
</tr>
<tr>
<td>Females (d)</td>
<td>74</td>
<td>64</td>
<td>80</td>
<td>7</td>
</tr>
<tr>
<td>Infant Mortality per 1,000</td>
<td>12</td>
<td>65</td>
<td>80</td>
<td>7</td>
</tr>
<tr>
<td>Birth Rate Per 1,000</td>
<td>17</td>
<td>29</td>
<td>40</td>
<td>16</td>
</tr>
</tbody>
</table>


Notes: (a) Low-income refers to 2000 to 63 economies with 2.5 billion persons with per capita GNP of $755 or less. (b) 1991 figures from Indian National Census 2001. The Indian census uses literacy at age 6 and above while the World Bank now uses the figure of 15 and above for adult literacy. The all-India literacy figure from the 2001 census is 76% for males and 54% for females. (c) 1995 figures. (d) Kerala figures are 1996-2000 average; Government of Kerala 2001:158.

One of the main reasons that Kerala has attracted so much attention is because its pattern of development defies conventional expectations in multiple realms (Oommen, 1999). For example, post-war modernization theorists and economists generally expected that social development would follow GDP growth at more advanced stages of development (Rostow, 1960). By the same token, demographers predict declines in fertility rates at higher levels of income (or an inverted U-shaped relationship between income and fertility) (Birdsall, Kelley, and Sinding, eds., 2002; Birdsall, 1988; Dasgupta, 1995; Strulik and Sikandar, 2002). And during the Cold War, students of communist countries would not have expected a state in a liberal democratic country to choose a communist government through fair and free elections. In other words, judging by basic elements of its political economy, most observers would not imagine that a locality such as Kerala would do so well on quality of life indicators. Kerala has thus inspired considerable attention by scholars and policymakers seeking to explain the sources of its unexpected success.

Explanations for the positive aspects of the Kerala model include a range of historical, political, social, and cultural factors. At the broadest level, most observers have credited Kerala’s history of mass movements for providing an important political base for policies that benefit the broader public rather than only narrow or elitist interests. For example, Robin Jeffrey, Jean Dreze and Amartya Sen, and V.K. Ramachandran have emphasized the role of “public politics” and “public action” in mobilizing popular participation in the process of social change (Dreze and Sen, 1989; Ramachandran, 1997). In these accounts, the logic of public action in contributing to social development stands in deliberate contrast to classic explanations of economic development, which emphasize material inputs and outputs such as income, savings, and market-oriented production. In other words, Kerala’s string of social movements for democracy, nationalism, labor, agriculture, literacy and even NGOs have ensured a high degree of social mobilization and consciousness about the implications of various public policies. This, in turn, has resulted
in an on-going governmental commitment to investing in a wide range of social services, including education, healthcare, and nutrition. High levels of state activism and government expenditures have promoted rather than thwarted development.

A related explanation views the social basis for coalition politics in Kerala as being a fundamental part of its development model. Specifically, the cooperative nature of Kerala’s succession of coalition governments may be traced to the pluralistic and communal oriented nature of its social structure, whereby no particular caste or religious group is dominant. The three main religious groups in Kerala—Hinduism, Islam, and Christianity—are relatively balanced in size and socioeconomic status. Meanwhile, the potential for social conflict is alleviated by linguistic homogeneity as 98 percent of the population speaks Malayalam and people in Kerala “share a common myth of origin and collective memory” even though Kerala is actually a combination of three different areas (Oommen 1999c). Thus, despite the high level of political diversity and fluidity (if not instability), social conflict is limited. As K. Raman Pillai (1999, p. 103) puts it, “In such a situation various groups represent communal interests.” Building on these arguments, Patrick Heller (1999) has proposed a more class-based interpretation of the causal mechanisms underlying Kerala’s developmental performance. He suggests that the success of the agrarian movement of tenants and landless laborers in pushing through land reform and labor legislation was central in weakening traditional caste-based hierarchies and involving the state in agrarian relations. In other words, the combination of lower-class mobilization and state intervention were key in shaping Kerala’s particularly equitable form of “a democratically negotiated capitalist transformation.” On the one hand, class mobilization changed the relations of production by destroying the pre-capitalist institutions of landlordism and the caste-based organization of labor (Ibid, p. 238). On the other hand, the rise of a relatively autonomous state apparatus committed to building a welfare state enabled key investments in education and healthcare, which created a skilled and highly mobile labor force. This explanation also stands in contrast to standard theories, which would expect labor militancy in low-income contexts to be destabilizing and thwart meaningful development. Yet Kerala has managed to combine popular mobilization with redistributive development.

There are many other subsidiary and contextual explanations for the Kerala model’s success (Oommen, 1999c, pp. 111-113). First, some have pointed out that the work of missionaries in education and health provided a positive example for other communities to emulate. Second, widespread provision of public services and infrastructural facilities has been facilitated by the absence of a rural-urban dichotomy. Third, Kerala has benefited from a mobile labor force that has contributed greatly to local development through remittances from other parts of India and abroad. And fourth, a number of observers have pointed to the high level of women’s empowerment and agency in Kerala, though there is slight disagreement on whether this is due more to cultural or policy-related reasons. Jeffrey (1992) suggests that the relatively progressive position of women in Kerala may be traced to matrilineal practices among the Nayars, which then facilitated women’s empowerment and legal consciousness in the wider population (cf. Kamath, 1999). Dreze and Sen (1995) and Ramachandran (1997), however, emphasize the role of the state in fostering women’s agency, as measured by literacy rates and labor force participation. Either way, most would agree that the high levels of gender equality in
Kerala, especially relative to other parts of India, have contributed to positive performance on various social indicators such as lower fertility and child mortality rates, and greater participation of women in the labor force.

Even though Kerala’s remarkably high levels of social development stand in contrast to other Indian localities—and indeed, in contrast to other non-communist developing countries—most of the explanations reviewed above are presented in a manner that suggest a certain degree of theoretical generalizability. Dreze and Sen (1996), in particular, have analyzed Kerala’s experience in comparative terms and labeled it as a “success story” state versus Uttar Pradesh, which is a “failed” state, and West Bengal, which is a “transforming” state. The key variables underlying Kerala’s relative success are popular participation in mass movements and the role of the government in providing a wide range of public services to its citizens. Following this logic, the authors trace the poor condition of public services to “the failure of public action...to focus on the promotion of social needs, particularly those of disadvantaged sections of the population.” And ultimately, the failure of public action is attributed to extreme inequalities in political power based on class, caste, and gender. Meanwhile, West Bengal is considered a transforming state because its left-wing governments since 1977 have demonstrated a commitment to redistributive development, including land reform, the provision of microcredit to farmers through the Integrated Rural Development Program, and the revitalization of grassroots governing associations or village councils called Pachayati Raj Institutions (Sengupta and Gazdar, 1995). Variables such as degree of popular mobilization, redistributive reforms, and government expenditures on public services can all be used to analyze the level of human development in other contexts. By the same token, Heller’s argument that under certain circumstances, the inclusion of labor can enhance social development is also meant to be a portable concept in what he has called the “democratic developmental state.” Be that as it may, the next section of the article considers the empirical and theoretical limitations of the Wenzhou and Kerala models.

IV. THE OTHER SIDE OF THE MODELS

Despite the widely noted success of Wenzhou and Kerala in private sector and social development, respectively, a closer examination of their experiences renders them vulnerable to criticism on a number of grounds. First, there is disagreement over the empirical indicators of developmental “success.” Second, the sustainability of both models may be questioned. Third, and as a result of the first two objections, observers have expressed reservations about the desirability of emulating the models. And fourth, replicating the models may not prove to be a realistic option. Each of these objections is discussed in turn below.

Bounded or Contested “Success”

As mentioned earlier, during China’s sensitive volatile political climate of the 1980s, Wenzhou’s rapid market-oriented development was criticized domestically at various points for being too capitalist. Notwithstanding the ideological objections to growth based on private profit, during the 1990s the local government grew concerned about maintaining Wenzhou’s comparative advantage over time. Specifically, local officials
worried that Wenzhou’s model of petty commodity production might have been effective in producing large quantities of inexpensive, low-end consumer products, but as enterprises in other localities started to produce for the same market, Wenzhou’s household factories faced the challenge of producing higher-quality items. In other words, the attributes that brought Wenzhou into the national spotlight during the 1980s no longer seemed that exceptional or advantageous economically by the 1990s.

To address these concerns, the Wenzhou city government launched the Second Pioneering Initiative in 1993 to help its household factories to scale-up, improve the quality of their products, and move into more technology-intensive forms of production. This marked a significant shift from the dynamics of government-business relations in the original Wenzhou model. The first phase of rural industrialization during the 1980s occurred without substantial guidance or intervention by Wenzhou City or the county governments; if anything, the local government’s role was typically confined to looking the other way when private entrepreneurs engaged in trading and financing activities that were not yet sanctioned by the central government. The Second Pioneering Initiative, however, marked the beginning of a stage of increasing local governmental oversight and economic strategizing. The city government pledged to invest in infrastructure, sponsor trade fairs, and encourage urbanization. Meanwhile, Wenzhou’s county governments also developed a policy bias towards supporting larger-scale private enterprises. These changes during the latter part of the 1990s suggest that Wenzhou was becoming a more proactive “local developmental state”—rather than one that defensively shielded local entrepreneurs from higher-level intervention (Oi, 1992).

But it is important to note that in both ideological and practical terms, developmentalism entails making strategic choices to “pick winners” in particular sectors, such that other sectors may not benefit as directly. Over the course of field visits between 1997 and 2001, the effects of the Second Pioneering Initiative were already evident. Larger-scale private factories were less likely to complain about capital constraints than they were in the 1990s because they were able to borrow from the Agricultural Bank and other formal financial institutions. Smaller industrial operations, however, continued to express on-going difficulty in tapping official sources of credit. Ironically, family factories—the basis on which the Wenzhou model acquired national attention—are now facing challenges that are being exacerbated by local governmental policies (Wang, Tsai, and Li, 2004). If the original protectors of the 1980s Wenzhou model of small-scale entrepreneurialism are now thwarting its development, however inadvertently, then this may imply a redistribution or shift in the locus of political tension from central-local to intra-local relations. This is not to say that local tensions now overshadow central-local ones, but rather, that on a day-to-day basis, private entrepreneurs are more likely to face challenges concerning operational issues that fall under the jurisdiction of their immediate locality rather than that of higher administrative levels.

Just as the Wenzhou model refers primarily to a set of characteristics that are bounded in time, the Kerala model is similarly circumscribed in terms of what it refers to. But even on that basis, a number of observers have expressed doubts about the extent of its success. First, the effectiveness of Kerala’s redistributive reforms in meeting the basic needs of people in all tiers of society has been questioned. Oliver Mendelsohn
and Marika Vicziany (1998, p. 35) have pointed out that people in the lowest caste, the
former untouchables, seem to be “fixed in a mould of poverty and menial labor.” Even
though their literacy rate is only ten percent lower than the average in Kerala, they are
not completing higher levels of education, which would enable them to break out of
poverty (Ibid, p. 169). In northern areas with a better-developed agrarian sector such as
Punjab, Haryana, the former untouchables earn more from agriculture than they do in
Kerala. Furthermore, infant and child mortality rates among former untouchables is
double that of Kerala Hindus. Taken together, these observations suggest limits on the
effectiveness of Kerala’s basic needs strategy.

A second major critique of the Kerala model is the paradoxical coexistence of high
levels of unemployment and labor shortage in the lowest paid sectors. On the one hand,
by the early 1990s, Kerala’s unemployment rate of 14.6 percent was the highest of any
Indian state and accounted for almost 16 percent of India’s unemployed even though it
only accounted for 3.4 percent of the population (Tharamangalam, 1999, p. 183).10 By
2003, its unemployment rate had increased to 20.8 percent (Government of Kerala,
2003, p. 4). On the other hand, there is a shortage of rural labor for tasks such as
coconut picking (tree climbing), construction, and farming. This has been attributed to
segmentation of the labor market by village, religion, skill, and caste; the well-distributed
nature of land holdings such that even laborers possess some land; as well as the demand
for relatively high wages.11 Nonetheless, the combination of high unemployment and
labor shortage raises concerns about the externalities of its social development model.

Third, while acknowledging Kerala’s remarkably high literacy rates and the
attainment of near universal primary education, some have questioned the quality of
its education. N.V. Varghese’s study of 113 primary schools (with 5,319 students, 507
teachers, and 113 headmasters), for example, found that student performance on
achievement tests is not any better in Kerala than in states with less favorable and less
extensive educational facilities (Varghese, 1999, pp. 370-389). He also found that factors
within schools affected “learner achievement” more than family related factors, thereby
suggesting that Kerala’s primary schools require better planning and management. A
related criticism of the educational system is the observation that growth in public
institutions of higher education has lagged behind that of primary and secondary
education. Private universities not receiving government aid have been expanding faster
than government-supported ones in recent years, which has lead to concerns that public
universities might become marginalized, while popular access to higher education
diminishes (Nair, 2004).

Fourth, concerns have been raised about the extent of gender equality in Kerala. To
be sure, women in Kerala are known for having a higher status than women in other
parts of the country, especially when it comes to education and health. Kerala has
consistently ranked above all other Indian states in UNDP’s Gender Development Index.
Yet some observers contest the accuracy of labeling Kerala a “model” for women’s position
in society. In 1996, for example, UNDP reported that women’s “share of earned income”
in Kerala was only 12 percent, while it was 38 percent in Himachal Pradesh, 30 percent
in Maharashtra, and over 25 percent in Andhra Pradesh, Madhya Pradesh, Gujarat,
and Karnataka (UNDP, 1996). Besides continuing income inequality, Ammu Joseph
has noted that girls and women have limited freedom and mobility due to societal mores
about proper female behavior and the prevalence of sexual harassment and violence against women. In addition, the continuing use of dowries presents a major source of stress and low self-esteem for many women.

Finally, a variety of other shortcomings have been identified in Kerala. For example, in 1996 it was reported that Kerala had the second highest crime rate in India (Saradamoni, 1999, p. 169). This is attributed in part to the high rate of unemployment. Meanwhile, others have noted that social expenditures in other states have increased in relative terms, such that Kerala no longer spends the most per capita on health and education (George, 1993, p. 199). In short, as in the Wenzhou model, there is a sense that Kerala does not necessarily live up to the reputation of its own model and that even if it did, certain elements of it have changed over time. To elaborate upon the latter issue, the next section turns to concerns about the sustainability of both models.

**Sustainability**

Wenzhou’s economy continues to be dominated by the private sector and the locality continues to enjoy an increasingly valued (as opposed to an ideologically pejorative) reputation for producing networks of trading communities throughout China and around the world. However, as suggested above, by the late 1990s and early 2000s, it was apparent that the Wenzhou model of the 1980s was first, no longer that exceptional within China; and second, had acquired characteristics that complicated the nature of the original model and raised questions about its sustainability over time. Each of these will be discussed in turn.

First, the political economic context in which Wenzhou became notorious for being a bastion of private economic activity had changed. During the 1990s, the non-state sector continued to expand throughout the Chinese economy, and after the 15th Communist Party Congress in late 1997 announced a commitment to large-scale privatization of state-owned enterprises, the legitimacy of private sector development was further enhanced through additional reforms. In 1999, the National People’s Congress amended Article 11 of the Chinese constitution to say that the private economy represented a “major component” of the country’s “socialist market economy”; in 2001, private entrepreneurs were invited to join the Chinese Communist Party; and in 2004, the National People’s Congress revised Article 11 again to include a statement indicating that the state would protect private property rights. In short, what distinguished Wenzhou from the rest of the country in the early years of reform is no longer that controversial or unusual. By 2002, even the province that was known more for collective-sector development rather than private enterprise, Jiangsu province, had developed more private businesses than Zhejiang province where Wenzhou is located. As the controversy over the course of economic reform in China waned, so did the perception of Wenzhou as an exceptionally capitalist locality.

Second, in addition to substantial shifts in China’s ideological direction and economic structure, Wenzhou itself also went through significant changes that redefined and perhaps, undermined, the viability of its model of political economy. While Wenzhou’s comparative advantage during the first decade of reform derived from its private household factories and specialized markets, the policy bias of Wenzhou’s local government towards larger businesses made it increasingly difficult for individual rural
households to remain competitive. Smaller businesses began to experience greater discrimination relative to larger ones in terms of access to land and bank credit. As the manager of a financial business association put it, “Now it’s the mayor (shizhang) that matters, not the market (shichang).” One of the consequences of the government taking a more interventionist role in private sector development has been a notable redistribution in the economic performance of various localities. For example, during the 1980s Cangnan County was one of the wealthiest counties and home to the first private money house in reform-era China. Private entrepreneurs used to travel there just to access its informal financial markets. Yet in 2001, Zhejiang province designated it as a “less developed” county because it had de-industrialized in relative terms, while Longgan’s economy has thrived due to county-level governmental investment and its more favorable location.

Meanwhile, as Wenzhou’s counties and cities have taken on the steering and investment functions of local developmental states, governments at the township level (right below the county/city level) have experienced extreme fiscal pressure, such that approximately two-thirds of all townships were bankrupt by 2001. Whereas all the expenditures of local governments (or communes) were budgeted and handed down by higher levels of government during the Mao era, decentralizing fiscal reforms have given townships and villages a greater stake in local revenues, but their expenditure requirements have also grown tremendously (Wong, Heady, and Woo, 1995; cf. Tsai, 2004). The rise of unfunded mandates poses such a burden on localities that even township governments in a relatively prosperous area such as Wenzhou are unable to pay the wages of teachers and township officials, or finance basic services such as building roads, schools, and hospitals. By the early 2000s, it became an increasingly common practice in rural Wenzhou for local officials to borrow money from rural credit cooperatives, private entrepreneurs, and various sources of informal finance to carry out their activities. “Loans” to township officials, schools, and other administrative units, however, are not really expected to be repaid given the absence of forthcoming budgetary outlays or other sources of revenue. Hence, rural credit cooperatives are accumulating more non-performing loans in their already-stressed portfolios, and private entrepreneurs are contributing substantially (and indeed, directly) to the provision of public services in rural areas. In brief, due to developmental priorities at the county/city level, local governments have had to draw on financial resources at the grassroots level—resources that would otherwise be available to the private sector.

While public documentation of the fiscal stresses faced by Wenzhou’s localities is not readily available, concerns over the fiscal sustainability of the Kerala model has attracted a significant amount of attention. This is not unexpected given that the model entails high levels of governmental expenditure on social services despite low levels of economic development. Generally speaking, sustainability-related critiques of the Kerala model may be divided into two categories: those that focus on the limited fiscal ability of Kerala to maintain its welfare state, and those that point to the contribution of remittances to preserving basic levels of consumption.

First, as M.A. Oommen (1999b) already observed a decade ago, during the 1985-1986 and 1991-1992 periods, Kerala was the only state in India in which social expenditures had decreased. K.K. George (1993, p. 119) further observed that Punjab
was spending more per capita on education than Kerala, per capita expenditures on health were higher in Rajasthan and Punjab, and welfare payments to impoverished people were higher in Maharashtra, Haryana, Madhya Pradesh, Nagaland, Rajasthan, and Uttar Pradesh. By the 1990s, various observers were referring to the “crisis of the Kerala model.”16 In addition to slower growth in social expenditures relative to other states, the “crisis” includes the following components: increased dependence on rice imports; relative decline in traditional industries such as cashews and handlooms due to competition from external sources of cheaper labor; stagnant industrial growth; unemployment three times the national average; a series of fiscal crises resulting in the highest deficit levels of all Indian states (see Table 2);17 and a rise in environmental problems, including deforestation, soil erosion, water and air pollution, and over fishing (Kurien, 1991). The sense that Kerala’s high levels of human development can no longer be sustained without comparable levels of material development has been reinforced by the rise of the neo-liberal Washington Consensus in developmental discourse and practice since the mid-1980s. That is, the fact that the main international financial institutions, the World Bank and the IMF, have been advocating structural adjustment in the form of fiscal tightening and government downsizing, and the fact that India accepted structural adjustment loans in 1991, has rendered the economic shortcomings of the Kerala model all the more salient, if not objectionable.

Table 2
Kerala’s State Budget, Revenue Account, 1980-2002
(Rs in Crores; 1 crore = 10 million Rs)

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue Receipts</th>
<th>Revenue Expenditure</th>
<th>Revenue Deficit (-)/as % of GDP</th>
<th>Fiscal Deficit (-)/as % of GDP</th>
<th>Total Debt / as% of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-81</td>
<td>640</td>
<td>368</td>
<td>-28</td>
<td>1/36/9.36%</td>
<td>11421/25.69%</td>
</tr>
<tr>
<td>1990-91</td>
<td>2403</td>
<td>2825</td>
<td>-422</td>
<td>1542/3.47%</td>
<td>12868/26.97%</td>
</tr>
<tr>
<td>1996-97</td>
<td>6145</td>
<td>6788</td>
<td>-643/1.45%</td>
<td>-1303/3.36%</td>
<td>15700/27.91%</td>
</tr>
<tr>
<td>1997-98</td>
<td>7124</td>
<td>8241</td>
<td>-1117/2.27%</td>
<td>-1542/3.47%</td>
<td>12868/26.97%</td>
</tr>
<tr>
<td>1998-99</td>
<td>7201</td>
<td>9228</td>
<td>-2027/3.61%</td>
<td>-2414/4.88%</td>
<td>15700/27.91%</td>
</tr>
<tr>
<td>1999-00</td>
<td>7944</td>
<td>11566</td>
<td>-3622/5.79%</td>
<td>-3012/5.35%</td>
<td>20176/32.27%</td>
</tr>
<tr>
<td>2000-01</td>
<td>8731</td>
<td>11878</td>
<td>-3147/4.56%</td>
<td>-4533/7.23%</td>
<td>23919/34.64%</td>
</tr>
<tr>
<td>2001-02</td>
<td>9056</td>
<td>11662</td>
<td>-2606/3.42%</td>
<td>-3878/5.62%</td>
<td>28951/35.38%</td>
</tr>
</tbody>
</table>


Related to the fiscal basis for questioning the sustainability of the Kerala model is the fact that the local economy has also relied on the remittances of migrant workers in Gulf countries. Up to 13 percent of the state’s income is estimated to derive from remittances, which is high enough to raise concerns about the viability of the Kerala model without them (Jeffrey, 1992). Furthermore, on the one hand, labor out-migration could be seen as an effective way to relieve unemployment in Kerala’s labor-surplus economy, as well as an additional source of income for poverty alleviation (Datt and Ravallion, 1996). But on the other hand, out migration has also been associated with negative distributive externalities. Many of the migrant workers from Kerala have taken on the most menial and arguably, degrading positions. Meanwhile, a steady stream of
well-educated, higher income professionals have left Kerala for Bangalore, Madras, and various parts of Britain, the US, and Australia. This has created a local brain drain. At the same time, Gulf remittances have been blamed for inflationary effects on consumer goods and services within Kerala (Saratamoni, 1999, pp. 167-168). In 1987, consumption actually exceeded the local GDP due to the influx of remittances (Krishnan, 1994).

Ultimately, both the fiscal and out migration critiques may be traced back to fundamental weaknesses in the local economy. Kerala has not established a sustainable industrial sector based on local resources, and agricultural productivity has been adversely affected by the turn from multicropping to monocropping of rubber. As a result, unemployment levels remain high. Moreover, of particular concern, Kerala’s poor economic performance has been attributed to fundamental parts of its model. As Oommen (1999a, pp. xxxii-xxiii) explains,

*Although Kerala had a respectable industrialization at the eve of Independence, the public demand culture of Kerala (competitively promoted by nearly 18 political parties) has got distorted so as to stifle the forces of production and technological progress, be they in the large number of public sector enterprises or agro-processing sector in which Kerala had considerable comparative advantage or other fields. Indeed a lot of policy failures too have affected the growth of a strong production base. This needs to be addressed with vision and urgency.*

Peter Evans (1995) has observed that Kerala is a “redistributive state” in direct contrast to the East Asian developmental states. That is to say, the Kerala state is mainly connected and responsive to mobilized groups, while the East Asian developmental states have cultivated productive relationships of “embedded autonomy” with industrial capital. Building on this concept, Tharamangalam (1999, pp. 190-191) has stated quite bluntly, “The Kerala State makes little contribution to economic growth so that it can be characterized as a ‘no growth’ if not an ‘anti-growth’ State.”

To be fair, in the last several years, the government has devoted resources to building up Kerala’s industrial capabilities in food processing, while revitalizing traditional industries such as the coir, handloom, cashew, fishing and handicraft sectors. There are also plans to build Kerala into a transshipment base for fruits, vegetables, and processed foods that are exported to the Middle East and elsewhere (Government of Kerala, 2003-04). But it remains to be seen whether these developmental efforts will be sufficient to address the above concerns.

**Not Worthy as Models**

Most objections to viewing the developmental trajectory in Wenzhou and Kerala as models worth emulating are ideological and normative in character. In the case of Wenzhou, its reliance on private enterprises and finance was politically controversial during the 1980s when the direction of economic reforms in China was still unclear; and even after the locality was designated an official experimental zone for reform in 1987, the Wenzhou model retained a somewhat nefarious reputation among cadres, journalists, and certain academics. More recently, however, headlines involving Wenzhou have lost their former eyebrow-raising qualities. In areas such as private finance, Wenzhou remains one step ahead of other localities in terms of experimenting with
private equity investments in urban commercial banks and being the first locality to have private entrepreneurs establish a venture capital consortium. These developments are consistent with the overall trajectory of national economic reform, and therefore, less objectionable than Wenzhou’s innovative practices of the early reform years. In brief, political critiques of the Wenzhou model are no longer heard (and Chinese scholars have not documented more recent shortcomings of the model discussed above.)

In sharp contrast, the Kerala model continues to elicit negative commentary from policy analysts and public intellectuals who focus on its economic deficiencies. Ironically, while the use of ideological objections to economic policy has waned in China, it remains quite polarizing in India. To take one extreme example, the columnist T.V.R. Shenoy (2001) has called the Kerala model an “abject failure” because its “Marxist masters are opposed to globalization.” He goes on to say that “the Marxists are the state’s worst enemies. They have completely ruined the work culture.”

More nuanced critiques of the model, however, recognize that the Kerala model has changed over time. In more recent writings, the “old” model is associated with top-down redistributive welfare policies, which resulted in labor militancy, power shortages, fiscal crises, and economic stagnation. The “new” Kerala model, however, is associated with decentralized participatory planning based on grassroots participation, and emphasizes increasing agricultural productivity, protecting ecological resources, and showing greater sensitivity to women, fishers, and former untouchables (Veron, 2001). Although the elements of the new model sound ambitious—and probably represent normative goals rather than actual results—at least in purely economic terms, the new Kerala model has indeed yielded higher growth rates: during the decade of 1980 to 1990, the average annual growth rate was only 0.3 percent, while the 1990s saw annual growth rates in the range of six to seven percent (Franke and Chasin, 2000, pp. 16-39). As far as other components of the new model are concerned, the people’s planning campaign seems to have succeeded in mobilizing mass participation in identifying their developmental needs through village panchayats (councils) and gram sabhas (ward assemblies) (Isaac and Franke, 2002). But these participatory exercises have revealed that most people do not prioritize environmental sustainability concerns as highly as policy makers, and it has become apparent that environmental policies and standards are not being enforced at the state level. Be that as it may, the new Kerala model has yet to eclipse the old one in developmental debates. At present, probably the most that one can say is that the original model provides evidence that a trade off may exist between social and economic development.

**Not Replicable as Models**

The final major critique of the two developmental models is that they are not replicable. As suggested already, both localities possess a number of unique historical and cultural attributes. In brief, Wenzhou has a rich merchant tradition, was intentionally neglected during the Mao era, and has local officials that are particularly protective and proud of their local entrepreneurs. Meanwhile, Kerala’s population shares a common language and collective historical identity, has been influenced by the matrilineal practices of the Nayars, is not divided by a rural-urban dichotomy, and its especially activist rural proletariat has consistently supported left-wing governments. These area-specific factors
explain in part why other localities within China and India, respectively, have not developed along similar lines.

However, even if one discounted the idiosyncrasies of the localities on the basis that “culture” should be treated as a dynamic rather than static variable, a strong case for irreproducibility could still be made due to the nature of the political economic environment in which each model emerged and evolved. The Wenzhou model gained its notoriety and initial advantage in private sector development in a political climate that still launched national campaigns against the degenerate influences of capitalism. Conversely, the Kerala model is very much a product of the public action undertaken by various local mass movements from the state’s earliest years of existence. But political tides have since shifted in both countries. Private entrepreneurs are no longer systematically stigmatized in China and there is less tolerance for fiscally unsustainable policies in India. Although certain local governments might attempt to adopt certain components of the respective developmental models—e.g., supporting specialized wholesale markets and allowing innovative financing practices (Wenzhou), or prioritizing investment in social services (Kerala)—it is highly unlikely that any locality could duplicate either model under fundamentally different political and social conditions. This is not meant to imply that the models do not offer practical or theoretical lessons, but rather that they are contingent on such a particular mix of national and local variables that it would not be realistic to expect them to recur in quite the same manner.

V. CONCLUSION
In a field beset by negative examples, it is not surprising that the Wenzhou and Kerala models have been studied extensively and commended for their achievements. This article has endeavored to show not only the “other” side of the models, but also how they have changed over time. As the above critiques have suggested, both models face limitations, some of which are generated by the nature of the models themselves. In the case of Wenzhou, the initial comparative advantage achieved by its private household factories in low-end labor intensive processing industries came to be seen as a liability as market competition in those sectors intensified and the county/city governments took on a more interventionist role in promoting larger enterprises. The latter strategy has contributed to fiscal deficits and deterioration in the provision of public services at the township and village levels. In Kerala, the high levels of social expenditures and resulting laudable achievements in human development indicators became increasingly difficult to maintain as economic conditions deteriorated and ironically, due to its reputation, the locality became a lower priority for national and international aid. Although the key components of the original Wenzhou and Kerala models are familiar and can be readily defined, both models have actually proved to be quite dynamic in a decentralized manner.

The analytical implication of these observations is that we should not expect the actual details of so-called models to be replicable. Along similar lines, it is misleading to analyze particular models of development in isolation from their contextual origins and later effects. In other words, while models of development may still be mined for implicit hypotheses and causal explanations, a more fruitful exercise would entail examining the life cycle of developmental models. The temporal scope of discrete models should be
expanded by identifying both their preconditions and consequences. Although this article has not critically considered the discourse of international development in general, it seems fitting to conclude with Arturo Escobar’s (1944, p. 44) observation:

*Development was conceived not as a cultural process (culture was a residual variable, to disappear with the advance of modernization) but instead as a system of more or less universally applicable technical interventions intended to deliver some ‘badly needed’ goods to a ‘target’ population.*

Ultimately, the implicit search for universally applicable policy interventions from local developmental models suggests a similar neglect of contextual political and social variables.

NOTES

1. An earlier version of this paper was presented at the 100th Annual Meeting of the American Political Science Association, Chicago, September 2-5, 2004. I gratefully acknowledge the constructive comments of Marc Blecher, John Echeverri-Gent, Edward Friedman, Penelope Prime, and Ashutosh Varshney. They are, of course, absolved from its inadequacies.

2. One potential objection to comparing these particular localities is that they represent different political-administrative units of analysis: Kerala is a state in India, while Wenzhou is a sub-provincial municipality in Zhejiang province. Nonetheless, the point of this comparison is not to make methodological claims about the commensurability of different sub-national units, but rather, to interrogate the mimetic value and practicality of the two models.


4. Due to infrastructural neglect, it was quite difficult to reach Wenzhou from elsewhere during the 1980s. Its airport did not open until 1990.

5. In Das Kapital (1867), Marx distinguished between non-exploitative household producing units (with less than eight employees) and exploitative capitalist producers (with over eight employees).

6. Deng’s tour of the southern coastal provinces in 1992 served an important signaling function to those engaged in the private economic and privately-run collective sectors by reaffirming the party-state’s commitment to continuing economic reform. During the official mourning period over Deng’s death in 1997, the significance of his tour was highlighted in biographical documentaries, as well as in the formal eulogy.

7. This is meant in the sense of Michael Mann’s (1984) notion of “infrastructural” as opposed to “despotic” power of the state.

8. In China, “state-society” is sometimes misused to express “central-local” relations. Moreover, “non-state” activity does not necessarily imply that it is “societal” in the autonomous sense of civil society. For a Habermasian discussion of the issue, see Huang (1993).

9. This is especially the case with the Kerala model since it has received so much international attention.

10. A study by the Kerala Department of Economics and Statistics in 1989 estimated that unemployment may be as high as 30 percent for men and 60 percent for women (Prakash, 1993, p. 9).

11. However, over 80 percent of workers surveyed still found wages to be too low (Nair, 1999, pp. 247-268).

12. Southern Jiangsu province was known in the 1980s for its “Sunan model,” which was often
contrasted from the Wenzhou model. Unlike the latter, the Sunan model was known for rapid rural industrialization based on collectively-owned township and village enterprises. By 2002, Jiangsu had 286,199 private enterprises (siying qiye), while Zhejiang had 247,287 private enterprises (Zhang, Ming, and Liang, 2004, p. 13).

15. Interview, Township Official, Cangnan County, November 24, 2001.
19. This is not to say that ideological debates are dead in China or that leftist sentiments are no longer articulated. For a review of contemporary intellectual debates among the New Left and other intellectual branches, see Fewsmith (2001).

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Similarly, in a centralized government structure, the decision-making authority is concentrated at the top, and all other lower levels follow the directions coming from the top of the organization structure. Advantages of Centralization. An effective centralization offers the following advantages:  

1. A clear chain of command. A centralized organization benefits from a clear chain of command because every person within the organization knows who to report to. Junior employees know who to approach whenever they have concerns about the organization. On the other hand, senior executives follow a clear path, following the directions coming from the top of the organization structure.

2. Efficient decision-making. In a centralized organization, decisions are made at the top level. This can lead to faster decision-making, as there is no need for multiple levels of approval. However, this can also lead to decisions being made without considering other perspectives.

3. Consistent policies. Decisions made at the top level are consistent throughout the organization, which can lead to a more uniform approach to business operations.

4. Better resource allocation. Decentralized decision-making can lead to resources being allocated inefficiently, as decisions may not be made with the organization's overall goals in mind. Centralized decision-making allows for resources to be more effectively allocated to the needs of the organization.


Debating Decentralized Development: A Reconsideration of the Wenzhou and Kerala Models. By Tsai, Kellee S. Read preview. Article excerpt. The Wenzhou model represents a successful case of indigenously generated petty capitalism, while the Kerala model represents a developmental success in terms of education, health care, and grassroots participation. Given the remarkable achievements of these localities, observe the importance of decentralization. Decentralized means that there is no single point where the decision is made. Every node makes a decision for its own behavior and the resulting system behavior is the aggregate response. Think of groups of humans for this:  

- We all make decisions (constrained to be sure) but our decisions influence the decisions of all around us until we get to a large system level behavior (e.g. capitalism).  
- Swarming algorithms are typically decentralized to increase the robustness of the system; but even some of them have a leader that all others must follow. Some control algorithms have been seen for multiple quad-copter control are purely distributed in that a central over-seer gives optimization problems to each copter to solve then return the solution. The designations developed and developing economies are intended for statistical convenience and do not necessarily imply a judgement about the stage reached by a particular country or area in the development process. The term country as used in the text of this publication also refers, as appropriate, to territories or areas.  
- As part of the efforts to structure governments to promote good governance and effective public administration with participation of the people in the decision-making processes as well as in development activities, decentralization is increasingly adopted and applied in many countries.