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The developmental state in the era of globalization: beyond the Northeast Asian model of political economy

Shigeko Hayashi

Abstract Criticism of the developmental state can be divided into two categories. One is the neoliberal position that criticizes the efficacy of the developmental state model itself. According to this view, the developmental state was not an important factor in East Asian development and the adoption of industrial policy would in fact be detrimental to developing countries. A second critical position concedes that a degree of achievement was indeed attained by the developmental state in the past, but argues that the developmental state model is no longer a viable option today. This position holds that the high level of government intervention in successful East Asian countries more or less contributed to their economic development, but that this policy is no longer feasible. While deepening globalization in the world economy is regarded as inimical to the developmental state, some also argue that the developmental state model could only have worked during the Cold War and could not function in today's international political and economic climate. Despite these negative observations, the purpose of this article is to demonstrate the viability of the developmental state model. First, the article supports the statist position by broadening the scope of the argument: developmental states exist not only in Northeast Asia, but also in Southeast Asia, and the East Asian authoritarian regimes had a role in economic development. Second, this article directly counters new criticism of the developmental state. It argues that the developmental state model is still an effective development strategy in the post-Cold War period and even in the era of globalization: the model was useful in East Asia, and could be useful beyond East Asia.

Keywords Developmental state; East Asia; economic development; globalization.

Introduction

The model of the developmental state is under fire. Critics argue that the developmental state is about to become a thing of the past. It seems that

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its popularity has declined particularly since the East Asian financial crisis of the late 1990s. Although very few scholars still hold the view that the crisis was solely attributable to the make-up of the political economy of East Asia, some argue that what the East Asian financial crisis taught us is that the policy tools of the developmental state are a mismatch with global capital markets, hence the paradigm shift from state-centric to market driven development (Pang 2000; Maswood 2002). Also, one textbook of Comparative Political Economy (Wilson 2003: 81–101) contends that the developmental state is in decline as government officials have much fewer policy weapons today. Firms and banks can go overseas beyond the reach of a national government while at the same time the World Trade Organization (WTO), the International Monetary Fund (IMF) and the World Bank pressure countries to comply with their rules (including trade and capital liberalization). This has led to the declining influence of government over the national economy in general and hence has prompted the decline of the developmental state. In short, the deepening globalization in the world economy is regarded by some critics as inimical to the developmental state. The stagnation of the Japanese economy throughout the 1990s may be considered a further blow to the model's credibility.

Some also argue that the developmental state model could only have worked in the context of the Cold War, and therefore could not function in today's international political climate. The East Asian countries owe the US a great debt of gratitude, specifically for the relatively open US market and its tolerance towards their economic (trade) practices. There was a deal during the Cold War: the exchange of economic support for political commitment. However, international security conditions have been transformed over the past few decades and US policy has shifted from one of tolerance to one that advocates applying greater pressure. The US is now strongly demanding that the East Asian countries open their economies and implement trade, investment and capital liberalization. Pempel (1999), while pointing out the unique attributes of East Asian development beyond getting the prices right, argues that it is highly unlikely that potential emulators of the East Asian experience will enjoy the same favorable international conditions that allowed the East Asian countries to succeed during the Cold War.

Despite these negative observations, however, this article defends the developmental state model and highlights its worth. It is certainly right to say that the experiences of the East Asian high achievers cannot be applied directly to today's developing world. However, the model is still useful when we consider the issue of economic development of a large number of developing countries that have continued to struggle with underdevelopment. Admittedly, there were some factors in East Asia that could be attributed to fortunate circumstances. In addition to the unique international situation of the Cold War, there were also favorable regional conditions, particularly for late-latecomers in Southeast Asia. The development of economic

regionalization, specifically the dense regional network of trade, investment and finance, triggered by the overseas expansion of Japanese business and strengthened by massive overseas Chinese investment, has significantly contributed to the growth of the regional economy. However, these international and regional factors alone cannot explain why some countries in East Asia were successful. In fact, within East Asia there is now a large economic gap between countries. There must be some domestic elements that have contributed to the economic success of particular countries, and these are the things which could be instructive to today's developing economies.

The simplistic view that the developmental state model, dependent on protectionist policy, would be less easy to adopt today is missing the point. The developmental state does not necessarily equate to protectionism. Also, the view that globalization has deprived the government of important policy options for the developmental state, such as the ability to control capital movements, overlooks the fundamental elements of the developmental state. Rather, the essence of the developmental state model is state-led industrialization, in which the state, not the market, assumes a central role in mobilizing economic resources and initiating industrialization. In that process, the policy-making elite must have a shared ideology to promote rapid industrialization, while the political institutions that could effectively implement economic policy are in place. However, the means to achieve such a developmental goal vary, and are not limited to protectionist policy or credit allocations, although admittedly Japan (as well as South Korea and Taiwan) initially resorted to these policy tools. We will elaborate upon these points shortly.

Literature on the domestic sources of East Asian economic success is now in abundance. Two camps, namely the neoliberal position and the statist or revisionist position,[1] have dominated academic discussions since the 1970s. The points of contention are now fairly clear, and a brief summary should suffice. The two approaches present substantially contrasting views on why East Asian countries could have achieved remarkable economic outcomes. At the heart of the controversy between them is the role of the state in economic development. The disagreement is not simply a battle for establishing the order of importance between the state and the market as means towards achieving economic goals such as increased productivity, efficiency and growth. The statist position never disregards the market mechanism. The crucial difference in their views hinges on how developing countries can begin to enjoy the benefits of the market economy. The neoliberal tradition basically assumes the existence of the market, believing that the market economy will function well only if countries remove or minimize government involvement in the economy. On the other hand, the statist position thinks that the government of the developing economies should take an active role in establishing the market mechanism, or enabling it to work efficiently: liberalization should be encouraged after they achieve the effective market mechanism.

The different views on the role of government have been particularly contentious over arguments about the effectiveness of industrial policy. The neoliberal position, referred to as the Washington Consensus, argues that East Asian countries have grown not because of active state intervention, but because of their policy of getting the prices right. The statist position, on the other hand, contends that the government actually guided the economy, thereby significantly contributing to East Asian success. According to this position, people in the neoliberal camp 'shy away from subjecting their beliefs to serious empirical test' (Wade 1992: 275). In fact, the latter position is strongly supported by historical analyses. Most notably Chang (2003a, 2003b) has extensively studied the central role of the state in past economic development, though his research is not confined to East Asia. He contends that today's rich countries 'did not get where they are now through the policies and institutions that they recommend to developing countries' (Chang 2003a: 2), and what they are doing is kicking away the ladder by which they climbed up to the top beyond the reach of the developing countries (Chang 2003a: 128).

The divergence between the two approaches is unlikely to be resolved, but the strict neoliberal perception that what is needed to enhance economic growth is merely to promote a free market and reduce the size of the state has lost its potency over the last decade, partly reflecting the generally poor performance of the developing world that has adopted the neoliberal agenda. The Washington Consensus somewhat changed, and began to acknowledge some role of industrial policy in economic development. The widely-read World Bank (1993) study on the East Asian miracle admits that policy beyond getting the prices right was effective in East Asia, particularly in Japan, South Korea and Taiwan. The report refuses to recommend the same policy to developing countries in general, but the international development agencies are more cognizant of the importance of the role of the state in development. In fact the Washington Consensus discourse is now giving greater emphasis to 'good governance' and state capacity.[2]

However, this change of emphasis does not necessarily mean that the gap between these two approaches has narrowed. The new discourse is rather about how the state should set governance for the effective operation of the market, and is clearly different from the emphasis on the active role of the state in allocating resources. Rodrik (2002: 1) termed this shift the 'augmented Washington Consensus', in which 'the failure of the original Washington Consensus is due to an inadequate application of an otherwise sound set of principles'. In other words, while what is needed remains the same, the new way of thinking has just added the 'how' question to the old agenda. In this regard, there is no prospect that these two diverging approaches on what should be done to achieve development would be resolved in the near future.

Although it is not our chief purpose to deepen this debate between the neoliberal and statist positions, the argument here ultimately supports the

statist position. The next section, which re-examines the concept of the developmental state, argues that the state-led developmental model explains the economic success not only of Northeast Asia but also Southeast Asia and perhaps China. We then touch on the possible contribution of authoritarian regimes to economic development. Subsequently we proceed to counter recent criticism of the developmental state and discuss the legitimacy of the developmental model for today's developing countries. More specifically, this article questions the view that while the developmental state model does explain the past successful development of some East Asian countries, it does not have direct relevance to present day developing economies. This article argues that the developmental state model is still an effective development strategy in the post-Cold War period and even in the era of globalization: the model was useful in East Asia, and could be useful beyond East Asia.

This article does not intend to argue that the developmental state model is still effective or still in full operation in Japan or South Korea. The developmental state model, which is 'located precisely in the line of descent from the German Historical School' (Johnson 1982: 17) and is based on the infant industry argument, is the one recommended for those economies that are about to initiate industrialization. Japan and some other East Asian countries have 'graduated' from the level of development where that model works effectively. While government targeting and promotion of particular industries are justified in the early phase of industrialization, such a policy becomes costly as the economy grows. One of the criticisms of the developmental state is that the government cannot choose the right industries and that the market is better at doing it. However, for developing countries, such a task is much easier than for developed countries: developing countries simply can follow their predecessors. It worked in East Asia. Geese at the rear followed the geese in front, and for Japan, the top goose, there were Western examples to follow. However, as the economy matures, the market can identify rising industries better than the government. Also, internationally, the developmental policy of developed countries could be a source of conflict.

In fact, the Japanese political economy today is very different from the one Johnson (1982) depicted. The same could be said of South Korea, where a transition towards a more market-oriented economy started in the early 1980s (Lee 1999). Stubbs (2009) sees it a different way. He upholds the model's resilience, or path dependency: the model of the developmental state, both its ideas and policies, has been deeply embedded in East Asian institutions and is still durable. This author does not necessarily disagree with him. The institutions of the developed economies in East Asia, including their state–business relations, still exhibit unique characteristics. Among them are Japan's still prevalent customs, *gyosei-shido* (administrative guidance) and *shingikai* (deliberation councils). The argument here does not suggest that East Asian political economy is converging

towards the Anglo-American model. However, a key element of the developmental state, namely state-led industrialization, has been increasingly irrelevant in Japan and South Korea, and today it is hardly true that the state is governing the market.[3] What is emphasized however is that arguing that the model cannot function well in Japan or South Korea any more does not represent evidence for the complete demise of the model. The developmental model itself is not in decline, and has still significant implications for economic development for today's developing countries.

Rethinking the developmental state

Johnson (1982) depicted Japanese political economy as the capitalist developmental state, or the plan-rational state. According to his formulation, such a state has 'a strategic, or goal-oriented, approach to the economy', in which 'the government will give greatest precedence to industrial policy, that is, to a concern with the structure of domestic industry and with promoting the structure that enhances the nation's international competitiveness' (1982: 19). Since Johnson's seminal work, the developmental state has formed the subject of a large amount of literature (see Stubbs 2009). Various studies have shown that not only Japan, but also South Korea, Taiwan and Singapore successfully achieved remarkable economic development by following the Japanese model (among others, Amsden 1989; Wade 1990; and Haggard 1990). Weiss (2000: 23) summarizes the definitions of the developmental states that are broadly accepted by the authors on the region: such a state could be distinguished by (1) transformative goals, (2) a relatively insulated pilot agency and a competent bureaucracy in charge of that transformative project and (3) institutionalized government–business cooperation. Evans (1995: 12) elaborates her third point by introducing the concept of an 'embedded autonomy': the effective developmental state must be autonomous but at the same time 'embedded in a concrete set of social ties that binds the state to society and provides institutional channels for the continual negotiation and renegotiation of goals and policies'.

This article does not disagree in the slightest with these extensive studies about how the Northeast Asian countries have achieved dramatic economic development within a relatively short period of time. It rather questions their tendency to stress the uniqueness of the experiences and of the institutions of the Northeast Asian high achievers. Many authors tend to discuss the developmental state model as being almost synonymous with the Japanese or Northeast Asian model of economic development or more generally the political economic system of Northeast Asia. The term is often used as 'shorthand for the seamless web of political, bureaucratic, and moneyed influences that structures economic life in capitalist Northeast Asia' (Woo-Cumings 1999: 1). They draw a line between the Northeast Asian first-tier countries (in which Singapore is often included) and the second-tier countries like Thailand, Malaysia and Indonesia (sometimes

plus China). Some authors are more explicit, arguing that the developmental state does not exist beyond Northeast Asia (Johnson 1999: 40; Johnson 1998: 653–61; Weiss 2000: 24). Woo-Cumings (1999: 19) perhaps harshly argues that what we see in Southeast Asia is a kind of 'protection ring' and an indiscriminate system of crony capitalism, not the developmental state.

While it is certainly true that the political, economic and social system of the Northeast Asian countries is significantly different from that of their Southeast Asian counterparts, it is not right to dismiss the still significant achievement of this second-tier group by saying that their practices and institutions are different from those of the Northeast Asian model. There are various common elements between them despite the difference in political, economic and social bases, as we shall discuss. The achievement of the Southeast Asian late-latecomers, specifically Thailand, Malaysia and Indonesia, is so far moderate compared with South Korea and Taiwan. Nevertheless, it is still remarkable. This author believes that merely focusing on Northeast Asia could risk missing the important insight that the experiences of smaller Southeast Asian countries could offer. In fact, if we consider the applicability of successful cases to other developing countries, the Southeast Asian variant of the developmental state may be a more practicable option than the Northeast Asian one, given the initial conditions of today's developing countries in general.

This article defines the developmental state simply as a theory of state-led industrialization with long-term perspectives, and leaves some room for institutional elements. Of course, the state capacity matters in effectively implementing state-led industrialization, specifically industrial policy. However, the developmental state is not restricted to the institutions of Japan, South Korea and Taiwan, and there could be various forms. Murakami (1996: 303–4) is also explicit in this respect, arguing that a policy of developmentalism[4] could reflect the individual character of countries, and there are different, non-Japanese, models of developmentalism. Let us elaborate upon the concept of the developmental state a little further here.

The essential element of the developmental state is the plan-rational characteristics in countries' economic policy. As many point out, the state, or its leaders, have developmental, or transformative, goals: the achievement of industrialization is made a policy priority. In the successful East Asian countries, strong ideological stimulus to industrialization, in the words of Gerschenkron (1962), existed when they experienced rapid economic development. Additionally, in order to achieve such goals the state intervenes in the economy, and guides the market through industrial policy. Industrial policy in essence is the targeting of priority industries from a long-term perspective without regard to the principle of comparative advantage. Competent bureaucrats, who are committed to developmental goals, were generally in charge of implementing such a policy. The government of the successful East Asian countries, at least for a period of rapid industrialization, had a goal-oriented approach, and this influenced their industrial

structures. However, as we shall discuss in detail later, state-led industrialization is not associated with specific policies. Policy reflects the international political and economic climate as well as the initial conditions of countries.

Furthermore, it is generally argued that the developmental state is a 'strong' state, which is insulated from social pressures, and that there are generally cooperative relationships between the state and the business, but the state always has the upper hand. In this regard Southeast Asian countries are often disqualified from the model of the developmental state. MacIntyre (1994a: 7) argues that 'all of the Southeast Asian states appear markedly less "strong" than their counterparts in Taiwan or South Korea', and contends that Southeast Asian bureaucracies are not as insulated from distributional pressures as Northeast Asian governments are. He is probably right, but it should also be noted that, unlike in a predatory state, such as Zaire and Nigeria, in Southeast Asia the developmental goals are not completely set aside. A degree of state autonomy is indispensable for the implementation of developmental policy and the Southeast Asian states may be less autonomous. However, the Southeast Asian states do not entirely succumb to business or personal interests, and some mechanisms that encourage a developmental orientation exist.

It has been argued that corruption is the hallmark of Southeast Asian politics, and this has been taken as an argument against the idea that a developmental state exists in Southeast Asia. Laothamatas (1994), for example, holds that a substantial degree of government corruption in the Thai government–business relationship distinguishes Thailand from Northeast Asian countries. However, no country is really immune from the problem of corruption. In fact, many of today's developed countries achieved economic success in the past despite serious problems with corruption (Fritz and Menocal 2006). Leftwich holds that developmental transition is accompanied by sudden wealth that generates huge temptations, thus not only Thailand and Indonesia but also South Korea displayed the problem of corruption: yet, these states 'have not manifested the corrupt and developmentally corrosive patrimonialism of non-developmental states' (Leftwich 2000: 161). At the very least we may say that although Southeast Asian institutions may be less strong and less coherent in pursuing economic goals than their Northeast Asian counterparts, they are still better than many other developing countries, and their past achievements seem to indicate that they still possess political and economic institutions capable to pursue developmental policy.[5]

If we understand the concept of the developmental state in this manner, despite the significant degree of difference between the Northeast Asian countries and their Southeast Asian counterparts, the successful East Asian countries share important elements in their experiences of state-led economic development. In other words, the Southeast Asian countries also exhibit the elements of 'plan-rational' political economy, which is often

closely associated with the Northeast Asian high achievers. As with the cases of Meiji Japan or post-war South Korea and Taiwan, economic development was legitimatized in post-colonial Southeast Asia in the face of a difficult international and domestic environment. Southeast Asian countries were heavily dependent on the production of primary products and on the economy of colonial rulers. However, political independence severed such ties, and forced them to diversify their economy (Watanabe 1995: 50–1). Faced with severe economic stalemate, in a situation compounded by the fear of communism and domestic ethnic tensions, political leaders set economic development as a national goal, and built a national consensus for the legitimacy of that goal. The political leaders in those economies understood that economic development was imperative to preserve the countries' political independence, and ultimately their ruling position. Stubbs (2005) emphasizes geopolitical factors, specifically the sequence of wars and also the Cold War, that created strong states in Northeast and Southeast Asia that were able to maintain internal social stability, face down external threats, and plan and implement a relatively coherent and effective economic strategy to promote rapid economic growth.[6] In Thailand, Malaysia, Singapore and Indonesia, the political leaders instituted strongly growth-oriented, autocratic regimes, which became the foundation for a high level of economic growth. They created technocratic institutions, and assigned to Western-educated technocrats the responsibility for designing and implementing economic policies consistent with the national goal of economic development. In Thailand, for example, Sarit Thanarat took power in the late 1950s. The National Economic Development Board and the Board of Investment were created and staffed by trained economists and technocrats. This economic regime underpinned high economic growth later on (Laothamatas 1994).

It is probably less controversial to say that the governments of Southeast Asia have intervened in their economies to a significant extent than to comment specifically on the success of their interventions. The World Bank (1993) contended that industrial policy did not contribute positively to the economic performance of the high-performing Southeast Asian countries. Perhaps it is true that the effectiveness of state intervention in the economy and industrial policy was more modest in Southeast Asia than in Northeast Asia. Economic policy was sometimes compromised by political, military and ethnic considerations. However, various scholars object to the view of the World Bank. Indeed, there was little industrial capital or skilled labor force in post-colonial Southeast Asia. In other words there was neither a market nor a market economy at the time. The Southeast Asian economy was just dependent on the production of rubber, tin, coffee or rice. Considering those conditions, economic development based on the market mechanism was not a practical solution (Watanabe 1995: 48–9). It is probably reasonable to assume there was some positive contribution made by the state in Southeast Asian development.

As for Thailand, Rock (1995) demonstrates that from the time of the government's advancement of import substitution in the 1960s and 1970s to its promotion of export-led industrialization in the 1980s, industrial policy in Thailand, combined with the encouragement of foreign direct investment (FDI), was on the whole effective and successful. On the other hand, the Malaysian government was not always able to produce the desired results, although the state continued to implement various policies in an attempt to stimulate industrial growth. The New Economic Policy (NEP), adopted in the early 1970s, was a new orientation of economic policy towards the promotion of industrial development, but it was also designed to favor economically weak Malays, and had limited impact on the overall economy. In the 1980s and 1990s Mahathir Mohamad implemented stronger industrial policy measures under his authoritarian rule. The heavy industrial drive in the early 1980s had collapsed by the middle of the decade, but the need to promote industrial diversification was strongly recognized by the government (Lall 1995: 771). The NEP was replaced by the New Development Policy (NDP), the result of which was in fact a move towards 'the kind of industrial interventions practiced by the East Asian NIEs' (Lall 1995: 767). The government intervened in the economy to create, not follow, comparative advantage based on the Industrial Master Plan. This new policy, together with the rise of the yen in the late 1980s, had significant impact on the Malaysian economy. Jomo (2001: 480–1) holds that the role of industrial policy in the development of the successful Southeast Asian countries is undeniable, and that 'structural transformation and industrialization of these economies have gone well beyond what would have been achieved by relying on market forces and private sector initiatives'.

It seems more debatable whether Indonesia and China are following the pattern of other developmental states. The matter is left open here, but some points can be raised. Indonesia is still the least advanced among the East Asian high achievers, but nevertheless it has been elevated from one of the poorest in the world to one the 1993 World Bank report refers to as a member of the eight high-performing Asian economies (HPAEs). The country's development progressed under Suharto's authoritarian New Order regime. Various studies point out the significance of the political transition from Sukarno to Suharto for the emergence of the Indonesian economy (Sudo 1996; Watanabe 1995; Shimomura 1998; Shiraishi 1992). When Suharto took power in 1966, the Indonesian economy suffered from severe economic disorder. He and the military, his main supporter, keenly realized the vulnerability of the country and acknowledged the necessity of economic development. Indeed, economic development was to legitimize the New Order regime. Western-educated economists based at the University of Indonesia were appointed by Suharto and were put in charge of the national goal of economic development. On the other hand, Indonesia is often referred to by critics as the prime example of crony capitalism at work, in which Suharto and his family exclusively promoted family

benefits. It is claimed that the Indonesian state does not posses the institutions that enable the state to implement effective economic policy. MacIntyre (1994b) comments that this is partly due to Indonesia's lack of well-educated officials (with the exception of pockets of talent at senior echelons).

Whether the Indonesian state is responsible for the country's economic growth remains a matter for debate, but one view is worthy of note. What gives us the impression of crony capitalism at work in Indonesia seems to be based on its social tradition of familism (*kekeluargaan*). Under this system part of the fruits of economic growth are re-distributed to the political elite including the military: the elite receives an allowance in addition to their official salaries which are generally kept very low, and raising funds off the books is an important task of political leaders such as ministers and the president himself (Shiraishi 1992; Tsumori 1995). Tsumori (1995) argues this system made it possible to separate economics from politics and allowed technocrats to pursue economic policy without being distracted by social pressures because the interests of the elite were protected and did not have to be promoted. This unique redistribution system based on the traditional social culture in the country may be responsible for the negative image of cronyism in Indonesian society.

The case of China, another rapidly growing economy in East Asia, seems to be more problematic and far from simple. Deans (2004: 134) comments on the absence of literature on China's economic transformation from the perspective of the developmental state: China is significantly different due to its history of socialist industrialization and Maoist model, as well as the size of the country and its population. At first glance, it seems reasonable to say that China's impressive economic success is attributable to its policy of the developmental state, considering that a strong drive for development was instigated by post-Mao party leaders, including Deng Xiaoping. In fact, state intervention in the economy is ever-present in China's socialist history. However, various studies point out the existence of serious obstacles to the effective implementation of the developmental policy in China, particularly a high degree of economic decentralization (and the considerable power of local government), and the lack of coordination in policy-making (and the detrimental existence of rivalries) between central government and local government and also between various local governments (Howell 2006; Breslin 1996). What local government does is to promote local economic interests by creating local employment and maximizing tax revenues, often conflicting with national interests such as the promotion of globally competitive firms and industries (Liew 2005). Deans (2004: 136), while arguing that the Chinese state ought to be regarded as a case of a post-socialist developmental state, still admits that the Chinese policy-making processes show a lack of coherent planning, being 'dominated by the need to make compromises between competing political, economic, and bureaucratic interests'. These studies argue that Chinese central government has

found it difficult to effectively enforce their chosen economic policy and channel resources into the sectors it wants to promote.

However, at the same time there is a view that the influence of central government should not be underestimated. Successful economic development has been one of the mainstays for the legitimacy of the Communist government since 1978, or perhaps since 1949. The top leaders in China have skillfully promoted this goal despite the policy obstacles cited above. Thun (2004) argues that Chinese policy-makers, believing that the state was responsible for economic success in neighboring East Asian countries, have shaped an industrial structure[7] by utilizing its capacity to control foreign direct investment. Also, we should not overlook central government's ability to control state-owned enterprises (still a large share of the Chinese economy). The Chinese state is re-organizing this particular sector by supporting large firms and letting small firms go bankrupt (Liew 2005; Baek 2005). Liew (2005: 336) argues that this way of choosing winners is actually akin to the South Korean-style of industrialization. In short, despite significant obstacles, the economic growth in China also seems to involve some elements of the developmental state. At the very least, the role of the Chinese state in the economy is not negligible.

To sum up, the developmental state model does not have to be limited to the Japanese or Northeast Asian example. The Southeast Asian political economies (and perhaps the Chinese one, too) may be quite different from that of Japan, South Korea and Taiwan, but they still share the core elements of the developmental model. These countries possess some basic characteristics of the plan-rational economy. Now let us consider one more controversial point concerning the developmental state, before discussing the viability of the developmental state model in today's international environment.

Developmental state and authoritarianism

When discussing the East Asian experience, we cannot overlook the empirical fact that economic development in most of the successful East Asian countries occurred under an authoritarian regime. We do not argue that all authoritarian countries in general are successful. However, in many cases, democracy in East Asia was more or less restricted, or was nonexistent: South Korea, Taiwan, Singapore, Thailand, Indonesia and Malaysia (Japan being a notable exception) were governed by authoritarian governments at least at some point during their high growth period. A highly controversial question arises whether there is a correlation between the developmental state and a political system. In a broader sense the issue of development in relation to democracy has prompted much literature, both theoretical and empirical, but there has not yet been a consensus about the correct conclusions (Przeworski *et al*. 2000; Przeworski and Limongi 1993). No attempt is made here to conclude the discussions, which is beyond the scope

of this paper. However the East Asian experience may provide some useful suggestions in this regard.

One may claim that authoritarianism could solve problems that democracy could not. Haggard (2004) sums up this argument. First, industrialization requires massive resource mobilization in the direction of capital accumulation, in other words, from consumption to investment. Developing countries are generally not well equipped with the necessary capacity to carry out this process in a democratic way, but authoritarian regimes could, in part, succeed in achieving their aims by silencing the opposition. Second, authoritarian regimes could overcome collective action problems and override rent-seeking pressures, enabling them to achieve stable macroeconomic conditions as well as efficiency in resource allocation. In the same context, Leftwich (2005) argues that economic development is a turbulent and transformative process, which could not be achieved consensually, but through non-democratic authoritarian rule or dominant-party democracy. It seems that the cases in East Asia have supported this line of argument. Kohli (2004) also points out that it is hard to imagine that countries could pursue development within the frame of 'underinstitutionalized democracies' commonly found in the developing world, and the successful developmental state, or in his terminology the cohesive capitalist state, is often authoritarian.

However, it is also fair to say that the association of high growth with authoritarianism is in itself somewhat lacking in theoretical sophistication. It is mainly based on empirical accounts. In fact, dictatorship has been one of the serious obstacles to development in many developing countries. Haggard (2004) admits that there is not an explicit causal relationship between authoritarianism and capital accumulation. Also, as Haggard (1990: 254–70) points out, authoritarianism is not a necessary condition: there are a variety of institutional solutions for solving collective action problems in economic policy-making, from East Asian authoritarianism to Western European corporatism. In short, there is a close relationship between the two historically, yet theoretically the developmental state is not necessarily dependent on an authoritarian regime (Johnson 1999: 52; Cumings 1999: 69–70). We are left with the puzzle: why have East Asian authoritarian regimes, as opposed to other states, been successful in economic management? Perhaps we could at least argue that there are variations in authoritarian regimes, and East Asian authoritarianism is very different from a predatory regime or simple dictatorship. It is the system of 'authoritarian developmentalism' designed to formulate and implement state-led development (Watanabe 1995: 9). Suehiro (2000: 110–27) calls it 'developmental dictatorship', arguing that despite some repressive aspects, such regimes lasted for a long period with substantial popular support.

Authoritarianism is, of course, not an ideal political system, and the benefits of democracy are not contested. It should be noted that East Asian authoritarian regimes effectively demobilized civil society (Thompson 2004:

1084). For example, in many cases the working classes were targeted, and the rights of workers were considerably restricted. Such political repression should ideally be minimized, but the East Asian experiences seem to show that a degree of authoritarianism could be tolerated for the achievement of long-term economic gains. In other words, the adoption of an authoritarian regime could be an option to satisfy the temporary need to initiate growth. In the same way that the market economy may have to be temporarily sacrificed in favor of the state-led industrialization, democracy may have to wait until the developing economies begin to take off. At least historically, authoritarianism seems to be a shorter route to development. Murakami (1996: 131–2) argues that what has made industrialization difficult is 'the preconceptions we have developed by focusing on the Western pattern in which political democratization preceded industrialization', but the East Asian case has shown the opposite, namely industrialization preceding political democratization. In the same manner, Huber *et al.* (1993), in their comparative historical analysis of countries in Europe, South and Central America and the West Indies, conclude that the level of economic development is related to the development of democracy in the way economic development helps the rise of democracy, not the other way round. The East Asian case seems to be consistent with this argument, with Taiwan and South Korea prime examples. Kohli (2004: 421–2) suggests to 'distance oneself from the fantasy that all good things can be had together, that democracy, equality, free markets, and rapid economic growth can all be achieved simultaneously in the contemporary developing world'.

The 'good governance' agenda, which embraces democracy and emphasizes transparency and accountability, is challenged in this context. The concept of good governance has enjoyed growing attention in the international community since the 1990s, and developing countries have been requested to follow a set of reforms. The question is if this increasingly demanding request[8] to developing countries is feasible, and if all the reforms really must be carried out even by the poorest countries in order to initiate industrial development. From the historical perspective, today's developed countries have achieved industrialization even with what the international economic organizations have identified as significant 'problems'. Chang (2003a: 71–6) points out that the democratic record of the developing countries of today is much better than that of present day developed countries when they were at similar stages of development: today's developed countries attained universal suffrage only after the Second World War (for example, France, Germany and Italy in 1946, Japan in 1952 and the US in 1965). Grindle (2004) also criticizes the good governance agenda as overwhelming, and proposes to prioritize and sequence the items on its long list of conditions. Perhaps we could argue that the conditions attached to international assistance to developing countries are idealistic, sometimes unnecessary and not necessarily legitimate.

Defending the developmental state model

Let us now move on to address recent criticism of the developmental state and consider the applicability of the model to other developing countries. In a broad sense, criticism of the developmental state can be divided into two categories, as outlined in the introductory section. One is the view that opposes the efficacy of the developmental state model itself, epitomized by the Washington Consensus. According to this position, the elements of the developmental state were not an important factor in East Asian development, and the advocates of this stance opined that the adoption of industrial policy would in fact be detrimental to developing countries. The other view concedes that a degree of achievement was indeed attained by the developmental state in the past, but argues that the developmental state model is no longer a viable option today. This position holds that the high level of government intervention in successful East Asian countries more or less contributed to their economic development, but that this policy is no longer feasible in today's international climate. That is to say, most of the successful East Asian economies grew dramatically during the peculiar circumstances of the Cold War. Also, their policy now seems outdated in the era of globalization. As noted above, the former argument has already been discussed extensively between the neoliberal position and the revisionist/statist position, and the discussion here is focused on the latter.

Is the developmental state obsolete in the post-Cold War era?

The promotion of exports is considered the key to the success of the East Asian countries. Neoliberal scholars contend that the maintenance of stable macroeconomic conditions significantly contributed to the growth of their exports. Nonetheless, even they admit that these countries also adopted various microeconomic policies to promote exports, such as protectionist trade policy and the provision of tax and financial incentives, although they argue that the success of these policies varied between countries (World Bank 1993).

Critics of the developmental state argue that this export-led industrialization does not work any longer, as there is no guaranteed market that could absorb massive exports from newly industrializing countries. Also they argue that the new international conditions, specifically after the Cold War, are much less tolerant towards the exercise of the developmental state policy. The conditions of the period when East Asian countries grew favored their success. The two wars in Korea and Vietnam and the Cold War directly and indirectly expanded markets for exports not only from Japan, but also South Korea, Taiwan, Singapore, Malaysia, Thailand and Hong Kong, with increased American aid and spending in the region (Stubbs 1994, 2005). The period of world-wide economic expansion ended in the 1970s. However, the US continued to tolerate the export drive of East Asian

countries in the prevailing situation of bipolarity. However, critics argue that this formula does not work any more. Now that the Cold War is over, Washington urges the conversion of the state-directed neomercantilistic model into the American way of free markets and neoliberalism (Cumings 1999; Bello 1998; Pempel 1999). There is no reason why the US, which was the guarantor of the East Asian developmental state by being their market of last resort, would accept large trade deficits with East Asian countries, which, from the viewpoint of American officials and businesses, are the result of an unfair policy in East Asia.

In fact, today there is enormous international pressure on countries to shed any developmental elements in their make up. The US, together with international economic organizations, now demands substantial liberalization for developing countries. The WTO, which many of today's developing countries have joined, requires all member countries to implement early trade liberalization, while past trade negotiations (before the Uruguay Round) allowed for a degree of latitude in the policy for the developmental needs of developing countries. Wade (2003: 622), being strongly critical of WTO agreements (specifically the agreements on Trade-Related Aspects of Intellectual Property Rights (TRIPS), Trade-Related Investment Measures (TRIMS) and trade in services), argues that 'the "development space" for diversification and upgrading policies in developing countries is being shrunk behind the rhetorical commitment to universal liberalization and privatization'. Likewise, the IMF and the World Bank began to require developing countries to pursue neoliberal reforms under the banner of structural adjustment programs in the 1980s. What we observed during the East Asian financial crisis in the late 1990s was the escalation of their demand on the crisis-hit countries. In fact, the East Asian financial crisis turned out to be another (implicit) opportunity for policy differences between the neoliberal and statist positions to be demonstrated. The crisis was managed on the basis of IMF policy, and at the same time, it was actually a great opportunity for Washington to justify its particular philosophy over other capitalist models. The US and the IMF blamed the very model of the developmental state for the crisis, and had no hesitation in dismantling what they saw as obstacles to spreading the free market system to the East Asian economies (Hayashi 2006: 79). It could be argued that the legitimacy of the concept of the developmental state was diminished amid (and after) the East Asian financial crisis, but it was intentionally undermined by international political forces. Indeed, the crisis in the late 1990s was not only an economic crisis, but also an ideological battle (Higgott 1998).

In short, the policy of the developmental state was tolerated by the rest of the world, particularly the US, because of the imperatives of economic reconstruction in the early post-war period and the large framework of containment in the Cold War. However, critics argue that it is highly unlikely that new developmental states could pursue the same policy as East Asian countries, and would implement infant industry protection and export-led

industrialization. It is certainly true that today's developing countries find it less easy to adopt nationalist strategies than the East Asian developmental states of the past.

However, this does not necessarily lead to the conclusion that the developmental state is outdated. Although export-led industrialization based on trade protectionism finds it hard to gain acceptance from a large part of the international community today, the developmental state does not have to be a regime of protectionism. Japan, South Korea and Taiwan adopted various protectionist measures after the Second World War, and their experiences give us an image of economic development through protectionist measures. However, the developmental state is not necessarily synonymous with the post-war model of Northeast Asia, as we have discussed. Industrial policy, which is the core element of the developmental state, does not necessarily equate to protectionism. Murakami (1996: 185) argues that 'Japanese-style industrial policy included much unnecessary government intervention, and the specific character of the Japanese experience seems to have prevented a satisfactory theory of industrial policy from being advanced'. He further argues that protectionist measures such as subsidies, import restrictions and tariffs are not at the core of industrial policy, and even when they are used, they should be discontinued as quickly as possible (1996: 188).[9] Fritz and Menocal (2007: 534) put it thus: developmental states are not associated with specific policies and 'at different times and in different places, very different policies have ushered in social and economic transformation'.

In this context, we should draw attention to the experiences of Southeast Asian countries. The Southeast Asian governments intervened in the economy, but they did so by not depending too much on trade protectionism, but on selective foreign direct investments. They promoted particular sectors, such as high value-added or technology intensive activities, by guiding investment through liberalization and economic incentives and by being proactively engaged in the global economy. Their industrial policy may not be as successful in nurturing indigenous infant firms as South Korea or Taiwan were, but it was intended to attract multinational corporations (MNCs) strategically so that they would upgrade their industrial structure and economy. Felker (2003: 265) argues that 'Southeast Asian governments exchanged (gradually and to varying degrees) their ambitions to build nationally controlled industries for efforts to secure more advantageous positions within MNC-orchestrated international divisions of labour'. His study demonstrates how the governments of Southeast Asia have played a crucial role in proactively attracting FDI and strategically promoting particular (targeted) sectors by providing fiscal and other incentives, including tax incentives, as well as investing in infrastructure and human capital. Jomo *et al.* (1997: 157) also argue in the same context that the Southeast Asian experiences with industrial policy show that governments of developing countries can utilize foreign investment to compensate for their resource inadequacies (such as the weakness of the national industrial entrepreneurial

community, managerial expertise and technological capacity), and still can influence foreign investments to maximize gains for the national economy. In this sense, as the next section will explore, what is critically important for today's developing countries is proper management of the process of international integration by the government, but at the same time that does not necessarily discredit the framework of the developmental state.

In short, the developmental state is a model of state-led industrialization for developing countries, where the market mechanism is underdeveloped or the market itself does not exist. The underdevelopment (or non-existence) of the market means that the market does not signal which industries should grow or disappear. Under the circumstances, the government should be more proactive than just leaving any economic activity to the market: the government should identify which industries should be targeted and actually promote such industries. However, the means to promote particular industries do not have to equate to trade protectionism. Southeast Asian countries have implemented state-led industrialization by utilizing MNCs, and have been successfully upgrading their economic structure through FDI. Their experience provides an important insight when considering future strategies that today's developing countries could pursue.

Has the development of globalization made the developmental state redundant?

Globalization has added other elements to the debate on the developmental state. Critics argue that the growing importance of global financial markets has made the developmental state outdated. Many developing countries have been integrated into the global financial markets, whether they are willing participants or whether they have been forced to comply. Firms now resort less to domestic financial markets, and finance their business in international capital markets, where the state has significantly lost its power over the market. According to critics, this explains the end of the developmental state. That is to say, the leverage of the developmental state over the market is essentially the ability to monitor the private sector and to allocate credit, but the state has increasingly lost such capacity (Pang 2000; Maswood 2002). Jayasuriya (2001) claims that the developmental state was an artifact of certain kinds of global economic governance, specifically the structure in which the state held the ability to control the movement of capital. It then follows that deep-seated structural changes in the international political economy have led to the decline of the developmental state.

Furthermore, as we have discussed, there is a substantial drive for neoliberal agendas, and critics argue that the clamor for liberalization comes not only from the IMF and the WTO, but also from international market forces, which do not favor a heavily regulated economy. FDI is considered

as being much less volatile than portfolio investment, but still MNCs are in the position to choose their investment locations. If today's developing countries have to pursue FDI-led industrialization, they are now faced with significant pressure to go in the direction of trade and investment liberalization. Moreover, global financial institutions quickly withdraw from countries and reconstruct portfolios on a global scale as soon as they sense any sign of problems. In this respect, the East Asian financial crisis in 1997 and 1998 apparently vindicated this perception of reality: if developing countries fail to satisfy the global markets (in other words, if they fail to show credible commitment to policies that would ensure confidence of market forces) the markets would punish them. This push towards globalization, critics argue, has made it increasingly difficult for developing countries to embrace the policy of the developmental state: the global markets would militate against the very organization of the developmental state, specifically a high degree of collaboration between firms, banks and the state, and the strict regulations the state imposes on the market. According to critics of the developmental state, this new global economic governance explains how the demise of the developmental state came about.

However, the content of this article so far is contrary to these views, and we question the argument that the development of globalization is at odds with the approach of the developmental state. Firstly, globalization is not necessarily hostile to the developmental state, as long as the state maintains a credible and stable economic performance. As emphasized throughout this article, the core element of the developmental state is state-led industrialization and the government's targeting of particular sectors. If the state successfully implements this policy and enables its economy to grow, why would the markets penalize such a country? MNCs' decision to select their investment location is only partially affected by the degree of liberalization, but more by overall economic performances and future market potentials. In this sense, industrial policy actually could help developing countries to attract FDI (Chang 2003b: 247–72). As for the argument on the financial area, considering the nature of global financial markets, any country, either developed or developing, could not be certain to be safe from financial crises. What is important to developing countries is to maintain a sound economic system, in addition to the orderly sequence of capital account liberalization, as we will discuss. What the 1997–98 financial crisis told us was not to reduce the role of the state, but to strengthen state governance of markets (Dent 2004: 85). It is certainly incorrect to think that the developmental states are more prone to financial crises than other nations.

Secondly, the East Asian developmental states, as highlighted above, have been highly successful in taking advantage of being integrated into the global economy. History at least shows that globalization itself is not antagonistic towards the developmental state. Indeed today it is extremely difficult for developing economies to grow without participating in the global economy. What we could learn from the East Asian experience is not

whether globalization is good or bad, but *how* today's developing countries should be integrated into the global economy. Here the role of a strategically oriented state cannot be overemphasized. Ohno (2000) argues that what is critically important is that developing countries are able to promote international integration in the way they choose, rather than passively accepting international pressures. In other words, developing countries have to maintain the ownership of their international integration process: they have to make their own decision about what they put into their countries, when and how they do it, how foreign powers (business, system, culture) should be integrated into indigenous society, and how this society should adjust. Chang (2003b: 247–72) supports this view, arguing that successful East Asian countries, such as Singapore, South Korea and Taiwan, effectively directed MNCs into the strategic sector, and that their strategic, not *laissez-faire*, attitude to MNCs was the key to their success. In short, what is to be addressed is the way to govern globalization by developing countries. Arguing the case for the inevitable weakening (or demise) of the developmental state is missing the point.

In the same context, how developing countries should deal with the highly volatile international financial markets forms an important agenda that must be addressed urgently, but the growing international financial markets themselves do not demonstrate the ineffectiveness of the developmental state. In fact, it is now a quite widely shared belief that the liberalization and opening of financial markets in developing countries must be dealt with very cautiously. The global capital markets could be harmful to the economic stability of developing countries, and what the East Asian financial crisis showed was the risk of hasty liberalization, not the shortcomings of the developmental state (Wade and Veneroso 1998; Bhagwati 1998, Stiglitz 2005). It is notable that China, with the restraint on the capital account convertibility and tight control on speculative capital inflow, was able to avert the crisis. What today's developing countries should know is that the level of financial liberalization must match the level of development of the economy.

In short, it is totally wrong to argue that the developmental state is redundant in the era of globalization. The importance of strategic thinking on the side of the state has not decreased. As Stiglitz (2005: 254) puts it:

> Globalization played an important role in both the successes and the failures. The critical distinction is how the individual countries go about integrating into the global economy. For those, like in East Asia, the benefits on the whole have far exceeded the costs. Their growth was based on globalization. For the most part, the countries figured out how to make globalization work for them. They were selective in which policies they adopted, in the pacing and sequencing of reforms. In the 1980s, however, some of the countries succumbed to international pressure for capital market liberalization, the freeing up

of markets to the movements of short-term speculative capital in and out of the country, and paid dearly for this mistake.

The East Asian financial crisis in the late 1990s was indeed the consequence of the countries' failure to respond to globalization in a proper manner.

Conclusion

The claim that the era of the developmental state is over appears to be completely unfounded. The end of the Cold War does not mark the end of the developmental state. Neither is globalization a triumph of free markets over the developmental state. Surely the end of the Cold War and the development of globalization have changed the role of the state in general, and the orientation of the developmental state in particular. The developmental state model has evolved from the first generation of developmental states in Northeast Asia, and today's developing countries would not be able to adopt the same policy as the Northeast Asian developmental states did in the early post-war period. Also, the developmental state in the era of globalization has in a sense the need to accommodate market powers and be aware of the tendency of the global markets. However, the model of the developmental state is not extinct. What is required today from the governments of developing countries is to integrate their economy into the global markets strategically. For the economies that are about to take off, the proactive role of the state is essential. The developmental state is still a valid model in today's international conditions.

Notes

1 According to Johnson (1995: 12), those who point out that Japan has a political economy different from that of the Anglo-American countries in terms of institutions, the role of the state, and the weight of economic nationalism are said to be part of this school.
2 The shift in the thinking of the World Bank is clearly seen in the 1997 and later volumes of the World Development Report (World Bank, various years).
3 Indeed, the Ministry of Economy, Trade and Industry (METI, the successor of the Ministry of International Trade and Industry – MITI) is still trying to identify and support new sunrise industries, in addition to the general promotion of science and technology. However, as the Japanese economy grows, such a policy has been of diminishing importance, and has achieved only limited success at most. Worse still, several studies suggest that the ministry's efforts in the 1980s and 1990s to promote some high tech industries, such as the computer industry or the semiconductor industry, were not useful at all and perhaps were even counterproductive (Takahashi 2003). As for South Korea, see Wong (2004).
4 Murakami uses the term developmentalism, but he basically means the developmental state by it (Murakami 1996: 132)
5 It may be worth mentioning that even for Japan we have the illusion that superrational bureaucrats single-mindedly pursued economic goals during the rapid

developmental period. The business has influenced policy-making processes in various ways, sometimes through pressuring politicians to intervene. Also, the fact that industries are in many cases the future employers of bureaucrats could have affected the business–bureaucrat relationship.

6 We note that he explicitly excludes Indonesia from the miracle economies.

7 He analyzed the auto industry in his case study.

8 Indeed the list is getting long (Grindle 2004).

9 He specifies four policies as fundamentally necessary for industrial policy: the designation of priority industries, industry-specific indicative planning, policies to promote technological progress and the regulation of excessive price competition (Murakami 1996: 185–6).

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