

# The Developmental State in the Globalizing World

Written by Feina Cai

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## The Developmental State in the Globalizing World

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FEINA CAI, DEC 22 2010

### Introduction

Globalization is an inevitable trend of the world's economy, society and polity. This tendency has raised increasing interests in global governance. One of the most significant discussions in this scope is the relationship between states and global governance. Many attempts have been made to investigate this issue and arguments can be broadly divided into three categories. The Convergence asserts that states are dying. On the contrary, the Divergence argues that the replacement of state by globalization is not going to happen. Standing in the middle, the Transformation holds a neutral view that the state accommodate to the demands of the globalization. The current development of the world suggests that the third perspective which will be the underlying position of this article is more reasonable at least in a foreseeable future.

This essay will explore the performance of developmental states in a globalizing era, and try to answer whether they are strengthened or weakened by global governance. With respect to the term of "developmental state", Loriaux (1999) defines it as "a kind of capitalist political economy that is characterized by the preponderance of a certain kind of actor, which pursues a certain kind of ambition using a certain kind of power". He further clarifies the actor as the state bureaucracy, which is stimulated by a certain kind of ambition referring to not only economic growth but also protection and promotion of national interests. The strong ambition to develop, which Loriaux calls the moral ambition or in Johnson's words (1982) "nationalist incitement to development", is a stuff of "developmental state".

Development is an instinct of nations. According to World Development Report (World Bank, 1997), provision of goods and services like rules and institutions that flourish markets and promotes people's lives is the foundation of good governments in a changing world. Hence, without capacities to develop, the government cannot be regarded as good governments. The changing world puts forward a much higher and more urgent requirement for development. Then the point is that without a developmental state, economic development is inconceivable in many undeveloped countries. Moreover, third world countries account for most proportions on the earth, and this is likely to be the basic pattern of the globalizing world in a long time. To compete with developed counterparts, developing countries are apt to choose developmental state so as to make best use of their advantages. Consequently, developmental states cannot be considered as weakened even if it is not strengthened in a foreseeable future.

In particular, the following questions will be examined: what is developmental state, how is it characterized, and how it contributes to the development of economy, society and polity; what is globalization, and how they affect state responses; what new changes have been brought to the developmental state by globalization, and whether it is strengthened or weakened by global governance. It will be organized in the following way. The beginning part is a brief overview of developmental state theory, giving conceptual account of developmental state, and analyzing its main characteristics and evolution. Following that is a discussion on developmental state in the globalizing world with understanding of globalization. The final section is a further discussion, dealing with the empirical case study of developmental state in China.

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## Theory of Developmental State

The rapid growth in East Asian economies after World War II has become an eye-catching focus in academic for a long time. A considerable amount of literature has attempted to interpret the rousing phenomenon. However, no consensus about the nature and causes of the remarkable development has been reached, and explanations are contentious. But no one can deny that all successful cases discussed are associated with state intervention to a significant degree. Basing on this thought, Chalmers Johnson in 1980s introduced a new perspective—capitalist developmental state—to understand the sustained golden era.

Established by Johnson (1982), developmental state is considered as a key breakthrough on Northeast Asia in American literature (Cumings, 1999). It is originally formulated as an explanation of industrialization in Northeast Asia. Woo-Cumings (1999) considers “developmental state” as “a shorthand for the seamless web of political, bureaucratic, and moneyed influences that structures economic life in capitalist Northeast Asia”. Thesis in developmental state is derived from empirical observations in Japan at the beginning, then in South Korea and Taiwan. However, Chang (1999) points out that the developmental state is not a new idea, and academic supports can be found from the early development economists like Gunnar Myrdal, Paul Baran, P. N. Rosenstein-Rodan, and Simon Kuznets.

As a pioneer in this scope, Johnson is followed by many scholars. The developmental state model has become one of the main stream explanations. However, within the framework, arguments on specific questions still exist. For example, is the developmental state fostered by particular culture and history, what is the territory range for developmental state, can the developmental state experience in East Asia be transferred, and so on. What's more, because of the pre-assumption of state intervention, the developmental state model to some extent is regarded as a causal theory contributing the rapid economic growth to dynamic state actions, which may not always be true, but at least partially the fact. With further evolvement of the theory, coverage of the developmental state is expanded beyond the primary core regions. Many scholars are trying to apply this model in analyzing various countries elsewhere, for instance, India, Latin American, and even France.

Johnson's (1982) account of Japan's economy miracle brings in the issue on the role of the state in industrialization. He argues that the developmental state is the fundamental element for the rapid growth of economy in Japan's golden years. Japan's economic planning state offers a new state paradigm which is neither socialist or “plan-irrational” in Johnson's words, nor free-market, but the plan-rational capitalist developmental state binding private ownership with state guidance.

The description of the “pilot agency”—The Ministry of International Trade and Industry (MITI)—in Johnson's (1982: 26-28) book provides a good starting point to understand the characteristics of developmental state. As an institution supervising the enforcement of “industrial rationalization” and “industrial structure policy”, MITI was endowed with the legitimacy and authority to regulate and decide Japan's provision and administration of new capital. Given such a strong power, the MITI is described by Johnson “the greatest concentration of brainpower in Japan”.

Being a widely accepted theory, characteristics of the developmental state model are well concluded. Summaries can be referred to literatures like Öniş (1991), Wade (1992), Doner (1992), Douglass (1994), and Polidano (2001). In general, the developmental state could be characterized in the following ways:

① The developmental state is of strong ambition to develop. Economic growth is the top priority of the national interest.

② “Embedded autonomy”(Evans,1995) which connects bureaucracies and the surrounding social structure intensely is the key to the effectiveness of developmental state. Close relationships are established between elite bureaucracy and private sectors. Business and industry is under the state's guidance. Though the state does not replace private ownerships directly, it intervenes and instructs private sectors according to national strategies.

③ The developmental state has a strong and active central government. “Pilot agency” plays a crucial role

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within technocratic policy bureaucracies. Policy instruments are formulated by a small group of qualified elites in economic policy bureaucracy.

□ The economic policy bureaucracy is consisting in a political network which offers sufficient space in initiative-taking and effective operation.

After its emergence in the 1980s, the developmental state became a key concept in the study on development of East Asia. It gradually achieved some kind of paradigm and was prevalent by the early 1990s. But in the late 1990s, developmental state had encountered a hard time, especially after the broken out of the economic and financial crisis which heavily blew East Asia—the tradition cradle of developmental statism—in 1997. The loose trade and investment policies adopted followed the 1997 crisis accompanied with the financial reforms lead to some declarations that times for developmental state are over. Meanwhile, “regulatory state” and “post-developmental state” have become alternative frameworks to account the state transformation (Thurbon & Weiss, 2006).

Ong (1999: 57) identifies that the post-developmental state strategy denotes “a new kind of relationship whereby the state, through a plurality of forms, seeks to produce the kind of subjects that are attractive to global capital, both as low-skilled and technical workers and as newly affluent consumers”. Here, state plays a role of a guarantor of the social and legal conditions rather than a fundamental economic actor. The notion “post-developmental state” reveals that the “developmental state” has not reached its end, or its complete obsolescence. It is an ongoing dynamic adaptive model.

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### *Understanding Globalization*

Generally speaking, globalization is primarily a growing integration of national economies, but also a widely spread of social, cultural and political norms and practices all over the world. In the economic sphere, Emmerij writes that “globalization is reflected in the increasing acceptance of free markets and private enterprise as the principal mechanisms for promoting economic activities” (1997:27). The overall process of globalization is a result of numerous factors, namely, expansion of capitalism, rapid progress of technology. To sum up, Emmerij (1997) concludes that globalization is a phenomenon driven by the private sector in contrast with regionalization that is driven by state.

It is a popular view nowadays in academic that, developing countries should liberalize their policies which means to reduce state interventions given the process of globalization. As a matter of fact, many countries have followed this guidance, abating state intervention, privatizing public enterprises, deregulating the economy, and liberalizing foreign trade and capital flows, etc. The collapse of communism in East Europe is likely one of the most dramatic evidences for the trend. At the same time, the success of China’s economic reforms seems to be a further prominent demonstration for the appeal of free-market and private ownerships.

In another perspective, Chang (2003) who is against the conventional view, points out that the globalization is still on its way and has not reached the level where all national policy variations are meaningless or harmful. He demonstrates that unlike the neoliberal belief, East Asian countries’ successes are not rooted from foreign direct investment (FDI). Moreover, the “liberality” of regulation is not essential for FDI flows. Chang draws a conclusion that transnational corporations (TNCs) are apt to follow instead of to create good national economic circumstances which are shaped largely by good but not necessarily neoliberal economic policies. Accordingly, countries should design their regimes and policies in industry and business on the basis of their concrete needs referring to their national economic strategy. In addition, the imbalance between the private sector and the public sector is increasing in pace with globalization (Emmerij, 1997). Worse still, this imbalance turns out to be a chasm at the global level. Emmerij suggests that concerns should be placed on making institutions relevant and effective accommodating to the new development of global markets and global enterprises. Consequently, the problem for states is to find the proper combination of market orientation and government intervention that is consistent with rapid and efficient industrialization.

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Then what is the response when the developmental state encounters the neoliberal globalism? With regard to the characteristics of developmental state, there are both opportunities and challenges in the process of globalization. Criticisms on developmental states' inapplicability in the changing world have been expounded by a considerable amount of literature, referring especially to liberalism and neoliberalism. However, this essay has a contrast standpoint. In the discussions below, focus is concentrated on what particular benefits offered by the developmental state in negotiating the demands of globalization and global governance.

Foremost, developmental state can satisfy nations' urgent demands of development. One of the underlying reasons for the spread of developmental state is nation's willingness to develop. Many scholars contribute the preference for this kind of development paradigm in the Asia-Pacific region to the nationalism cultivated under the threats of colonialism (e.g. Tsukamoto, n.d.). Nevertheless, to develop is not a characteristic existing only in certain countries but the essential instinct of every country. Roughly speaking, globalization is a trend to increase interactions and interdependence between various parts of the world. Notwithstanding, awareness should be addressed that it is more about competition than interdependence (Tsukamoto, n.d.). The fierce international competitions produced by globalization have put relentless pressures on nations, which produces stronger incentives to develop than before. Therefore, developmental state is in great demand in the globalizing world.

The role of state is in the center of discussions on developmental state. As mentioned above, it is true that some countries adopt more liberal policies in accordance with the changing world. Opponents consider this trend as convincing evidence of the decline of developmental state. However, it is difficult to identify whether the policy shifts are motivated by liberalism or ambitions to develop. Keeping pace with times, post-developmental state could be a good response to the trend. In the post-developmental state model, governments make efforts to obtain and maintain stability, legitimacy, and accountability for economic development (Ong, 1999). Dealing with the problem of "too much government", this modified model exerts its influence on economy by formulation instead of steering, in pursuit of shaping the appropriate economic environment to attract capital.

As stated before, a conclusion that the era of the developmental state is over and the period of liberal-regulatory state has begun was drawn from reforms carried out since the 1997 crisis. But empirical evidences testing this assumption have been surprisingly few. No evidence at the very least shows that East Asian developmental states have deserted a strategic approach of investment policy and adopted the liberal market idea (Thurbon & Weiss, 2006). In addition, with respect to the scale of globalization, it is a matter of fact that most global transactions are among the richer and more developed countries (Emmerij, 1997). In other words, globalization to some extent only affects a handful of countries. As a result, even if it is true that globalization leads to liberal policies, needs of them are limited to a certain scope of countries accounting for a small share in the world. The numerous less developed countries remain potential recipients to developmental state. Thus, the scope of developmental state is not weakened by globalization.

## **Further Discussion with Illustration of China**

This part will discuss the state role adapting to the globalization process with the illustration of China. Obviously, developmental state is not a planned economy. China had not stepped into the regime of developmental state model until its reform and opening up in 1978. Though there are significant differences between current path of China's development and that of Japan and South Korea, they should be seen as in different stages traveling along the same route (Wong, 2004). Once closed to the rest of the world, China has realized the influence of globalization and tried its best to insert into the global flow. The recent success in China's state-guided economy, or socialist market economy according to Chinese government, is a vivid evidence of the vitality of developmental state model.

With the largest population in the world, China is under stressful pressure of pursuing development. Strong ambition to develop is the incentive for China to set up the developmental state. Falling behind the developed countries, China takes advantage of its economic backwardness and employs a catch-up development strategy. The country learns

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from forerunners by “importing knowledge, technology, and economic know-how from abroad” (Wong, 2004: 350). Marvelous achievement has been made in economy in the country. Since 1980s, China has achieved a rapid growth with the remarkable growth rate of near 10 percent annual. In the last two decades, China’s success can be regarded as the core power of the world’s economic increase.

With regard to the “embedded autonomy”, China enjoys a high degree of state autonomy. The one-party political regime provides stabilities in politics and an extraordinary strong state power in other aspects. Transformed from a planned economy, China has experiences in conducting and manipulating economy as well. National Development and Reform Commission (NDRC) is the “pilot agency” for China’s economic development. NDRC is to China what MITI is to Japan. This policy bureaucracy comprising 28 functional departments takes accountability of formulating and implementing national economic and social development strategies. It lives up to facilitate development in economy and society; to monitor, predict and guide macroeconomy providing information and warning; to make related policies including fiscal, monetary and land policies; to promote and guide the economic system restructuring, etc. Setting foot in almost all aspects of economic life, it is not in exaggeration to say that NDRC is the brain of China’s development.

In addition, the economic bureaucracies are highly qualified. As the case stands, it is a tradition that working in government has strong appeal to most people in China. Governmental recruitment is intensively competitive. The annual National Civil Service Exam seeks to pick out the most excellent and suitable performers for government positions, and contest is keen. According to China Central Television (CCTV, 2009), about 1.35 million applicants were qualified to attend the exam in 2009, which was 15 times the number more than that of 2003, hitting a new record. These people fought for the limited 150 thousands posts meaning that only one out of ninety could make their dreams come true.

China is a rising example of the developmental state currently. Its state-oriented economic miracle has reheated the argument on state role in transformative economic development. The following discussions will clarify some issues with concern to China’s experience.

Developmental state is criticized by some scholars for its single-minded target in economy. More often than not, the single-minded economic target exceeds other goals like equality and social welfare (Polidano, 2001). Douglass attacks that the economy-leading states are in even development and state violence against citizens would be considered as unwelcomed for a development model. Chang (1997) makes a distinction between the developmental state represented by postwar Japan and the regulatory state represented by the postwar America. He points out that the former focuses on “dynamic considerations” like productivity promotion, technology improvement and efficient structural change achievement; while the latter puts emphasis on efficiencies of static production and allocation, and equity. However, the idea has been fully interpreted by Marx that the superstructure is determined by material basis. In other words, the economy-dominant developing style should be the starting point of the developmental state, resulting from path-dependence of the country’s history and culture. The regulatory state should be regarded as an advanced level of the developmental state, rather than two sets of model.

Accommodating to the globalization process, there is a shift in the state’s economic involvement from direct to indirect. National actions become more behind the scenes, turning to institutional support, infrastructure development, technology facilities, and investment in education. Economic policies tend to be more flexible and accessible for private ownerships. Simultaneously, privatization has become a tendency. Many people assert that these transitions have changed the balance of power between state and private sectors which leads to a decline of statism. However, this view is discussible. The hollowing-out of state power does not necessarily mean the undermining of developmental state.

Here, China will be an example explored. Privatization is a main theme during China’s process of industrialization. In its planned period, China’s economy was almost occupied by public ownerships. At that time, even barber shops were nationally owned. Course of privatization in China is slow, as the state-own enterprises (SOEs) are in a massive mesh of various interests (Wharton, 2006). According to the International Corporation report (Garnaut et al., 2005), there had been a cut in the number of SOEs from 114,000 to 34,000 between 1996 and 2003 in China, or a total

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decrease of 85% of all the industrial firms. However, the SOEs left are among the largest ones in the country, and account for more than half of the industrial assets. Therefore, the quantities of SOEs are reduced, while the qualities are not tremendously weakened. On the other hand, government can benefit from this shift through lightening burdens and increasing efficiency. Collaborating with private elite may not undermine the state, instead may be seen as a way of consolidating state power.

The developmental state model does not guarantee success in practice. Hence, failures are observed in various districts, for example, India, Latin America, and France. But no theory can make such kind of commitment. Failures from time to time cannot be used as a weapon attacking the developmental state model. Actually, other paradigms do not overwhelm developmental states in the face of the proceeding financial crisis caused by the subprime lending crisis in the United States in 2007. It is obvious that the developmental state does not perform well in all the circumstances, but denial of its function because of this reason is ridiculous.

Then comes the problem that can experience and lessons of existing developmental states, such as Japan, Korea and China, be transferred to other developing states? Douglass (1994) argues that the high degree of Asian developmental states' autonomy is obtained from the specific Asian historical features and conditions, which is not common in other districts. Despite his view that the Asian developmental states are not replicable, he believes that lessons can be learned from them. The core of developmental state is the significant role played by state in stimulating development. Basically, government is the product of state power. Almost all the governments in the world take their parts in developmental activities regardless of history and culture. Wong (2004) points out that, "It should be noted, however, that the core idea of the developmental state—that strategic state intervention into the market can facilitate industrial transformation and economic growth more generally—was in fact nothing especially new or distinctly Asian." Regardless people's attitudes towards it and whether it is hard or easy, the state is doomed to play essential roles in economic development. Finally, the developmental state model is not fossilized but adaptive. A successful import of developmental state should base on concrete circumstance and adjust to the specific reality. Therefore, examples cannot be replicated, but experiences and lessons can be learnt.

In a word, globalization has stimulated the evolvement of developmental state theory, and spread the ambitions to develop which enlarges the coverage of potential recipients. That is to say, developmental state is not weakened at the least even if not strengthened in the near future.

## Conclusion

The developmental state model is not a static theory but in continuous evolutions. Economic development is a good starting point of understanding this model. Attention should be paid to comprehend different stages of the model.

It is out of question that the rapid growth in East Asia can be contributed mostly to the successful state intervention. Raised from these marvelous state-oriented economies, the developmental state model lays the state role to formulate economies in the vital core. Generally speaking, main characteristics of the model can be listed as below:

- ❑ A strong ambition to develop giving priority to economic growth.
- ❑ "Embedded autonomy" is a crucial element for effectiveness of state intervention.
- ❑ "Pilot agency" with professional elites is the brain of carrying out state intervention.

Opportunities and challenges are brought in by globalization for the developmental state. In general, globalization is driven by the private sector. The expansion of capital in economic sphere is the foremost global flow, being more about competition than interdependence. The trend to loosen economic policies and reduce national actions in pace with the process of globalization raises suspicions towards the future of the model. Contradicted to the liberal belief, the era of developmental state has not finished. The focus for states in the globalizing world is to find appropriate mixture of market orientation and government intervention which can better stimulate rapid economic development. "Post-developmental state" is a good possible response, in which state acts as guarantor instead of fundamental

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economic actor. Meanwhile, answering to the question of “too much government”, states need to obtain and maintain stability, legitimacy and accountability which shape good economic development. Illustration on China’s developmental state reveals that privatization may not undermine the state, instead may be a way of consolidating state power.

In a worldwide vision, the developmental state is not necessarily eroded by globalization. Firstly, globalization by date is still a limited process in a small group of countries which means that demand of liberal policies is no so widely as suggested. Secondly, the fierce competitions caused by globalization lay stressful pressure on countries. The strong ambitions to develop become incentives to apply developmental state.

In conclusion, the scope of potential recipients of developmental state has been enlarged by the globalization process. Given the context of globalization, the liberalization requirement in policies and state intervention does not undermine statism in essential. In contrast, through constant modification, the model keeps up with the times. Therefore, developmental state is not weakened at the least even if not strengthened in the near future.

Last but not least, this essay highlights continuities and enhancement in the developmental state in aspect of economic development, while leaving space in stimulating social and political development. Further study can be addressed in these fields.

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