Revisiting Developmental State Theory in East Asia and Latin America

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ABSTRACT: The concept of the developmental state is seminal to analyzing both the economic success of East Asian nations and the failure to achieve such success at the same level for Latin American countries. The main argument here is that the internal political, social, and economic maturity of a society shapes the form of its integration into global society and international markets. The greater the maturity, the less vulnerable a nation is to external political and economic shocks. Thus, the analysis of the problems of economic development must emphasize domestic factors for the economic outcomes of a nation. These factors include primarily state-society relations and the balance of class forces within society. The configuration of social forces permitted the state in East Asia to coordinate local industrialists, international capital, and society at large in a national effort towards economic transformation. In so doing, it was able to shape, and not be shaped by, the international environment. This was not the case in Latin America where the state was essentially captured by outside interests. An alliance of local industrialists, labor, and the state, with the support of transnational capital, led the way towards a regrettable strategy of slow growth, inequality, and poverty.

KEYWORDS: Developmental State; Development Theory; Economic Growth; East Asia; Latin America

Introduction

The idea of a strong, capable state at the center of national progress and growth is an old idea in the field of development economics. However, the recent return to industrial policies as a result of growing inequality and de-industrialization in the USA and other developed nations has given added prominence to the role of the state in economic growth. It is clear that both developing and developed economies are now converging on confronting the same set of social problems. As Rodrik (2022) argues, "policymakers in advanced economies are now grappling with the same questions that have long preoccupied developing economies: how to attract investment, create jobs, increase skills, spur entrepreneurship, and enhance access to credit and technology" (para. 7). Given this situation, a revisiting of the role of the

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state in social development and economic growth in responding to these challenges is warranted.

This article will limit its geographical scope to the historical role of the state in East Asia and Latin America and leave aside the ongoing raging debate on the merits of current state intervention in developed economies (see, for example, Muro, 2023). Yet, advanced countries have much to learn from the experience and outcomes of these two regions which have experimented with interventionist bureaucracies for long periods of time. The concept of the developmental state is seminal to analyzing both the economic success of East Asian nations and the failure to achieve such success at the same level for Latin American countries. There are other theories that could be applied to the economic development of these regions but, as will be discussed below, these fall short in providing satisfactory explanations for their corresponding results. The main argument here is that the internal political, social and economic maturity of a society shapes the form of its integration into global society and international markets. The greater the maturity, the less vulnerable a nation is to external political and economic shocks. Thus, the analysis of the problems of economic development must emphasize domestic factors for the economic outcomes of a nation. These factors include primarily state-society relations and the balance of class forces within society.

This article is divided into three sections. The first section will provide an overview of other possible explanatory theories before reviewing developmental state theory in detail. In the second section, the origins of developmental state theory are explored together with an examination of the characteristics of the developmental state itself. Finally, the last section will attempt to provide some initial postulations on the creation of a developmental state. Assuming a developmental state is desirable, then it is essential to understand how one is brought into existence.

Explaining Development Outcomes: Theories of Development

The accomplishments attained by countries in East Asia and Latin America can be explained through a variety of theories. The principal ones discussed here are institutionalist thought, classical and neoclassical economic theories, Marxism and its offshoot in the development context, dependency theory, and finally developmental state theory. In this section, there will be a brief overview of these main theories and then they are compared to the developmental state paradigm.

Modern development has occurred over the past two hundred years in three distinct phases. According to Amsden (1989), the first phase by northern European nations was an example of applied classical economics and free trade. The second phase or late-industrializer phase, in which Germany and the Soviet Union were the prime examples, was mainly achieved through infant industry protection. In the third or late- late-industrialization phase, countries such as Japan, South Korea, Taiwan, and China were characterized by the subsidy, principally the allocation of credit on a preferential basis, coupled with protection.

In all three phases, the state has played some role in the economy albeit more important in the two latter phases. In order to gain a better understanding of the different political economies at work, Johnson (1982) together with Henderson and Appelbaum (1992) provide a schema to explain the different roles the state plays under each type of political economy. The first type is the market-ideological economy. Henderson and Appelbaum (1992) labeled the state in modern Western countries in the 1980s as “market-ideological”. The market-ideological state relies on an intellectual tradition that ignores or is impervious to evidence that may contradict the theory (Henderson & Appelbaum, 1992, p.19). The Reagan-Bush and Thatcherite market-ideological sets of policies are well known and have been labeled as neoliberal. These policies included the withdrawal of the state from society through deregulation, tax reduction, limits on fiscal policy, privatization of state assets, and reduction of social welfare outlays. All of the latter was done in the belief that free markets will always have the desired effect.

The second type is the market-rational economy. Johnson identifies this political economy with most western democracies before the neoliberal period of the 1980s particularly the period after the Industrial Revolution. The state in these countries after the Industrial Revolution had little to do with economic activities. Economic development was mostly a spontaneous result of invention and innovation associated with 19^{th} century advances in technology and engineering (i.e., electricity and the steam engine). At best, the state since the turn of the century has performed a regulatory, or market-rational, function: “the state concerns itself with the forms and procedures – the rules if you will – of economic competition, but it does not concern itself with substantive matters” (Johnson, 1982, p.19). Thus, the market-rational state provides the overall framework within which business can make investment and production decisions efficiently.

Johnson applies the term plan-ideological economies to the third type of political economy. Direct state ownership of the means of production, state planning, and bureaucratic goal setting are not only means to development but also ideological values in themselves, and, not unlike the market-ideological economy “are not to be challenged by evidence of either inefficiency or ineffectiveness” (Johnson, 1982, p.18). The command economies of the Soviet Union and its allies would fall under this category as would the Chinese economy under Chairman Mao in the 1950s to 1970s.

The plan-rational state is the final category of political economy according to Johnson. It is different from all the above essentially because, in addition to providing a framework of rules and regulations for market actors – similar to the market-rational model – the state does not hesitate to intervene to support private commerce. It will do this if it deems a certain industry to be crucial to national interest and this industry is unable to sustain itself. In order to achieve economic goals, however, the state must act, above all, in a pragmatic manner (unlike plan-ideological or market-ideological states). Ideology is not an important factor in economic development; only satisfactory economic and social outcomes are acknowledged.

Each different theory that attempts to explain the development outcomes of the two regions underpins one of the models of political economy outlined above. Neoclassical economics has the closest affinity to the market-ideological economy. At the core of neoclassical economics is the belief that free markets trump all other concerns. In the words of Wade (2018), neoclassical economics claims that "competition between private economic agents is the only legitimate, reliably welfare-enhancing organizing principle for human activity" (p. 519). State intervention is discouraged as the costs related to diminished competition and the inefficient allocation of resources will be higher than the economic gain from them. According to neoclassists, the negative impact of state intervention is not only in the economy but also in society as individual liberty is also eroded (Wade, 2018, p. 519).

Neoclassical economics views the success of East Asia as the result of its adherence to what was called in the 1990s the *Washington Consensus*. The Washington Consensus consisted of policies including free markets, deregulation, tax reductions, and open trade. John Williamson (1993) who coined the term addressed East Asia's success as follows: "the superior economic performance of countries [i.e., East Asian nations] that establish and maintain outward-oriented market economies subject to macroeconomic discipline is essentially a positive question. The proof may not be quite as conclusive as the proof that the Earth is not flat, but it is sufficiently well established..." (p. 1331). Conversely, the failure of Latin America to attain long lasting success is the absence of these Washington Consensus policies in its macroeconomic framework. Too much reliance on state intervention and protection of industry from global markets has doomed Latin America to unacceptable levels of poverty and inequality (see Lal, 1983).

Since the 1990s, there have been many recantations and retractions of this narrative including from Williamson (2004) himself. The World Bank in the 1990s after much pressure from the government of Japan led a large research project to investigate the factors of success for East Asia (Wade, 2018). It came to the conclusion that indeed the government's role in the economy was an important factor in the economic achievements of these countries: that once the state had built public infrastructure, established a legal system to ensure a rule of law bound society and created macro-economic stability, this would engender a virtuous cycle of economic growth and development (see World Bank, 1993).

These conclusions conform to the theory of institutionalism that suffuses the market-rational political economy. For institutionalists, a legal framework that enforces the rule of law will reduce transaction costs among private market agents. Without a public legal rubric, the costs of doing business increase as there is no recourse to the courts in the event of business disagreements. Thus, such a legal predicament would require the cost to be privatized through the establishment of private arbitration and security services. In the case of East Asian economic success, however, it is quite clear that states have gone well beyond providing only a legal framework and basic public infrastructure. Industry protection through tariff and non-tariff barriers, subsidies and control over credit are just some of the extensive policies that were used to generate industrial transformation and high-speed growth.

Much of the criticism of neoclassical and institutionalist thought originated from Marxist and socialist theories. Marxism provides the theoretical foundation for the plan-ideological economy. As Castells (1992) notes, "a revolutionary state superimposes its belief and value system on society while at the same time it pursues a radical realignment of the social order" (p. 37). According to him, the revolutionary state has a preconceived notion of what social relations should be and therefore attempts to rebuild society in accordance with this notion (often regardless of the economic consequences or without due respect to the international order). Yet, despite concerted state intervention in both East Asia and Latin America, it would be difficult to label any of these "revolutionary states" with the possible exception of Cuba. Vigorous competitive internal markets, international trade, and robust entrepreneurial corporations are all characteristics of these economies.

In the context of development, dependency theory contributes the most prominent and intriguing Marxist ideas. The basic version of dependency theory allocates most of the blame for Latin America's underdevelopment to the unequal relationship between advanced and developing countries in the international economy as developed in the terms of trade thesis by Prebisch (1962). A more sophisticated analysis of dependency emerged out of the thought of Cardoso (with Faletto, 1979) and Evans (1979). Discarded was the simplistic notion that underdevelopment was solely the result of outside forces and thus the only alternative to this system is de-linkage from global markets and revolution. While recognizing that external factors shape and constrain economic growth, they argued that development was possible on the periphery, albeit of a distorted nature. They called it "dependent development" and it was characterized by the close political and economic ties among international capital represented by multinational corporations, local capital and the elite, and finally the state. According to *dependistas*, this alliance was at the root of underdevelopment in Latin America.

Dependency theory, however, has not been able to explain East Asia's rapid growth, notwithstanding its significant connections with the outside world. International trade and investment have been pivotal for its economic expansion. In the case of Korea, international capital has been the cornerstone of growth. In Taiwan, multinational corporations have played an important role in its development, too. Thomas Gold (1986) in his analysis of Taiwan comes close to explaining East Asian development within a dependency framework. He believes that dependency can be superseded by producing positive outcomes in the form of capital accumulation, growth, and redistribution. However, an argument suggesting that international finance was the primary factor of East Asia's *success* is an odd one to make from a Marxist perspective. It is also a difficult one to formulate given the state's preponderant role in development in this region. Only Evans' (1979) unique framework of focusing on the balance of class forces within society and their relationship with the state and, in turn, examining how that outcome affected the state's relations with international capital has had traction. Evans argued that the existing domestic class structure within which international trade and finance take place is critical in determining the social and economic results within a country. Nevertheless, as a *dependista*, his thesis remained firmly in the camp of emphasizing external factors over domestic criteria for explaining development outcomes.

Developmental state theory takes Evans argument one step further in that it not only agrees that state society relations within a country are important but in fact deems them to be the most dominant factor affecting social and economic outcomes. Not surprisingly, Evans (1989; 1995) has become one of the most prominent advocates of the developmental state theory. Developmental state theory is at the center of the plan-rational political economy as it recognizes the robust role of government intervention in society and markets. It goes much beyond providing a legal framework as asserted in the institutionalist framework. Indeed, it is the central actor in implementing a general transformation of the economy that will in turn strengthen the nation's position vis-à-vis international pressures. In Castells words,

> A state is developmental when it establishes as its principle of legitimacy its ability to promote and sustain development, understanding by development the combination of steady high rates of economic growth and structural change in the productive system, both domestically and in its relationship to the international economy (1992, p. 36).

Castells also believes state-society relations are important in molding the type of state that emerges from their interaction. He asserts that the state must subordinate social interests, including those of the capitalist class and labor, to the interests of the nation. The following section explores in depth the origins of the concept and its main characteristics.

The Origins of the Theory and Substance of the Developmental State

Throughout economic history, there has been reference to a robust role of the state in economic and social affairs. The earliest writings were meant as a critique of classical and neoclassical works that asserted that industrialization for the early developers was a "market-driven and spontaneous affair" (Vartiainen, 1999, p. 202) despite empirical evidence to the contrary. For late-developers, these critiques are even more relevant. Fredrich List, Max Weber, and Alexander Gerschenkron all offer insights into the necessity of state action to instigate growth. List's writings are the most referred to by those advocating for a state-centered economic strategy. He is the author of the infant industry argument which argues for industrial protection via tariffs for late-developers. Without protection, it is unlikely that a nascent industry in one nation could become competitive with the same mature industry elsewhere. Helleiner (2021) also points to the influence of Henry Carey, List's contemporary, who made a similar case but also emphasized the importance of the formation of class coalitions in support of protectionist policies and for overcoming inequality and imperialism.

Weber is associated with developmental state theory for his writings on bureaucracy. He noted the rationality and efficiency bureaucrats could exert on policy-making which in turn is the hallmark of the developmental state. The presence of bureaucratic rational decision-making is based on two important assumptions both of which are satisfied in the case of the East Asian state. First, the bureaucracy must be staffed by competent and knowledgeable people based on a standardized meritocratic entrance system. Japan, South Korea, and Taiwan are all well known for their extremely competitive exam and interview system to enter government. Second, state generated policy does not solely reflect the competition of outside interests as liberal pluralists would argue. Nor does policy only resemble the whims of the capitalist class (i.e., the state is the "executive committee of the bourgeoisie" argument) as claimed by Marxists. In fact, the state must have its own interests driven by the belief of bureaucrats that corporate and collective gain will enhance their own personal well-being or by a sense of nationalistic pride coupled with satisfactory monetary (i.e., market-based salaries) and professional benefits. Either way (or both), as Cardoso observes (quoted in Evans and Rueschmeyer, 1985), “one cannot see the state just as the expression of class interests, without recognizing that such an expression requires an organization which, since it cannot be other than a social network of people that exists in its own right and possesses interests of its own” (p. 47). It is readily apparent in East Asia that the state had its own interests separate from society.

Gerschenkron’s contribution to developmental state theory is his argument for the necessity of the state marshaling sufficient resources to initiate a full-fledged strategy of development. In the early stages of growth, private markets do not have the financial capital to commence large scale investment in frontier technologies. Thus, it is the goal of the state to amass such resources in a coordinated fashion. Gerschenkron’s notion of active state policy in capital accumulation and allocation goes well beyond the Weberian (and institutionalist) perspective of the state providing a suitable framework for the markets. In Evan’s words:

> The crux of the problem faced by late developers is that institutions allowing large risks to be spread across a wide network of capital holders do not exist, and individual capitalists are neither able nor interested in taking them on. Under these circumstances the state must serve as surrogate entrepreneur (1989, p. 568).

With List, Weber, Gerschenkron, and many others (see Vartiainen, 1999) laying the groundwork for developmental state theory, it is not until the economic success of some East Asian nations from the 1960’s onwards that social scientists observe empirical cases of late-industrialization that do not conform to classical or neoclassical theory. Before examining developmental state theory in detail, it may be helpful to identify what these economic success stories in terms of theory were not. In doing so, some of the main differences in the composition and role of the state in the two regions under examination here should become apparent.

At the outset of their development trajectory, East Asian nations were under repressive regimes not unlike their Latin American counterparts. Guillermo O’Donell labeled the Latin American countries as bureaucratic authoritarian regimes. Collier (2001) defined this regime type as a form of: “bureaucratic and technocratic military rule that seeks to curtail popular mobilization and is built on a coalition and a policy orientation that entails strong ties to international economic actors” (p. 94). While superficially resembling the regimes in East Asia, this definition in fact conforms more to Evans’ theory of dependency. As discussed above, Evans asserted that the alliance of the local elite and the state with international capital was the determining factor of economic and social outcomes. This is a theory that may have some validity in Latin America but is certainly not applicable to East Asia as will be argued below.

Nevertheless, there were attempts at equating the two regional regime types as bureaucratic authoritarian, most notably by Cumings (1989). Cumings’ study of the political similarities of the state and society in Latin America and East Asia is enlightening yet he fails to inject economic analysis into it.[1] He is correct to suggest that regimes in both regions were equally repressive and exclusivist and perhaps the Korean regime was more so from time to time than its Latin American counterparts in the 1970s. Yet, states in East Asia have relied on their ability to stimulate economic development as the main redeeming quality of their regime and thereby achieve some legitimacy in the eyes of citizens. To be sure, force was used to silence opposition to some policies. As Hsu (2012) affirms, "the East Asian developmental states had rapidly rising living standards and relatively equal income distribution... [and] the fact that average wages have risen faster in Korea than in other [emerging economies]" (p. 23). These results lent moral authority and legitimacy to the regime which offset some of the negative sentiment from the occasional use of force.

The main characteristic of the developmental state is thus not its authoritarian nature, although this may be a component of it in order to enable other parts, but its ability to produce economic growth with equity. The question then becomes how is it able to generate these results? Hsu's (2012) analysis provides two main paradigms or variants of developmental state theory. The first is a pragmatic version that derives itself from the theories of List and *Gerschenkron.* In order to foster late industrialization, the state must take an active role in marshaling national resources to initiate and then maintain high levels of economic growth. The pragmatic narrative involves a number of bureaucratic tools to prod and incentivize entrepreneurs and markets in a certain direction that generates fast speed growth. The second variant is the voluntarist paradigm. This perspective is embedded in history, nationalism, and solidarity (Hsu, 2012, p. 27). The security environment of Japan, South Korea, and Taiwan when they embarked on industrialization was precarious. They faced an external enemy that could invade, conquer, and occupy the nation. The challenge of rapid industrial transformation was in essence an existential one. The Cold War was in full force with tensions and security competition among adversaries at high levels. This threat of conflict and war fostered a sense of nationalism and solidarity especially among political leaders and the bureaucratic elite. The duty to perform well in both the private and public sectors permeated the mindset.

This paradigmatic parsing of developmental state theory is a good starting point for understanding the central components of a developmental state. However, more generally, the developmental state consists of these five elements. First and foremost, the autonomous nature of the state is the most salient characteristic. As Castells asserts (1992, p. 64), the political power of developing governments to impose and internalize their logic on their civil societies was a crucial feature in their ability to carry out their objectives. The absence of powerful domestic interest groups with the ability to impose their predilections enabled the state to perform rational analysis on issues and questions of economic importance. In sum, being free from the pressure of civil society groups, especially the capital-owning class, provided the space for the bureaucracy to operate in a cohesive, coherent, and effective manner. Furthermore, it also allowed for the state to act on behalf of the entire society ensuring

[1] To be fair, in later works, Cumings (1999) acknowledges the differences between the regions and labels the East Asian state as Bureaucratic Authoritarian Industrializing States (BAIS).

all benefited from the nation's economic success. Thus, the balance of class forces was such that the state was in a position of authority and strength over other classes and was not easily influenced by any of them. As Vartiainen (1999) points out, "A successful state must be able to formulate credible and consistent policies that do not change overnight. This is precisely what bold and insensitive bureaucracies are good at" (p. 220).

Second, it is commitment to property rights and a free-market framework that ensures loyalty and commitment from private economic actors. Vartiainen (1999, pp. 221-223) argues that all of the late successful industrializers adhered to the notion of a market-based economy with strong property rights and a legal system to support them. There was "no master plan" for a socialist economy. Indeed, there was always the assurance that state guidance would soften by lessening protection and by allowing private agents to eventually compete more directly. These assurances supported by actual sequential policy reassured the private markets of their return on investment. As an indicator of this commitment to market practices was the East Asian states' management of macro-economic policy. [2] All late industrializers conformed for the most part to classical economic theory on macroeconomic indicators. They pursued balanced budgets, low international debt ratios, low inflation, and low interest rates. Moreover, they were receptive to foreign investment and open to international trade. This market-based framework convinced the private sector to vigorously participate in the state's objective of national development for reasons of both private and collective profit-making.

Third, the notion of societal embeddedness, as famously formulated by Evans (1989; 1995), is an essential element of the developmental state. The fact that the state had the upper hand over civil society did not mean it wielded its knowledge and authority uncompromisingly with respect to the market. Rather, it sought a cooperative and inclusive relationship with private business. Evans affirms that embeddedness "implies a concrete set of connections that link the state intimately and aggressively to particular social groups [i.e., business] with whom the state shares a joint project of transformation" (p. 59). Indeed, Evans (1989) notes that Samuels' depiction of embeddedness strikes the correct balance in determining how the state creates development policy: rather than any innate capability of the state, it is the intricacy and consistency of the state's relationships with market participants that engender its efficacy (p. 574).

Fourth, as already discussed, a highly competent bureaucracy is a necessary condition for a successful developmental state. Johnson (1982) considers the employees of the Ministry of International Trade and Industry during the high growth years of the 1960's and 1970's to be "without doubt the greatest concentration of brainpower in Japan" (p. 26). The high failure rates to enter governmental agencies in Japan, South Korea, and Taiwan are indicative of the quality of the personnel in government. According to Evans (1989), in addition to the competent nature of the bureaucracy, informal networks among the personnel solidify the governmental brain trust. Many of them come from similar backgrounds and have studied at the same universities. There is a sense of trust and belonging among them that breeds

[2] See Krueger (1995).

information sharing, cooperation, and mutual support. It continues even after retirement as many ex-government officials are sent to work at corporations to act as a bridge between the public and private sectors. This all contributes to the coherence and effectiveness of the bureaucracy.[3]

Fifth, borrowing from List and Gerschenkron, Wade (1990) coined the term "Governing the Market" for the type of state intervention performed by late industrializers.[4] Intervention can take the form of policies at both the industry-sector level and the company unit level. At the industry sector level, Wade describes these policies as "following the market." *Followership* is when the government underwrites some of the bets that the private sector has already made or would be prepared to make on its own. For Wade, this type of intervention should not be alarming to classical and neoclassical economists as these are investments that the private sector was considering doing on its own. They consist of providing advice, information, and finance to companies in order to upgrade their business models either through new capital outlays (i.e., new equipment and machinery purchases) or new marketing and outreach techniques to access new clients. At the company level, Wade labels this type of intervention as "leading the market" or *leadership* and is typically known as "picking winners." This type of intervention consists of investing directly in a company or establishing a state-owned company. This type of investment is made when the private sector would not on its own be willing or have the ability to make such a large financial commitment. The most famous example is the Korean government's creation of POSCO, one of the largest steel makers in the world. In sum, Governing the Market policies are characterized by government economic policies that combine "a very high level of productive investment, more investment in certain key industries, and exposure of many industries to international competition" (Hsu, 2012, p. 21).

The establishment of developmental states in East Asia is in contrast to the state's configuration in Latin America. Latin American states are more akin to what is known as predatory states with very small, limited pockets of efficiency and rationality. The penetration of capitalist classes into political leadership and bureaucracy has hamstrung and slowed efforts for industrial transformation. Moreover, this outcome has led to high levels of inequality and poverty in the region. Latin American states throughout the 20th century were governed by military regimes, oligarchic democratic states, or populist governments sometimes in the form of military regimes. However, the common dominator among them all was the infiltration of the state by an alliance between the landowning rural elite and the emerging capitalist-industrialists. On many occasions, they were one in the same (see Kaufman, 1990). These elites were sometimes joined by organized labor, especially in the cases of populist or oligarchic democratic governments, and by international

[3] It should be made clear here that more recently these informal networks in bureaucracy are being heavily criticized. According to some, they are producing narrowmindedness, lack of creativity, cronyism and corruption. See, for example, "Dig up" (2023) and, for other related challenges facing the bureaucracy, see Glosserman (2023).

[4] See also Amsden (1982). She uses the phrase "getting the prices wrong" for explaining South Korea's state intervention.

capital. As Kaufman (1990) observes, the logical course of policy was for the continuation of the status quo as this was in the mutual interest of both the bureaucracy and their key elite constituencies. In his words, "In Latin America, where state elites were more vulnerable to cross-cutting sectoral and class pressures, incremental decisions were more likely to offset each other—or at least to limit the scope and degree of systemic change" (Kaufman, 1990, p. 133).

The state itself was staffed by non-committed individuals who sought to maximize personal, rather than collective, benefits. In the case of Brazil, as noted by Evans (1989), the bureaucracy depended on the personal protection of individual presidents. The top echelons of bureaucracy were appointed from outside based on political connections and usually had a term of only 4 or 5 years (the length of the presidency) which discouraged the gaining of expertise in their assigned fields and an ethos for long-term planning. Instead of relationships with the business sector becoming institutionalized, they became individualized for personal gain (Evans, 1989, p. 579). In sum, the weak state in Latin America meant that elite class interests could impose their will and vision on a bureaucracy that was incompetent at best and rent-seeking at worst.

On Establishing a Developmental State

Hsu's analysis of the two paradigms that explain developmental state theory gives hints as to the creation of a developmental state. In this sense, these two paradigms should not be seen in opposition to each other as Hsu views them. They are in fact complementary. The voluntarist perspective borders on a cultural argument of *noblesse oblige* in which there is an ethic of empathy and responsibility inherent in the culture of these countries. While this may be true, if this ethic is not converted into institutional reforms via enforced norms and rules, it will not remain permanent. In East Asia, best practices were institutionalized. For example, the strict meritocratic selection and promotion system within the bureaucracy became the norm and was at the foundation of these countries' development. Once the condition of best practices has been fulfilled, the pragmatic paradigm takes on prominence in understanding the developmental state. With the best and brightest staffing the bureaucracy and corporations, this increases the likelihood of competent policy output. As Hsu (2012) explains, "the pragmatic paradigm understands the developmental state as a corporate actor with certain structural characteristics, which formulates and implements particular economic policies to promote industrialization" (p. 17).

The analysis of Hsu is helpful in initiating a discussion of the necessary conditions for the establishment of a developmental state and responds to the question of *how* a state becomes developmental. However, it does not adequately answer *why* a state becomes developmental. In fairness, Hsu's emphasis on history is certainly potent in giving clues to the answer to why for select countries in the region but the holy grail of a generic explanation is absent. If only a very specific moment in history – i.e., when they faced the external existential threat – was the catalyst to these countries becoming developmental states, then this explanation would not offer much hope or wisdom to other late-developing countries that wish to replicate the experience. Furthermore, we have seen other countries outside the initial success stories of Japan, South Korea, Taiwan, Singapore, and Hong Kong experience high speed growth as a result of enlightened (i.e., developmental) state policies. The most significant of them are the cases of Malaysia and Chile. But first, it is necessary to recap the unique historical circumstances of the initial cases and dissect them for "generic lessons."

The two most salient and unique historic events that led up to South Korea and Taiwan's high-speed growth eras are: first, in both South Korea and Taiwan the state was able to subdue and subordinate the capitalist class in urban areas and large landlords in rural areas just prior to the start of industrialization (see Cheng, 1990; Kay, 2002). The establishment of state hegemony over society provided space and independence for bureaucratic officials to create and implement policy. Second, the external threat faced by both countries fostered a culture of nationalism and a sense of urgency to industrialize as an act of survival. Despite these being unique events associated directly with these countries, it is still possible to distill some general lessons. The following is a tentative theory or list of factors, including the two above in their generic form, that will foster a developmental state. It is not exhaustive, but rather to provoke a debate and further research on the topic.

The outcome of these two unique events demonstrates the exceptional importance of the balance of class forces, as has been reiterated throughout this article, being such that the state is hegemonic and can repel penetration from the undesirable influence of domestic interest groups. In the cases of Japan[5], South Korea,[6] and Taiwan[7], this configuration of state and society was the consequence of an event of a "revolutionary" nature. In Japan, the Meiji Restoration in the 19th century substantially weakened the power of regional samurais who were previously the political and economic elite of the country. Then, defeat in World War II and American occupation completely revamped the balance of class forces with the state (and occupation forces) being given ample powers to impose its will over society. In South Korea, a similar far-reaching event led to almost identical results. The Japanese colonization of the Korean peninsula in the early 20th century debilitated, if not vanquished, the economic and social powers of the Korean elite. After the Korean War between the north and south, civil society was in chaos. Then, with the rise of dictatorship under Park Chung Hee, the state easily consolidated its power over society. In Taiwan, the defeat of the Kuomintang (KMT) in the civil war with the Communists on the continent in the mid-20th century led to the KMT's retreat to Taiwan. The agricultural elites in Taiwan were already in a fragile state after 50 years of colonization by the Japanese and were in no position to challenge the KMT. The KMT quickly established itself as the leading political and military force on the island.

From the above discussion arises the question of whether a revolutionary-like event is a requisite for state autonomy. This is indeed almost impossible to answer but most cases of late successful development have undergone such an

[5] For Japan, see Johnson (1982).
[6] For South Koreas, see Amsden (1989).
[7] For Taiwan, see Wade (1990) and Gold (1986).

experience. China had a communist revolution. Chile had the Pinochet dictatorship which imposed its authority over its much weaker capitalist allies in society.[8] The capitalist elites of Chile were certainly the junior partners in the ruling coalition which distinguishes the Pinochet regime from others in the region such as the one in Argentina. These latter type regimes were thoroughly penetrated by outside capitalist interests and their maintenance of political power depended on the support of these outside elite interests. In contrast to the Argentina experience, Malaysia, Indonesia, Thailand, and other successful emerging economies all have similar stories to that of Chile, Korea and Taiwan of one-party dominance or dictatorship that insulated bureaucracies from outside interference and permitted a rational planning process.

Notwithstanding this seemingly depressing conclusion, it is possible to envision the creation of state autonomy through a less violent or repressive dictatorial process. Some countries in Latin America, such as Colombia, Mexico, and Peru as well as India, South Africa, and Nigeria are recently experiencing acceptable levels of growth without having been subject to revolution or dictatorship. Although it could be argued that these countries have indeed suffered from violent social upheaval, it is important to note that they are pursuing a different political path through a quasi-democratic process. It is still far too early to know if they will reach the economic status of South Korea, Taiwan, or China. Yet, through fits and starts, they have achieved a modicum of success. Acemoglu and Robinson's (2019) concept of the Red Queen effect may help in explaining this success. The Red Queen effect is the pursuit of an equitable balance of power between state and society made possible by the organic mobilization of civil society to advance national interests, such as economic growth, that benefit all. As opposed to a top-down process of reform through revolution or dictatorship, the Red Queen effect is a bottom-up phenomenon where society pressures the state to behave in a non-predatory manner.

According to Acemoglu and Robinson, such a process is not a straightforward one and requires patience and perseverance at a country-level. It is achieved through society deploying institutional and non-institutional means to check the power of the government while leaving it in a sufficiently powerful position to conduct the business of the state. The institutional tools for keeping the state from becoming too powerful or dictatorial are elections, constitutions, and courts. This means the state must have already given birth to at least rudimentary forms of democracy or be on the verge of doing so. The non-institutional tools consist of mass mobilizations such as protests, strikes, and civil disobedience movements if necessary. There is no doubt that such a process to develop strong institutions via the Red Queen effect takes a much longer timeframe – decades if not centuries – but it is the path that many western democracies took to achieve state autonomy.

The second factor, a strong sense of nationalism that was a consequence of an external threat in the original successful cases of late development, is somewhat easier to foster than the "revolutionary event" factor discussed above. Patriotism and nationalism are present within all political entities. Nations can rally around achievements in culture, history, society, and sports. Appropriate means of communicating and instilling patriotism among citizens to focus single-mindedly on

[8] See Edwards (2023).

economic and social development should not be an insolvable challenge.

At a secondary level, there are two factors that will impinge on the emergence of an *effective* autonomous state, i.e., the bureaucracy's ability to implement rational policy. The first factor is large investments in human resources to buttress the cache size of appropriately skilled labor employable in government and in economy-wide industry. Without a sufficient supply of adequately educated labor, it is unlikely the state will be able to deploy the necessary bureaucratic brain trust to manage the economy. Even if this were possible, the economy at large would be handcuffed because of the insufficient supply of educated labor to fill industry positions and thereby retarding growth. There is now ample empirical evidence supporting the earlier economic theoretical models that suggested significant returns on investments in human capital. On these models, Vartiainen (1999) points out that "in general, these models lead to the conclusion that an economy's growth performance can be enhanced by various interventions, such as subsidies to investment in sectors with high potential for spillovers or subsidies to education and research" (p. 206).[9] Evans and Heller (2015) cite a wealth of studies that offer empirical evidence that supports these models. From research in Central American coffee producers to Scandinavian states, the main conclusion is that the relationship between capability expansion (i.e., educational investments) and economic growth is very strong.[10]

Second, a rational decision-making process is indispensable in formulating an appropriate policy response to solve intractable economic challenges. Many of the successful solutions to economic bottlenecks facing developing countries in the past were not obvious *a priori*. On numerous occasions, problems such as the recurring balance of payments (BOP) crises were solved by trial and error (see Cheng, 1989). Both East Asia and Latin America faced these same challenges and often initially managed them in a similar manner but then later diverged significantly once the initial policy ended in failure. In the case of the BOP crises, East Asia, after pursuing import substitution for numerous years, opted to increase exports in order to solve for dollar scarcity. In contrast, Latin America chose to stay on the path of more import substitution which, as well known now, created more dollar shortages. The ability of East Asian nations to chart new, enlightened paths is a consequence of knowledgeable individuals working within a shielded environment.

Conclusion

Critical to understanding the development strategies in each region are the roles their states played in instigating and implementing economic policy. As a result of embedded autonomy, the East Asian states had much wider scope to execute their

[9] Vartiainen (1999) cites Azariadis & Drazen (1991) in which they ascertain the strong contribution of educational expenditures for economic growth and the existence of growth "thresholds."

[10] Evans and Heller (2015) cite Boozer, et al. (2003) among others.

development programs. In contrast, the Latin American state suffered from deep penetration by civil society especially the elite capitalist owning classes. This often had the effect of corrupting development policy to favor a few over the rest of society. In East Asia, the balance of class forces gave the state the upper hand and permitted it to emerge as hegemonic over society. This was not the case in Latin America where the state essentially became captured by outside interests. The configuration of social forces permitted the state in East Asia to coordinate local industrialists, international capital, and society at large in a national effort towards economic transformation. In so doing, it was able to shape, and not be shaped by, the international environment. The opposite was true in Latin America. An alliance of local industrialists, labor, and the state, often with the support and assistance of transnational capital, led the way towards a regrettable strategy of slow growth, inequality, and widespread poverty.

Developmental state theory offers the best explanation of these outcomes. The plan-rational political economy of the East Asian nations in which the state intervenes to correct for market failures through direct and indirect investments in industry is a crucial framework for understanding the region's success. It goes much beyond institutionalism which contends that only a legal framework for the market suffices. The lack of a plan-rational political economy, by contrast, can explain Latin America's mediocre results. Furthermore, the empirical evidence of significant state intervention would contradict the arguments of neoclassical economic theory in explaining the economic achievements of East Asia. It is abundantly clear that the invisible hand of the market had substantial help from the state in East Asia. Dependency theory also fails to provide a satisfactory explanation. The results in East Asia are indicative of the preeminence of internal factors over external factors as the state was able to impose its will over both domestic civil society *and* transnational capital. Even in Latin America, where it is assumed dependency theory fits best, policies formulated domestically created international dependency – not the other way around. Dollar shortages as a result of the import substitution economic model fostered dependency on international capital.

As outlined here, the developmental state is characterized by its insulation from outside pressures; commitment to a market-based economy; its ability to interact with civil society especially the capitalist classes to both offer advice and prod them in profitable directions; intervention in the economy to promote national development; and finally, being staffed with a highly competent bureaucracy. However, describing the developmental state is only a first step in unlocking the path to economic transformation. Understanding the factors leading to the creation of a developmental state is essential to achieving high-speed growth. It is argued here that a reconfiguration of class forces, either through a revolutionary event or a slower democratic path underpinned by a mobilized civil society, is a necessary condition for the emergence of strong public institutions.

The autonomous nature of the state staffed by highly talented personnel allowed East Asia to use a rational, long-term approach to tackle issues of development. Moreover, once in place, these policies created networks of interest to sustain and advance the strategy which then bred further success. This only increased the legitimacy of, and support for, the state. It also meant the state could rely less on the use of force and more on its moral authority to implement policy even when policy was viewed unfavorably by the public. The resulting high-speed growth meant that this region could not only shield itself from detrimental external interests but also use these interests to its advantage.

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