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CHAPTER 9

The Changing Role of the State in Development in Emerging Economies:
The Developmental State Perspective

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Introduction

Fifteen years have passed since the seminal work of Hall and Soskice (2001) on Varieties of Capitalism (VoC), and extensive literature has emerged since then, which can be structured into possibly four generations. The first, the classical school of VoC, mostly relates to Hall and Soskice’s work (see also Amable 2003) and the differentiation of liberal market economies (LME) (e.g., the U.S., U.K., Canada, Australia, New Zealand, Ireland) and coordinated market economies (CME) (e.g., Germany, Japan, Sweden, Austria). The second generation is generally labeled post-VoC literature and aims at developing further types of capitalist models, mainly related to different regions or groups of countries. In this regard, the dependent market economy model (Nölke and Vliegenthart 2009) can be highlighted, but also the work of the Hungarian scholar Beáta Farkas (2011 and 2017), who analyzed Central and Eastern European (CEE) countries in this framework. The third generation of VoC literature is called critical comparative capitalism (CC), and it mainly deals with more critical, global approaches and most current issues such as international economic integration (e.g., the Eurozone crisis) and tries to incorporate the demand side of analysis (see e.g., Ebenau et al. 2015; Farkas 2016). A fourth generation of VoC research is currently emerging, although this differentiation is made on a rather speculative basis. There are some works and signs indicating that VoC analysis has recently (during the last two to three years) moved toward intertemporal (instead of international) comparisons attempting to define and characterize historical phases rather than simply building valid models for certain countries or world regions.¹

¹ Andreas Nölke drew attention to recent developments in VoC research in his presentation at the international conference on “The Role of State in Varieties
According to this theoretical structure, we see two entry points for our essay: first, emerging countries, even while gaining weight in the world economy and politics, have been generally left out by traditional VoC analysis (with some exceptions, such as Schneider 2009 and 2013; Nölke et al. 2015). Second, intertemporal comparisons are also often missing. Thus, we argue that studying historical development success stories and defining historical role models and lessons are valid research objectives.

The following chapter in this volume focuses on emerging economies and analyzes some of their success stories and divergent paths of development. Emerging countries have increased their share in the world economy substantially over the last decades. After the first and second generation of newly industrialized countries (NICs), more recently, we have witnessed the rise of large emerging economies, such as China, India and Brazil. Despite annual fluctuations and some rather negative tendencies more recently (the crisis in Brazil starting in 2014, or the deceleration of economic growth in China since 2010), there is no well-grounded reason to assume that the long-term rise of these large emerging economies will be reversed and their weight in the global economy will substantially diminish (May and Nölke 2014).

Looking at both historical and contemporary development success stories it is conspicuous that these have been rather neglected by VoC analysis until recently. Some more recent works have attempted to fill this gap, however, these are exceptional and do not follow the mainstream currents of Capitalism (SVOC): Achievements and challenges for Central and Eastern Europe and the emerging markets," organized by the Institute of World Economics (IWE), Center for Economic and Regional Studies (Hungarian Academy of Sciences) and the Center for EU Enlargement Studies (CENS, Central European University) on November 26–27, 2015 in Budapest.

Besides Japan, South Korea, Taiwan, Hong Kong and Singapore are generally referred to as the first generation of NICs.

Mainly referring to Southeast Asian countries, such as Malaysia, Thailand, the Philippines, and Indonesia.

In line with the rise of economic power, geopolitical ambitions and institutional efforts have also appeared, as the large emerging economies of the Global South have begun to organize themselves and institutionalize their cooperation more recently. Examples are numerous: the IBSA Dialogue Forum (India, Brazil, and South Africa), the BASIC alliance (also including China), or the BRICS grouping (including Russia). Regarding the VoC approach and especially the role of state in development, we argue that South Africa and Russia are outliers, and the state-permeated variety of capitalism (state capitalism 3.0) is valid for China, India, and Brazil (see Nölke 2014).
of political economy analysis. Nölke (2014) and his co-authors have analyzed large emerging economies, the BICS group (Brazil, India, China and South Africa), and constructed the model of state-permeated capitalism. Kurlantzick (2016) and Wylde (2017) speak about the rise of state capitalism and developmental regimes (respectively) in the twenty-first century’s emerging markets, while Schneider (2013) focused on Latin America and proposed the hierarchical market economy model to describe the latino variety of capitalism.

However, we start our theoretical introduction a few decades earlier. As we will argue throughout this chapter, there is a distinct thread in development economics, which can be regarded as the antecedent to VoC literature. Dating back to the 1980s and 1990s, the developmental state school has intensively analyzed a special variety of capitalism.

The first milestone in this line of inquiry was Chalmers Johnson’s (1982) book on the Japanese miracle, in which the Japanese model of development was described as a capitalist plan-rational developmental state (DS). With this distinction, Johnson’s main aim was to go beyond the contemporary dichotomous thinking shaped by the confrontation of the American and Soviet economies, i.e., capitalist versus socialist development. Johnson basically wanted to draw attention to the differences between the capitalist systems of the United States and Britain on the one hand, and Japan and its East Asian disciples on the other hand (Johnson 1999, 32). In this vein we argue that Johnson’s work and that of his disciples in the revisionist school (developmental state literature) can be considered a quasi-forerunner of the Variety of Capitalism school.

There is also another argument to more thoroughly analyze the developmental state perspective, namely, the early VoC works have more often than not neglected to consider the role of state in development. Therefore, we are convinced that in order to better understand how state intervention may influence capitalist models currently, it is worth starting our theoretical introduction by looking at the historical model of the Japanese developmental state and the analytical framework of the developmental state literature. Moreover, the economic and developmental role of the state has been moved back to the center of economic debate. Following the financial and economic crisis of 2008–9 and in light of the prolonged economic recovery afterwards, we can observe different types of active state interventions and growing state involvement to reduce the effects of the crisis and to revive economic growth and development throughout the world. Simultaneous with this shift in the practice of economic policy-making, we can witness the renaissance of developmental state literature in economics. By
the end of this chapter, we will argue that this new scholarly current is not the revival of the old or classical paradigm of developmental states (Woo-Cumings 1999), but the emergence of a new developmental state concept (though the breakthrough of a new paradigm has not yet occurred).

The chapter is divided into five sections: following the introduction, in the second part we define developmental states and then sum up main elements of the classical developmental state paradigm (DSP) based on Northeast Asian experiences, while embedding it in its global and regional context. In the third part, we argue that, due to substantial changes in the context, the classical DSP had run its course by the 1997–99 Asian Financial Crisis at the latest, and thus the theoretical concept has also collapsed. In the fourth part, we turn toward more recent changes: we provide an overview of the new challenges emerging (or intensifying) since the millennium, and based on most recent developmental state literature, we highlight the main elements of the new DS concept, which is still developing. Finally, we will present our conclusions.

Developmental States: A Special Variety of Capitalism

In the introduction we argued that the developmental state school should be considered a forerunner of VoC literature, with a special emphasis on emerging economies. We have also addressed the problems associated with the delineation of “emerging countries,” and the controversies concerning BRICS and other acronyms. In reality, we can see that there is only a handful of countries that have managed to historically catch up with more developed countries. Examining per capita real incomes and defining catching up as the move from the low to middle, or middle to high income category (as defined by the World Bank) the following figure shows that out of 101 middle-income economies in 1960, only 13 became high income by 2008. Among those countries catching up, we can find a number of countries often dubbed as developmental states: Hong Kong, Ireland, Israel, Japan, Mauritius, the Republic of Korea (South Korea), Singapore, Taiwan and China.5

5 We do not address the cases of the South European countries (Spain, Portugal, and Greece) here, and, for the rather obvious reason of resource (oil and gas-) dependency, we also leave out Equatorial Guinea.
Even though in the following sections we will argue that the developmental successes (miracle) of the classic developmental states of Northeast Asia went well beyond mere economic terms and GDP growth, this figure is indicative not only for those reaching outstanding performance, but also for those (countries of Latin America and Middle East) that remained trapped in the middle after initial success (World Bank 2012), such as Brazil or Turkey.

In the following, however, we concentrate on the success stories of the attractive emerging countries that became known in development economics as developmental states. The classical paradigm of developmental states was based mainly on the experiences of North- (and later on also South-) east Asian countries. Therefore, our focus will be on the distinctive features of their state-led market economy models.
Defining Developmental States

At the latest, by the millennium the term “developmental state” became a buzzword (Fine et al, 2013, 3; Routley 2014, 159), as it has become “a generic term to describe governments that try to actively “intervene” in economic processes and direct the course of development rather than relying only on market forces” (Beeson 2007, 141). We are convinced, however, that in light of revived debates on the role of the state in development, the concept of developmental states is still a useful tool to promote clear and reasonable academic debate. It is necessary to stick to a clear definition, and for this reason the original formulation of Johnson is a good starting point.

Accordingly, the term developmental state refers to: 1. a capitalist model: private property dominates the economy (no ideological commitment to state ownership); 2. a state-led development model: bureaucratic coordination replaces market coordination, and the active (even pro-active) interventions of state reach all parts of economic life, while discretionary and selective interventions dominate; 3. the central role of economic (development) planning: medium and long term economic plans are formulated and implemented (though often in a pragmatic, rather flexible manner); 4. a long term commitment to a development-oriented approach (not US-style regulation or a Soviet-style socialist approach); 5. wide social consensus regarding both the central role of the state in promoting development and the most important social and economic priorities (with high-speed economic growth and catching up as the most important ones) (Johnson 1982, 19–23).

The archetype of classic developmental states was the Japanese model as described in Johnson’s (1982) famous book, even though he was not the first or the last attempt to describe and analyze developmental states.

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6 We have argued elsewhere (Ricz 2017a) that it is not justifiable to call any active, interventionist state (that relies on selective industrial policy measures) a developmental state—as they often are by the media, in policy discourse, and even in some scholarship—as it is a much more complex institutional solution and policy concept.

7 Developmental states, of course, existed already well before Johnson wrote his seminal work and also in other regions of the world. Chibber (2005) and Bagchi (2004) consider, for example, the developmentalist experiments of Turkey, Brazil, and India as the first (less successful) attempts to build developmental states. In Latin America, Cardoso and Faletto (1979, 143–48) made the first reference to “developmentalist states” in their very influential book, Dependency and Development in Latin America.
During the following decades, this concept has been applied and expanded to several other countries: first, to Northeast Asian countries such as South Korea, Taiwan, Hong Kong, and as the only Southeast Asian country in this group, Singapore,8 (the first generation of newly industrializing countries—NICs), and then to other Southeast Asian countries, including Malaysia, Thailand, the Philippines, and Indonesia (second-generation NICs). Later it became common to characterize the state-led developmental approach of some European (such as France, Finland, Ireland) and emerging countries (such as Brazil—see Chapter Twelve in this volume—India, Turkey—see Chapter Eleven in this volume—and Egypt) in this way, while more recently, it is also often associated with the Chinese case and to some fast-growing African economies (such as Rwanda, Ethiopia, or even South Africa).9

**The Classical Paradigm of Developmental States**

Vast literature on developmental states has emerged since the conceptualization of the original idea of Chalmers Johnson’s (1982) plan-rational capitalist developmental state, the Japanese model. In this section, we aim to summarize the most important features of the classical model of developmental states based on the experiences of Northeast Asian countries (Japan, South-Korea, Taiwan, Hong Kong, and Singapore).10 The most important elements of the model are relevant and applicable to the development experiences of Southeast Asian countries, such as Malaysia, Thailand, the Philippines, and Indonesia.11

To establish the foundations of the classical model of DS, we rely on core DS literature, such as Johnson (1982), Amsden (1989), Wade (1990),

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8 See Chapter Ten in this volume.
9 For a breakdown of states considered to be developmental in both historical and contemporary scholarship, see Routley (2012, 11–12).
10 The Japanese case is, in several aspects, unique, and the two city-states (Hong Kong and Singapore) deviate from the structuralist point of view. Yet it is still argued in literature that these Northeast Asian countries have relied on such a similar economic policy mix, that it makes them a unique group that is different from most other regimes” (Pempel 1999, 160).
11 The main differences of North and Southeast Asian countries are highlighted by Booth (1999). For the specificities of Southeast Asian development models, see Raquiza (2012).

Below are the most important dimensions of the classical paradigm of developmental states, based on the experiences of Northeast Asian developmental states between 1965 and 1990, the so-called economic miracle period.\footnote{The high-performing Asian economies (Japan, Hong Kong, the Republic of Korea, Singapore, Taiwan, Indonesia, Malaysia, and Thailand) reached outstanding growth performance between 1965 and 1990, with a yearly average of 5.5 percent growth rates in GDP per capita, outperforming any other region in the world (World Bank 1993, 2).} This will serve as a reference point for the case studies presented in the following chapters.

The classical model of the developmental state contains the following elements:

1. Economic nationalism and social mobilization.
2. A strong, centralized and authoritarian state:
   i. Relative autonomy from influence of social groups.
   ii. A small and determined elite.
   iii. The state’s power to discipline business.
   iv. A developmental dictatorship.
3. Wide-ranging interventionism and the central role of industrial policy (selective and discretionary measures and the practice of picking winners).
4. The central (economic, political, and social) role of large diversified business groups.
5. A meritocratic bureaucracy with embedded autonomy.
6. The primary role of the agricultural sector and land reform.
8. Financial repression
   i. Based on high domestic savings, and fiscal and other incentives by the state, and state moves toward subsidized, strategic industries.
   ii. Implicit and explicit state guarantees.
   iii. Bailout policies (and practices) toward financial institutions as well as the business sector.
   iv. Limited entrance into financial markets.
   v. The closed and subordinated role of capital markets.
9. Macroeconomic stability and good macroeconomic management.
10. Shared and equitable growth.
Due to space constraints and the main focus of the current volume, one aspect of the above list will be highlighted, namely the pivotal role of the state versus large diversified business groups in economic catching up. Even though we have labeled Japan, South Korea, Taiwan, and Singapore as developmental states, there were significant differences in both their economic structures and strategies. While in Japan, private corporate groups, *keiretsus*, revolved around a central financial institution, in the case of the Korean *chaebols*, there was no such financial hub. At the same time, the industrial structure of Taiwan was more dominated by smaller companies, while in Singapore, a large state-owned enterprise sector has evolved. Financial sectors have also differed in their structure: in Japan, most banks were privately owned (and strongly linked to business conglomerates), but the Bank of Japan and the public postal saving system were key components of the financial hierarchy. In South Korea, almost the entire banking sector was private; however, the role of government in directing capital toward selected sectors (and companies) has been crucial. In Taiwan, mainland control dominated the banking sector, while the financial and industrial spheres were kept relatively separate (Pempel 1999, 150). The role of foreign investment has also been different, and, in general, played a much more important role in the South Korea and Singapore, while it was largely excluded in Japan.

All in all, although state influence was present and has been a dominant feature of classic development states, their economies were mainly dominated by private companies, and state influence was exerted often via indirect means (not by ownership, but in terms of close state and big business relations, or via financial repression). However the power of the state to discipline big businesses was strong (at least initially) in all classic DS, and in exchange for generous state support, international competitiveness was expected as “each regime has operated with an eye toward world market” (Pempel 1999, 173). Thus state interventions have reinforced market principles, at least in their international dimensions (the domestic marketplace was dominated by entry barriers and oligopolistic structures).

According to Johnson (1998, 653), the classical model of developmental states, based on Northeast Asian experiences, consists of “…Asian values on subjects such as the nature of government, priority given to the community over the individual, and government guidance of a nonetheless privately owned and managed market economy, with economic growth tied above all to exports.” Thus, it refers to a state-led market economy, and a capitalist model with substantial economic growth and increasing
wellbeing intended to serve the whole society (a growth-with-equity approach).

The Context of Economic Success in Northeast Asian Developmental States

To fully understand the success and failure of the classical model of DS, we have to put it in its historical and institutional context, as these unique conditions contributed to these countries’ overwhelming economic success, while at the same time, they made the model non-transferable and unrepeatable in other times and places (Pempel 1999, 180).

The historical interplay of (political, economic, ideological, social, regional, and security) forces has contributed to the East Asian economic miracle.13 Some of these were temporal related, while others were geographically determined and region specific.

We distinguish three elements of the general environment: 1. The global political context of the postwar period (the national capitalist development concept, economic nationalism). 2. The global economic context of the post-war period (the neo-mercantilist approach, growing protectionism, relatively closed economic systems and models). 3. The context of late-development (national-based Fordist capitalism, the promotion of strategic national industries, and, in the context of underdevelopment, mass poverty and infrastructural deficiencies caused by the destruction of war and economic catching up as the first priority supported by wide social consensus). These permissive global conditions meant that national economic performance depended, to a large degree, on the competitiveness of large national firms, and created the basis for national dirigist state-led development policies.

In addition, three region-specific conditions have also substantially contributed to the unique context of the Northeast Asian developmental experience. First is Japan’s outstanding role within the region: 1. as a former colonial ruler (which created the important institutional setting); 2. as an important economic donor, providing development aid, and, later on, capital; 3. in more general terms, as the regional economic leader (providing markets and serving as an economic partner); and 4. as a role model

13 See also Doner, Ritchie, and Slater’s (2005) arguments on the interactive conditions of systemic vulnerability present in the case of Northeast Asian DS. But the lack of these led to much less ambitious state-building efforts and, thus, much less outstanding development outcomes in Southeast Asian countries.
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for economic development. Second, the complex role of the United States in security and economic policy, whereby it provides: 1. development and military aid based on geopolitical considerations; 2. foreign direct investments; 3. preferential market access; and 4. in more general terms, the commitment of the U.S. to ensure the stability of the region by all means (to stop the spread of socialism-communism, and to secure the border between the two poles in the Cold War). All of these have produced substantial implicit and explicit benefits for the development of the Northeast Asian region. As a third special condition, we highlight historical and cultural factors: most countries in this region have relatively homogenous societies (with small ethnic, religious, racial, linguistic, or other differences); have inherited extensive and high quality institutional systems from the colonial period (for example strong and well-performing core administrative systems, extensive, high quality educational systems). Asian cultural values have also played pivotal role by placing the community and its priorities above individual interests, which has had wide ranging economic consequences. Two examples of this are: the very strong individual commitment and maximizing efforts to contribute to the implementation of community priorities (resulting, for example, in extremely long working hours compared to European standards); and second, the provision of social security and welfare primarily through the family, community, and business enterprises has freed up important state resources.

We have summed up the most important characteristics of Northeast Asian developmental states, which is also called the classical paradigm of the developmental state. We have embedded Northeast Asian experiences, namely the region’s economic miracle, in its proper historical and geographic context. During the 1990s (with some processes starting even before then), these general and specific conditions have substantially changed and fragmented the internal and external coherence of the model, which has led to the decline of the classical model of the developmental state (Benczes 2000 and 2002; Woo-Cumings 1999; Ricz 2017a).

The Fall of the Classical Developmental State Paradigm (DSP)

During the 1980s and 1990s, substantial changes took place in the external and internal environments of classic developmental states and have led to changes in individual states’ room to maneuver. However, these changes have also altered expectations and perceptions as well as the decisions of economic actors and individuals. Altogether, this meant that the specific
context that enabled the success of traditional developmental states (as discussed in the previous section) has changed significantly and led to the demise of the classical model.

The Asian financial crisis of 1997–99 (AFC) was a milestone signaling the end of an era (and the beginning of a new one). However, changes in the specific context of the classic DS already started years and decades earlier and accrued, culminating in the AFC.

The classical DS model emerged in a closed economic system in which trade flows dominated interactions between national states. The structural transformation of the global economy started already by the end of 1960s, leading to an open global economy dominated by capital flows and transnational corporations transcending national borders.

Another dimension of the structural transformation of the global economy has been the rise of the service sector’s weight and the emergence of the bit-based knowledge economy. This led to the appreciation of human capital investments, access to information and innovation, and networking activities. Technological changes have not only affected sectors of the new economy, but have altered the organizational forms of traditional economic activities as well as modes of corporate governance.

Changes in the global financial system have been even more striking than changes in the economic production system described above. Financial globalization led by the private sector has intensified since the 1970s. Several interconnected elements can be highlighted: the deregulation of financial systems, the separation of the flow of goods and financial flows, the growing weight of speculative transactions, the intensification of capital flows, the appreciating role of stock exchanges, and the virtualization of financial transactions. All these processes taken together have significantly altered the options available to finance a nation-based development model.

Today’s economic environment and structures substantially differ from those that reflected the specific context of late developing states during the 1970s. Changes were even more pronounced in the financial sector. Financial liberalization, globalization, and open capital accounts have placed efficient resource allocation at the heart of any current development strategy. Gone are the days of financial repression and selective industrial policies directed by the state and its bureaucracy as was common in the case of the classic DS. In light of ever more complex economic activities, the state or any other actor is less and less able to collect sufficient information to directly and successfully intervene in the shaping of industrial structures or select leading industrial sectors or enterprises.
In line with changes in economic structures and the transformation of the financial system, global governance and the regulatory environment has also significantly changed (see e.g., the World Trade Organization, Basel Accords, International Accounting Standards, etc.). This new institutional and regulatory setting significantly constrains developmental states’ room to maneuver and their ability to apply classic tools of economic stimulation and deploy repressive financial practices.

International political and ideological settings have also changed. The end of the Cold War and the effects of postcommunist countries’ transition have all contributed to significant changes in the specific context of the classic DS. It is enough to recall that the end of China’s forty years of sequestration from the global economy has had an unprecedented effect on the international competitiveness of East Asian (and especially Southeast Asian) countries.

Ideational changes have also taken place, and according to Amartya Sen (1999), an outward orientation has been elevated over any nation-based economic strategy, and a capability-based interpretation of development, which has meant a significant departure from the former growth-maximizing approach. Besides the economic dimension of development, social, political, and environmental dimensions came to fore, and spatial, generational and gender issues lie at the heart of current understandings and interpretations of development.

Intensifying globalization has also led to changes in people’s daily lives. Demonstration effects via the spread of new ICT and new mass communication tools and social media platforms have altered people’s preferences and expectations in the quest for democratic systems and “good governance” (such as non-corrupt, rules-based, participatory, transparent, and accountable policy-making).

The above described processes have resulted in significant changes in the special context of the classic DS, which has enabled these states to directly guide the market and stimulate the economy with “traditional tools and measures” during the mid-twentieth century.

One of the most important implications is that, starting in the 1980s, the liberalization process has undermined the internal coherence of the classical DS model, which was not able to adapt itself to either the new external conditions or to the changed internal settings (shaped by weakening state capacities and the ever stronger private sector). Accordingly, the decline of the classical DS model has to be regarded as a systemic phenomenon, and the AFC only brought these internal controversies to the fore.
We sum up our preceding arguments in the following six points, which highlight the underlying mechanisms leading to the decline of the classical DS model.\footnote{This argumentation builds on László Csaba’s presentation on developmental states and the discussion that followed, held at Central European University during the course “New Political Economy of Development” held on February 19, 2015.}

1. The structural transformation of the economy: global, transnational organization of economic production and growing complexity of economic activities undermine direct state guidance and “picking winners” strategies in the industrial sector, whereas domestic subsidies in a globalized production line do not necessarily increase domestic investments and production.

2. Significant societal changes: a more urbanized and “enlightened” society is probably less accepting of authoritarian and repressive regimes; the quest for democratization and good governance rises, while at the same time, altering preferences might lead to increasing consumerism (as in the case of Latin America).

3. Changes in the global financial system and capital market leave no or very limited room for development models based on state-led and repressive national financial systems, in which resource allocation is subordinated to long-term industrial goals rather than any efficiency measures (let alone price signals). Successful integration into the globalized financial system and capital market is, however, predicated on institutional reforms, as relational banking and cozy relations between the state and business sector are not compatible with the new global rules of the game.

4. Changes in corporate governance are inevitable consequences of the above-described trends, as above certain development levels, an increase in investment levels has to be accompanied by better management practices, efficient resource allocation (and well-functioning capital markets), and foreign ownership (to acquire new knowledge and technology).

5. Changes in state-business relations were also forged by the changes in the economic and social context. In the short run, Northeast Asian states could discipline the business sector. However, in the longer run, as intensifying integration into the world economy and efficiency criteria came to the fore, the capabilities of
6. The legitimacy of the mostly authoritarian, strong developmental states was provided on the one hand by US security considerations during the Cold War, and on the other hand, by exceptional growth performance that equally benefitted different classes of society. Both internal and external legitimacy based on the classical DS model broke down by the 1990s, which exposed the fragility of this very specific development model.

All in all, the classical model of DS reached its limits at the latest by the end of 1990s, as inherently signaled by the AFC. However, in the following section we will argue that this is not the end of the story. Although significant changes took place in East Asian developmental states as well as in other emerging countries, after years and decades of market-oriented and structural reforms, the state continues to play a significant, albeit mostly altered and transformed, role in most emerging economies, and certain continuities with the past prevail (see the national case studies in the following chapters).

The Quest for a New DS Concept in the Twenty-first Century

The need for re-thinking the analytical concepts for developmental states can be verified with the aforementioned fall of the classical DS paradigm and by the new challenges that emerged (or intensified) in the twenty-first century and created new circumstances (both possibilities and limits) for governments to formulate and realize their main socio-economic developmental objectives.

At this stage it is premature to speak about a new DS concept, and this is not the aim of this essay. However, there are some preliminary pillars around which consensus has formed in economic literature (Fosu 2013a and 2013b; Williams 2014), and these will be outlined in the following section. It is worth noting, however, the most important insights up to now: both economic and political sustainability requires an inclusive, Senian approach to development; transformative social and economic (structural) policies are needed, which place special emphasis on the enhancement of human capabilities and the new, service-based economy; and last but not least, for promoting these new developmental changes, building domestic institutional capabilities is a *sine qua non* condition, which is all too often disregarded by policy-makers, decision-makers, and even academic circles.
There are two straightforward ways to move toward a new DS concept: first, relying on the synthesis of the most recent theoretical results, and second, “streamlining” the latest experiences of states or groups of states as revealed by their development success and their economic policy practices. The theoretical starting point shall be the new paradigm of development (Sen 1999) embedded in modern theories of development economics, modern growth theories, as well as in new political economics and the new institutional economic school (Evans 2014). For more concrete theoretical underpinnings, see also the new developmentalist approach shaped by the work of Bresser-Pereira (2011, 2015, 2016) or the excellent book by Jan Winiecki (2016) on economic development strategies, structural change, and potential “shortcut strategies” for catching up in the less developed countries of the Global South. Related to the other methods of constructing a new concept, the most recent experiences of new DS, the most recent experiences of East Asian countries—not only in the Northeast, but also, or even more so, in Southeast Asian countries (Raquiza 2012), and, according to some analysts, also the particular development paths of China and India (Hua and Hu 2015; Hsu 2018; Székely-Doby 2017) have to be taken into account. In a broader sense, however, the experiences of the latest Latin American developmentalist experiments (Schneider 2015; Wylde 2012; Ricz 2017b) and those of some quickly growing African economies (Booth 2015; Routley 2014; Biedermann 2016) might offer some useful lessons.

We are convinced that approaches based on theoretical results and practical experiences move in the same direction, and combining both might prove useful for constructing a new DS concept. In this section, however, we have a much less ambitious objective: after some definitional issues, we aim to sum up the new challenges of the twenty-first century, which legitimize the quest for a new developmental state concept. Then, by synthetizing the most recent academic literature on developmental states, we aim to present a common analytical structure for developmental states in the twenty-first century. For a more practical approach and an overview of emerging economies’ most recent experiences of reform and the transformation of the role of the state in development, see the following chapters and case studies.

*The New Challenges of the Twenty-First Century*

In the previous section we have argued that at the latest, by the end of the twentieth century, changes in the external and internal context of classic (East Asian-style) developmental states has led to the fall of the classical
DS paradigm. At the beginning of the twenty-first century, all the “to-be-developmental states” face new challenges that significantly differ from the circumstances and conditions prevalent when the classic developmental states emerged during the mid-twentieth century. The first four challenges are based on the work of Michelle Williams (2014, 8–20). Additionally, a further aspect is included (in line with Fine and Pollen 2016).

The first challenge is new economic re-structuring, which refers to the shift from manufacturing to the knowledge and service sectors, the so-called bit-driven or new economy based on knowledge and innovation. In this “new economic” setting, beyond physical capital accumulation, expanding human capabilities and the spread of information (through, e.g., investments in education, health, and legal infrastructure) play an ever larger role. The modern economy is increasingly driven by knowledge, innovation, as well as by business and financial services, and this stands in stark contrast to the twentieth century, which was defined by manufacturing. Along with this shift, different types of activities from both the state and the private sector (the entrepreneurial sector) are required to actively promote development. The state remains important in its traditional activities, but these have to be complemented with new activities supporting the creation and spread of knowledge and innovation, and those related to the state’s new entrepreneurial roles, such as risk-taking and market-creation functions. At the same time, traditional networks between the state and the business sector have to be revised as well, in order to create a symbiotic rather than a parasitic relationship (Mazzucato 2013, 23).

The second challenge relates to changes in the political context of the twenty-first century’s developmental states. Changes in domestic politics, namely the move from authoritarian regimes toward more democratic ones is moving hand in hand with the spread of new information and communication technologies. The emergence of a new bit-driven economy also has direct and indirect consequences for society and politics. Given the increased appreciation for knowledge and human capabilities, a new “enlightenment” is taking place, provoking changes in social needs, norms, and values. As long as the specific context of classic DS was determined by late development, mobilization for war, the external threat of the Cold War, and economic nationalism (and due to all these factors the societies of the classic DS were willing to make some sacrifices, such accepting repressive authoritarian regimes), today any “to-be-developmental state” must create and build up a new basis for legitimacy according to the new circumstances of the twenty-first century. Within this new political context, community priorities and a developmental agenda have to be set up based
on a new alliance between state and society. In most cases, these changes imply the move from authoritarian regimes toward more democratic ones defined by the embeddedness of the political subsystem in society, political freedom, participation, the involvement of civil society, and the collective determination of the main priorities of the community. According to Amartya Sen (1999), a democratic political system based on representative, deliberative political participation is not just a means for achieving widely defined development but is a goal in itself.

The third challenge in Williams’s list (2014, 18) is related to epistemic changes in the meaning of development and its interpretation. The expansion of the meaning of development is an unequivocal move away from the “economic growth-centered” thinking of the last century, toward a “development as freedom” interpretation according to Sen (1999); the latter is also called a human-capabilities approach. Thus, the promotion of development does not equate with a “technical problematic” of economic growth that merely requires economic knowledge; a development-oriented approach has to be increasingly considered a political problematic, as social welfare is a function of different non-economic factors (besides, of course, economic growth), such as social justice, poverty, inequality, or social participation and perception.

The last challenge mentioned by Williams (2014, 20) is ecological: environmental limits, including the new challenges posed by climate change and different aspects of environmental justice. By now, it is beyond any doubt that the resource-intensive development path of the last century, which was based predominantly on fossil fuels, cannot be sustained globally in the twenty-first century. This inherently leads to changes in existing consumption and production patterns and habits, while existing structures and infrastructures also have to be revised and altered. In light of market failures and externalities, the state has to play a central role in the realization of a green developmental path. At the same time, according to Mazzucato (2013), environmental limits also offer governments the opportunity to revise their development strategies and consider green technology developments as engines for economic growth, employment, and innovation in the long run (and to realize an environmentally sustainable development trajectory). Furthermore, we would like to add that given the past experiences of developmental states, in addition to the environmental aspects, greater attention must be paid to the spatial dimensions of development, and consequently there needs to be a greater focus on rural areas and the role of agrarian development.

The four challenges mentioned above could be further expanded by including the pressures that twenty-first-century developmental states face,
which significantly alter their options and their room to maneuver: financial globalization and the experiences and effects of recent financial and economic crises. Due to these, the significance of efficient resource allocation has increased, while the financial viability of nation-based development interventions is deteriorating. In order to understand the logic of development-oriented interventions in light of financial globalization, one has to distinguish between productive (real) and speculative (financial) investments. While in the former case, it might be a stated and accepted objective to support employment growth or the expansion of human capabilities, for the latter, state regulation might be needed to decrease financial vulnerability. Fine and Pollen (2016) refer to this challenge as financialization (“the extraordinary growth of finance”), and highlight its wide-ranging consequences, such as the influence of finance on investments, value judgments, and more broadly, extending over economic and social policy issues, which, as a result, constrains (or at least transforms and conditions) prospects for development or even the emergence of developmental states.

Toward a New DS Concept

In economic historical terms, we can date the most recent generation of developmental state literature back to the start of the millennium. However, following the global financial crisis in 2008-9, we can observe a so-called renaissance of the developmental state approach (Fine et al. 2013; Mazzucato 2013; Wade 2014; Williams 2014). The most recent works on DS tend to build on the intellectual traditions of classic DS literature but also deviate from it in several key ways, such as its geographical focus, or by mixing institutional and economic policy approaches.

The core elements of the new, twenty-first-century DS concept are mostly compared with those of the classical DS paradigm, which serves as point of reference, to reveal the most important continuities and changes while drawing up the main tenets of the new DS concept. The starting points remain the new paradigm in development economics, the development-as-freedom approach, and the most recent structural changes in the economy (the increased weight of the knowledge economy), the result of which has been that the expansion of human choice and capacity becomes a primary goal and means of development.

According to the new paradigm of development (and because of economic and political changes—as presented in the previous section, which have resulted in the need to revisit socio-economic alliances and formu-
late a new social contract), new developmental states have to prioritize a socially (sustainable) equitable and inclusive development path. Successful “to-be-developmental states” have to dispose of a concrete (well-determined) developmental vision that, according to Mazzucato (2013), goes beyond a commitment to the development-oriented approach and consists of given (even sectoral) priorities. This developmental agenda is, however, in an ideal case defined by the inclusion and wide-ranging consensus of diverse social classes, economic actors, and other interest groups.

It is beyond the scope of this paper to go into the details of the latest DS literature (for a more in-depth discussion, see Fine et al. 2013; Mazzucato 2013; Routley 2014; Wade 2014; Williams 2014). Instead, we aim to sketch a new analytical framework that can be used to structure thinking and related academic debates on developmental states in the twenty-first century. To identify the main levels of this new structure, we rely on the development regime theory originally elaborated by T.J. Pempel (1998, 1999), and then applied by Christopher Wylde (2012) to Latin America, and on David Booth’s (2015) somewhat modified version applied to contemporary African developmental experiments. The new developmental regime approach can be structured into three analytical levels: 1. socio-economic alliances or political settlements; 2. political and economic institutions, and the process of policy making; and 3. the public policy mix: developmentalist bias in relevant public policies.

On the first level, Mushtaq Khan15 emphasizes how a development-oriented political settlement decreases political pressure on acting governments to patronize certain interest groups and to apply a short-term perspective to development.16. One of the main specificities of developmental states is that by building up balanced socio-economic alliances, these can lessen the role and share of discretionally distributed rents for buying the support and/or loyalty of certain elites or interest groups. At the same time, these makes it possible for governments to apply a long-term development-

oriented approach and implement their long-term developmental vision (beyond short-term changes in political leadership).

Pempel (1999, 158) argues that all (post-)modern developmental regimes must consist of the following key characteristics if they wish to actively and successfully promote economic and social development: 1. it has to support the creation of a socio-economic coalition that is stronger (in terms of disposing or owning more politically relevant resources) than any other coalition of opposition parties; 2. it has to be able to set main priorities in politics and thus put forward a national development agenda; 3. it has to be able to articulate a legitimate ideology that implicitly represents the interest of its supporters as the nation’s common interests; 4. it must be able to reward its supporters with sufficient benefits in order to secure the sustainability of their support and the regime itself.

Mazzucato (2013) even goes further when she argues that only a developmental (entrepreneurial) state with a clear and well-determined (and well-articulated) developmental vision can be an equal partner with the private sector, and, thus, only such a self-confident state can avoid capture by certain interest groups. Such an entrepreneurial state can play a leading, and even a guiding role in the economy, and build up a symbiotic relationship with the business sphere, while focusing on such activities that are not taken up by the private sector because the latter is too risk-averse and dominated by short-term thinking).

In the new DS approach, the main difference to the classical paradigm is the inclusion of wider sectors of society (such as new relations with labor, which were repressed by the old DS). It explicitly aims to build new networks of state and society that are based on social participation, deliberation, and consensus building, while, at the same time, include wider segments of society (resulting in a new—inclusive—social contract).

Wylde (2012, 81) emphasizes that this new DR approach differs significantly from the classical DS theories, as the latter mainly focused on relations between the state and the industrial capitalist class (see also Evans’s [1995] embedded autonomy theory). To build up the legitimacy of the twenty-first century’s developmental regimes, much wider segments of society must be included. This is a much more complicated task for the new development-oriented governments; however, most groups in society share a common interest in expanding human choice and capacity, and the only task is to raise the public awareness of these issues and build up support for related investment decisions (Evans 2014, 234).

On the second level we look at the policy-making process. In the most recent developmental state literature (such as Booth 2015; Fosu 2013a and
2013b), there seems to be a consensus that the only lesson to be drawn from successful development-oriented experiments regarding the process of policy making is the primacy of pragmatic, problem-driven approaches.

By pragmatism we mean that successful East Asian countries did not aim to implement any grand(iose) plan, but political leaders and technocrats in the bureaucracy searched for the best answers to the most pressing problems, relying on the principle of trial-and-error and the learning-by-doing process (Routley 2014).

Building on experiences of developing and emerging countries Andrews et al. (2013) also highlights the problem-driven and iterative learning process as the key factor behind good policy choices and adequate institutional architecture. In this vein, they argue that the general lesson of the policy-making process for “to-be-developmental states” is the problem-driven iterative adaptation (PDIA) approach. Consequently, in the area of policy making, the one-size-fits-all approach is not applicable, and one has to search for its own solutions in light of its pressing problems and the prevalent context, while also learning from others’ development successes and failures.

Similar insights are highlighted by Fosu (2013b, 7), which builds on the experiences of eighteen developing countries and argues that both orthodox and heterodox policies might be successful, depending on the specific circumstances. Accordingly, the main differences between successful and less successful countries can be linked to the application of a pragmatic approach to economic reforms, the specific nature of reforms, and the ability of countries to take advantage of market forces. At the same time, there is a main difference when choosing between orthodox or heterodox policies; the latter builds on a much broader set of active state interventions and requires a much more capable government with a much higher quality of public bureaucracy (see, for example, the classic East Asian developmental states).

In the capability approach to development, the only way to determine social and economic development objectives is through the democratic reconciliation process. Like human capabilities, one of the most important state capabilities is making choices, and the process of participation is not only the means, but also the end of development in itself (Sen 1999, 291). At the same time, according to the arguments of Rodrik (2000) and Evans (2014, 234), participatory political institutions have to be regarded as intermediary institutions that help elicit and aggregate local knowledge and, thus, result in an institutional learning process through which it might become more effective to build and operate better institutions of other types as well.
Finally, the third level consists of the analysis of development-oriented bias in public policies. Even though we admit that development strategies are context specific, and are valid within time and space constraints, and thus, as a rule, these cannot be emulated without adaptation under different circumstances. Still, we argue in line with Fosu (2013a and 2013b) that on the level of economic policies, there are sufficient commonalities across countries that are successful regarding the ability of some components of development to articulate guiding principles for other, less successful countries that have similar characteristics. Looking at a wider range of the scholarly literature, there emerges a certain package of economic policies that can be considered a general compass if applied flexibly enough, and if adapted to local conditions and circumstances. It is out of the scope of this introductory chapter to go into details on the specific characteristics and elements of a development-oriented public policy mix, but we can still summarize some important programmatic insights (see also Evans 2014; Fosu 2013a and 2013b).

First of all, both the capability approach to development and the newest restructuring of the economy (toward a bit-driven and service-based “new economy”) result in the appreciation of the role of human capabilities, as these become the main driving forces behind development in the twenty-first century. With this, investments in upgrading human resources and in legal (and physical) infrastructure providing access to information and promoting the spread of knowledge gain central importance in development policies and strategies.

Investments in expanding human capabilities tend to remain below socially optimal levels due to the market logic (the difference between social and private returns, higher risk, and longer return periods). In the words of Evans’s (2014, 230), “Public investment is the only plausible route to optimal levels of investment in human capabilities.”

The provision of services aimed at expanding human capabilities (such as education and health) are traditionally considered the central tasks of any (not only development-oriented) state, and according to the new approach, the effective delivery of capability-expanding services and investments has to be carried out aggressively by entrepreneurial public institutions, and placed at the top of the growth (development) strategy (Evans 2014; Mazzucato 2013). At the same time, public awareness of its immediate distributional and welfare effects has to be raised significantly (Evans 2014, 231).

Socially, the only sustainable development path in the twenty-first century is the accomplishment of an equitable, inclusive, and long-term devel-
opment agenda, not least to effectively mobilize the majority of a society in favor of these development objectives and to build up the legitimacy of the development-oriented approach. At the same time, according to a wide definition of social policies and the productive inclusion approach (or as Thandika Mkandawire [2007] calls it, transformative social policies), special emphasis should be placed on economic incentives that enable poor households to leave the self-sufficiency sector and productively get involved in the market-based economic sector.17

A second area of development-oriented state interventions is the active promotion of economic growth, namely infrastructural investments and industrial policy. Previously, we highlighted the central role of investments in the expansion of human capabilities. However, in developing countries, in addition to the need for human capital development, other infrastructural bottlenecks often pose important constraints on development. At the same time, private actors can often capture the returns of public investment, and the best example of this is the case of relatively mobile human capital.18 To avoid this risk, a solution might be to improve (through increased public investments) the complementary business environment, which in turn might increase the derived demands on human capital. According to this logic, Fosu (2013b) highlights the importance of balance between human and other, more traditional (such as physical, economic, and legal) forms of infrastructural investment in order to improve the complementary business environment and to provide incentives for the better-equipped labor force to stay. An appropriate balance19 of different (human, economic, institutional, and physical) infrastructural investments might not just decrease the exit-incentives for human capital, but often also acts as magnet to attract or maintain foreign direct investment (FDI), and in an ideal case, this might lead to the diversification of economic activities and technological development.

17 See, for example, the works of Banerjee and Duflo (2011) on the economic lives of the poor, or the most recent magnum opus of Martin Ravallion (2016) entitled, The Economics of Poverty.

18 To illustrate this case, we refer to the classic work of Hirschman (1970) on the “exit options” of human capital.

19 See, for example, Kimura’s (2013) new interpretation of the success of Japanese development. He argues that although social infrastructural investments played an important role, their share remained below 30 percent of total infrastructural expenditures, and economic infrastructural investments played a comparatively larger role.
In twentieth-century developmental states (at least in their classic iteration), industrial policy played a central role. In the most recent developmentalist approach, industrial policy has reappeared on the development agenda. However, according to the scholarship (Fine et al. 2013; Mazzucato 2013; Szalavetz 2015; Wade 2014) discussed above, it is easy to see that this renaissance of industrial policy should rather be called a science, technology, and innovation (STI) policy. At the same time, in most cases, the classic DS not only financed investments in location and equipment (physical infrastructure), they also facilitated the access of local companies to information, knowledge, technologies, and the creation of networks, and simultaneously encouraged companies to move toward economic activities that create new knowledge (and, thus, gradually move up the value chain).20

Regarding their industrial structure, developing countries in today’s technology-induced global economy cannot flourish without a knowledge-based development strategy, though certainly different focal points are necessary for predominantly agrarian economies versus industrialized middle-income countries. An important consequence of new technologies and the most recent economic structural change is that today, certain stages of industrial modernization can be leapfrogged.21 At the same time, according to Wade (2014, 781), price changes on the market facilitate gradual, step-by-step development, and these might impede larger changes, for example in innovation and economic diversification. To make these changes possible, active state interventions are needed in the twenty-first century.

This “old-new”22 industrial policy role of governments is still subject to heavy academic debate in economics, although scholars of modern DS mostly argue for a proactive, entrepreneurial state and mostly oppose the conventional mainstream view, which has a much more sector-neutral position and stands for the improvement of the general business environment and institutional infrastructure so as to attract productive private capital

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20 Evans (2014, 232) mentions China as a typical example of how the state resisted overprotecting monopolized (mainly northern and more developed) corporations and thus “supported” access to the productive ideas of its citizens and companies.

21 Thus, in this regard, Balassa’s (1981) classical stages approach is outdated.

22 Mazzucato (2013, 21) argues that these are not new industrial policy interventions and describes how the U.S. played a central role in developing new technologies, supporting new industries, but did this in a hidden way. Similarly, Szalavetz (2015) writes that industrial policies after the 2008–9 crisis are not new, but old industrial policy practices that have been revived.
and decrease the risk of out-migration of (state-financed) human capital. In contrast to this mainstream view, Mazzucato (2013) and Wade (2014) argue that, in our innovation-led economy, the state has to undertake risky innovative activities that are not performed by the private sector (including venture capital). For them, the state must go beyond (long-term, committed, and “patient”) financing basic and applied research and development activities (which are even admitted and highlighted by mainstream economists).

Another rather contested area relates to the role of state ownership or state-owned enterprises (SOEs) as an important channel of state influence in the economy. State ownership has long historical precedents in all parts of the world, and has evolved cyclically in different waves (for more details, see Szanyi [2016] and the introduction of this volume; chapter one by Voszka; and Nölke 2014, 2–5), and most of the theoretical and empirical literature covers the efficiency considerations of SOEs as compared to their private counterparts. Different schools emphasize different underlying causes of efficiency losses, such as agency and social and political views (for more details, see Musacchio and Lazzarini 2014, 4–5). We, however, emphasize the industrial policy view, according to which in the early phases of development, the state should step in and offer a “guiding hand” (reducing capital controls or the costs of research and development, or by coordinating resources) to firms so they can develop new capabilities (see also Gerschenkron 1962; Amsden 1989; Wade 1990; Evans 1995; Rodrik 2007).

Moving beyond these debates is the role that SOEs play in large emerging economies and how this has evolved over time. In general, it can be claimed that SOEs have traditionally played a much more dominant role in late-comer economies, and in partially different forms. But even after waves of privatization (and in some cases of re-nationalization), SOEs continue to deeply penetrate into emerging economies’ everyday life. Musacchio and Lazzarini (2014) describe alternative models of the organization of state influence and explore the spectrum of state interventions between the two extremes of full state ownership (Leviathan as entrepreneur) and the full private ownership. For in-between cases, the authors describe the Leviathan as the majority investor, where state retains majority control over partially privatized firms; and the Leviathan as minority investor, where the state has a residual, minority stake, or where firms receive loans and equity from state-owned development banks or investments from sovereign wealth funds (SWF) or other state-controlled funds.

While in more developed parts of the world, the recent rise of new forms of state ownership or influence has been related to crisis manage-
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ment after the 2008–2009 global financial crisis (GFC), in less developed, emerging economies, the rise of “state capitalism” dates back to the early 1990s and is not considered a temporary fix but constitutes a much more central dimension of long-term government policy and the key to economic success (Kurlantzick 2016, 11).

We could cite the Chinese case as a prominent example of the revival and (re)emergence of new forms of state ownership and influence over the economy. However, the following chapters that examine Singapore, Brazil, and Turkey (respectively) show that the story goes beyond China.

A third important issue is the financing of development, as it used to be a point of obsession in classical DS scholarship. Like the classic DS, Northeast Asian DS’ very specific context (financial development aid from the U.S. and Japan, traditionally high domestic saving rates, relatively closed economic systems, and repressed domestic financial markets) contributed to the financial viability of its unique national development model. Conversely, the financial difficulties (not least signaled by the debt crisis in the 1980s) of the developmentalist experiments of their Latin American counterparts in the twentieth century serve as the antithesis.

Taking into account the current stage of financial globalization and the most recent experiences of global financial (and economic) crises, it is clear that developmental states in the twenty-first century have much narrower room to maneuver to finance their broader economic growth (development) agenda, as did their antecedents during the mid-twentieth century.

In a financially globalized world economy, securing macroeconomic stability becomes central, as a stable macroeconomic position is necessary to build up business confidence, encourage investors, and attract FDI. Though in the short run and only temporarily today’s developing countries might also rely on external sources (in addition to FDI, foreign aid and credits) during the implementation period of their development strategies, in the longer run, a more balanced development budget is needed, and the role of domestic resources cannot be overrated. Incentives for domestic savings and the rationalization of government expenditures, the system of national taxes, as well as the government’s abilities to collect those taxes become core development issues.

Fourth, by the twenty-first century, it became clearly evident that outward-oriented development strategies are superior to any other nationalistic and dissociative economic strategies. The experiences of the classic (Northeast Asian) developmental states have also confirmed the benefits of an outward-oriented development strategy for long-term economic growth.
and development. In the classic cases, export-orientation implicitly presumed that bureaucratic guidelines are in line with international market forces (Amsden 1989; Johnson 1982; Wade 1990). Therefore, taking into account and relying on international market incentives was at the heart of the classical DS model.

In the twenty-first century, however, we have to go beyond the articulation of an outward-oriented economic strategy, and in order to achieve export-driven economic growth, the enhancement of the role of domestic institutions and their improvement is inevitable. Following Fosu (2013a, 11), outward orientation has to go hand in hand with increasing competition in the domestic market and with building domestic institutional capabilities (the improvement of macroeconomic stability and the strengthening of institutional and human infrastructure). The most recent global financial and economic crisis has shown that economic diversification (not only in terms of export products but also export markets) is not only crucial for long-term economic growth; it also plays an important role in securing economic stability (or in other words, in decreasing economic vulnerability). Outward orientation (and economic diversification) plays a complementary role (and does not substitute for) in the development of the domestic market. The most recent experiences of successful large emerging markets (such as China) underline the need for this complementary approach, while some less successful cases (such as Brazil) serve as cautionary tales.

Finally, social change during the twentieth century, globalization and the following changes in domestic politics have led to an appreciation of the role of the capabilities and capacities of political institutions to effectively define developmental goals. This presumes a new type of bottom-up relationship between the state and society; it also highlights the role of spreading, collecting, and processing information, and shows an appreciation for the capabilities and capacities of the public sector to fulfill these new tasks (Evans 2014, 222). A meritocratic, well-educated, competent, well-paid, and—from the perspective of political power—relatively insulated (but still embedded) bureaucracy forms the core of the classical DSP. In the new DS approach, however, not just technocratic qualities are needed, but also other, more political qualities are necessary to collect, screen, and process information in the knowledge economy and society; to define collective objectives in a participatory and consultative manner; and to reorganize relations with the business and civil sector.

Mazzucato (2013, 5–6) goes even further and argues that the public sector should not be regarded as the social version or imitator of the private
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sector; rather, its tasks and role in development should be totally reconsidered. The socio-economic challenges of the twenty-first century require a proactive, development-oriented state with entrepreneurial qualities.

This argument emphasizes the need for aggressive, effective, and entrepreneurial public institutions in order to secure the optimal level of investments for human capability expansion and to disseminate information and knowledge. At the same time, a capable and coherent bureaucracy is necessary but not sufficient for building successful developmental states in the twenty-first century. On the contrary, we argue that a special economic policy mix for constructing a new DS concept in the twenty-first century must be outlined, and at the very least it must contain investments in the expansion of human capabilities, broadly defined transformative social policies (including investments in education, health services, and labor market reforms), public sector reforms, as well as macroeconomic and industrial (or STI) policies, in addition to trade and tax policies.

These elements of a development-oriented public policy mix have to be taken together as a package, because they are mutually reinforcing with spillover effects that strengthen (or reduce) other areas. All of this underscores the argument that, by now, is almost a cliché in modern economics: it is not so much the volume of the state expenditures that matters, but rather its structure. Furthermore, long-term economic growth and development presumes a long-term commitment to socio-economic goals and the consistency of development-oriented public policies (not only on the rhetorical level, but also on the level of implementation).

The new DS approach we have outlined above is, however, much less a practical reality, and much more an opportunity that is too often overlooked or ignored by contemporary governments (Mazzucato 2013, 12). A government that aspires to be a developmental state in the twenty-first century shall be characterized by the following: a flexible and pragmatic approach; good networking and bureaucratic capabilities; the ability to coordinate the diverse interests of different social classes; and, more often than not, the ability to promote, implement, and realize incubation- and innovation-related activities. This new approach not only presumes tech-

23 Mazzucato (2013) also highlights that this does not only alter cooperative relations between the public and private sector, but also changes the expected returns to the state and the scale of the reward justified by the state interventions, which is a central issue for all “to-be-developmental states” in the globalized world economy seeking to finance their development-oriented activities.
nical capacities and proficiency (as was the case with the old DS), but also requires new methods to define normative and political objectives. Consequently, the proactive promotion of development in the twenty-first century becomes more than the “simple” technical problem of economic growth; it becomes a central issue in domestic politics.

Conclusions

We have presented the classical developmental state paradigm based on Northeast Asian experiences, and argued that changes in its unique context during the last decades of the twentieth century have inherently and systematically led to its demise. However, more recently, with the onset of the global financial crisis in 2008–2009, we have witnessed the renaissance of the developmental state approach in economic scholarship. We have argued that this is not the revival of the old developmental state paradigm, but a new one in the making, at least in theoretical terms (economic policy practices are still rather eclectic and diverse as will be shown in the following chapters). The desire to revise the role of state in development and to construct a new concept for developmental states was based, on the one hand, on the fall of the classical developmental state paradigm, and, on the other hand, challenges that emerged and intensified at the dawn of the twenty-first century.

To conclude, we want to highlight some of the major changes that have surfaced when trying to conceptualize the “ideal” of a twenty-first-century developmental state. First, the classical developmental state paradigm has been focused on the special case of latecomers to development, and has made economic transformation and catching up its top priorities. More precisely, it focused on maximizing economic growth. Due to the specific and unique Northeast Asian context, development was achieved in such a way that economic growth served the wellbeing of a wider social base, but this shared character of economic growth was rather an unintended by-product and less the result of deliberate economic policies or political intentions. Any developmental state theory in the twenty-first century has to go beyond this old approach’s focus on economic growth, and instead embrace the concept of broadly defined development and the so-called human-capabilities approach (Sen 1999) alongside the economic dimension of development. New DS models also have to focus on the inclusive character of development. We have to go even further because the economic and social dimensions, the political and environmental aspects,
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and the spatial, gender, and generational dimensions of development must be taken into account.

Second, the classical DS concept analyzed the structural transformation of backward, mainly agrarian economies within the specific context of late-development; so it mainly focused on the process of industrialization. The new economic transformation dating back to the end of the twentieth century has resulted in a shift toward the knowledge and service sector as the main driving forces behind economic growth. The new, bifurcated service sector (Evans 2014, 229) consists of a well-paid business and financial subsector providing employment opportunities for a small minority of service-sector workers, and a low paid—underestimated and under-rewarded—subsector of interpersonal services. This results in fundamentally different distributional and welfare implications just like twentieth-century industrialization did. One of the most visible consequences is the unprecedented rise of social inequalities. Against this background today we have to go beyond the special cases of late-development and industrialization, and analyze the structural transformation of economies at different stages of development in more general terms.

Third, this broader approach also implies that the geographical focus, which originally concentrated on (North-)East Asia, will not be exchanged for a new focus on Africa. But the new developmental state concept should also be extended geographically in order to shift focus to emerging economies worldwide.

Fourth, the immaturity of the new developmental state concept is well illustrated by the diversity of economic literature published in recent years. This scholarship often uses different labels for developmental states, emphasizing its catalysts, enabling role, or describing it as a facilitator. Mariana Mazzucato (2013, 21) even goes further in her book on entrepreneurial states, which she based on the experiences of more developed economies, mainly the United States. In it, she argues that a so-called “hidden developmental state”\(^{24}\) has played an important and active role in the historical economic successes of highly developed economies. According to her analysis, the state (of the United States) has moved far beyond Keynesian-style macroeconomic interventions or even the passive financing of research and development activities, and has performed entre-

\(^{24}\) For a longer discussion on the hidden developmental state, see Block’s (2008) original article or the review article by Szalavetz (2015).
preneurial activities in the Schumpeterian vein, such as actively overtaking market risks or creating new markets.

To summarize, it might be helpful to compare the main characteristics of the new DS approach to the classical paradigm along the dichotomies of the state and society, the state and the market, and the state and the rest of the world. We argue in line with Pempel (1999) and Wylde (2012) that there is a need to go beyond the tripod alliance of the nation state, domestic and international capital that has characterized classic developmental states.

Regarding the state and the market dichotomy, the active and positive role of the state in development represents the main continuity between the old and new DS concepts. This is manifested, for example, in the significance of macroeconomic stability and stable investment environment, or in the reliance on active industrial policy. Behind these major guiding principles, however, there are numerous changes and differences partly related to the types of interventions. However, even deeper discontinuities can be highlighted; due to advancements in financial globalization and the liberalization of capital flows, efficient resource allocation became a *sine qua non* for “to-be-developmental states,” while the need to decrease financial and economic vulnerability and the transformation of traditional industrial policy interventions also represent main discontinuities.

The relationship between the state and society has been undoubtedly and fundamentally changed. While the old, classic developmental states have achieved economic success despite the repression and political exclusion of wide segments (the majority) of their societies, in the case of the twenty-first century’s DS, state-society relations are much more inclusive (to incorporate the working class) and will be based on more equitable, inclusive, and participatory processes. The new approach builds on the inclusion of the needs and interests of diverse social groups in domestic politics and prefers policy responsiveness and a balanced approach to these very diverse social needs. The formation of new socio-economic alliances is, however, shaped by the political institutional architecture, the distribution of political power, and bargaining mechanisms. These differ from the classic solutions of the old DS during the last century; further, most recent successful experiments also demonstrate the wide-ranging possibilities and diverse patterns of cooptation of different interest groups (see following case studies).

Regarding the relations between the state and the rest of the world in the era of advanced economic (and financial) globalization, outward orientation (based on export diversification both in products and markets)
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has to be placed on a new footing and backed by a stable domestic institutional setting. In the golden age of DS in the mid-twentieth century, when nationalistic and nation-based development strategies were viable and most successful, East Asian DS were connected to the world economy mainly through the trade of goods (and their export-oriented economic strategies); today outward-oriented strategies are far more complex. Taking into account international processes and changes in the twenty-first century is unavoidable, as these shape the (changing) development opportunities and constraints that determine the political and economic terrain of modern states with developmentalist aspirations. We must add, however, that although we have focused our analysis on the level of the nation state, the new DS approach must also be applied on the subnational (regional and local) level, as these arenas play an ever more important role in providing human capability expansion services (such as education and healthcare), and deepening democratic participatory mechanisms.

Finally, we have shown that the new DS approach, which reflects the new challenges of the twenty-first century, is fundamentally a market-friendly approach, in which the state has an active but—compared to classical theories—re-defined and recurrent role in promoting widely defined development.

Through our presentation of the main pillars of the new DS concept, we have argued that, on the level of public policies and their developmental bias, a consensus seems to have emerged in the scholarly literature, and a development-oriented public policy mix in the twenty-first century at minimum contains the following elements: cautious and sound fiscal and monetary policies supporting effective macroeconomic management and macroeconomic stability; transformative social policies intended to decrease poverty and inequality (including education and health policies aimed at the expansion of human capabilities); physical, institutional, and human infrastructural investments (in a mutually complementary manner, and in a balanced way); new industrial (STI) policies that support technological learning and innovative activities; entrepreneurial public institutions; a strong technocratic and meritocratic central administration; and last but not least, innovative forms of financing development broadly defined.

The goal of the following chapters is to present a special set of Varieties of Development-oriented experiments in emerging markets. The case

25 We can also call it developmental capitalism in the words of Bresser Pereira (2016).
studies do not seek to present the developmentalist experiments of countries in their totality, across every dimensions of state intervention, but rather concentrate on certain defining characteristics that represent distinctive features of the given case and/or are illustrative of recent trends and changes. These case studies can be regarded as illustrations of the ongoing changes to the role of state in development, and they contribute to a better understanding of continuities with and/or changes to the classical developmental state approach.

At the same time, we have argued that neither the classical developmental state paradigm, nor the newly emerging revised DS concept serve as role models to emulate. The main message from the classic success stories is that a pragmatic approach, along with trial and error, and home-grown (innovative and creative) solutions might succeed.

REFERENCES


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