

Question 2: *The comprehensive theory of the developmental state posits that the developmental state is facilitating or driving rapid industrialization and socio-economic development, and that developmental states have emerged under structures of so-called ‘systemic vulnerability’. Discuss the relative applicability and validity of the comprehensive theory for East Asia in the Cold War period (1948-1990) and for other regions of the Global South today. Please, substantiate your argumentation with empirical evidence.*

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1.0 Introduction

The following assignment discusses the relative applicability and validity of the developmental state for East Asia in the Cold War period. It compares the development of the East Asian Tigers with that of other developing regions, namely those of Latin America and the Middle East. It argues that the East Asian Tigers have developed a developmental state in three stages, where each transition has come about through systemic vulnerability. It argues that the same developmental path has not been evident in Latin America or the Middle East, where the conditions for development were different from those of the East Asian Tigers. Thus, with evidence from the East Asian Tigers my assignment concludes that the developmental state approach is valid and applicable to the East Asian Tigers, as the developmental state has facilitated rapid industrialization and socio-economic development. It does so by combining the state and the market in the path to development, whereby building solid domestic institutions, industrial deepening, economic growth and upgrading. Thus, the developmental state theory is valid and applicable for The East Asian Tigers, but not for the other regions in focus.

First I define my classifications and the meaning of development. Next I outline the historical evolution of the development debate, headed under “state/market debate”. This leads me to the analysis and

discussion of the development in the East Asian Tigers, before turning to the comparison of this region with Latin America and the Middle East.

Given the limited remit of my paper I have chosen to make rather rough generalizations in the regional perspectives, although allowing for nuances and variations within the regions. Moreover, I have narrowed my comparison to focus on the Middle East and Latin America. These constitute two very different development paths, one of which is over-globalized, with other being under-exposed to globalization. If time had allowed me, I would have found it interesting to investigate in the development of the Sub-Saharan Africa or Eastern Europe.

2.0 Classifications and goals of development

Classifying regions of the world is a contested and difficult task. Two major dichotomies are those of the “First, Second, and Third World” and “developed vs. developing countries”. Both of them have diminished in applicability and validity. The First, Second, and Third World dichotomy flourished during the 1950s and 1960s, where it was acceptable to think that “West is best”, but with the rise of the Soviet Union, the validity of this conception diminished. Further, this dichotomy was weakened with the fall of the Soviet Union. The developed vs. developing dichotomy can be contested as well. After the end of the Second World War many developing countries have experienced significant growth, making them more developed, and moreover, an increasing number of other classifications have come about; among others these are the MICs and the LICs, and the Global South vs. the Global North. Also, the notion of emerging markets has been widely used. However, although the world doesn’t seem entirely black and white, there does seem to be a tendency that countries are converging against either high- or low-income countries. Therefore, I still find justification for the developed vs. developing dichotomy, and I will continue with this distinction.

Moreover, I find it relevant to address the meaning of development. Is it merely economic growth, or does the concept of development exceed economics to contain further elements? While many scholars refer to development as economic growth, Kohli has a different conception of the meaning of development. This is emphasized in his concept of “just growth”, which is defined as the combination of economic growth, equality and democracy. Generally, no region has succeeded in obtaining just growth, and thus I will refer to development as economic growth. However, as the regional analyses and discussions will reveal, the East Asian Tigers come closest to any success of just growth.

3.0 State/market debate

Until the 1980s-1990s the development discussion was centered on a debate of whether development should be led by the market *or* by the state. After the Second World War the development economics dominated the field. It argued that development should be state-led, and that the state should intervene into the private sector in order to determine the direction of development. Industrialization should be import-substituted (ISI), and the state should import the necessary technology in order to industrialize. However, as many developing economies pursued this strategy it turned out that they built major debts from the ISI, and in the face of the oil crisis of the 1970s and the following stagnations in the 1980s, it became evident that this strategy was unsustainable. The fall of the development economics led to a rise of the neo-liberal development approach, which emphasized the “failure of the state” – rather than the “failure of the market” – and argues that developing economies should open their economies. The ISI strategy had allowed the developing economies to produce with out-dated technology, and they would benefit by opening their borders, pursuing export oriented industrialization (EOI) and shrinking the state. The World Bank and IMF advocated for this strategy, which culminated with the Washington Consensus of 1989. However, in the 1980s and 1990s another development paradigm arose. This was the developmental state theory. With the rise of this theory it seemed that the discussion turned away from the state vs. market discourse and rather turned to focus on the how state and market should be combined in the pursue of development. This discussion frames to a large extend the developmental debate today, and in the following sections I will elaborate on the developmental state theory, it’s validity and applicability, and I will compare countries that have developed a developmental state with regions that have not.

4.0 The developmental state approach and East Asia

In the following section I will first explain the emergence and meaning of the developmental state theory. Thereafter I will outline the development of the East Asian Tigers using the theory of the developmental state and systemic vulnerability. Doing this leads me to verify the usefulness of developmental state theory for rapid industrialization and socio-economic development. Lastly I will contrast the development of the East Asian Tigers with that of other developing regions of the world.

4.1 Evolution and content of developmental state theory

As explained in paragraph 3.0 the development economics arose after the Second World War and gained influence until the neo-liberal thoughts took over around the 1970s and 1980s, culminating in the Washington Consensus of 1989. Following these theories came the developmental theory. The

developmental state can be defined as an economic transition in collaboration between experts, a strong bureaucracy and an organized private sector. Thus, when the developmental state theory came about, it reintroduced the role of the state in industrial development. However, contrary to the interventionist role of the state in the development economics of 1945-1970, this time the state should rather aim to have a guiding role in development. Rather than protecting the domestic economy with massive restrictions and import barriers the state should identify the strategic industries of the economy and pursue export promotion in some industries while subsidizing others. In this way the state would pursue an active industrialization policy. The challenge and support matrix is useful to illustrate how this developmental theory differed from the former EOI and ISI strategies. It claims that states can either support or challenge the private sector, and that optimally it should combine high challenge with high support. If it does so it will subsidize strategic industries and provide cheap loans to the private sector, while at the same time challenging it with economic opening and export goals. If on the other hand, the state does only support without any challenge there will be an ISI development, while the combination of high challenge with no support will facilitate an EOI strategy. Lastly the combination of low challenge and low support will lead to no policy at all.

Thus, the developmental state theory advocates the combination of state and market, and as such a developmental state will have embedded autonomy, meaning that the strong state and the private sector actors are embedded in each other.

4.2 Historical development of the East Asian Tigers

The developmental state theory was inspired by the development taking place in the East Asian countries of Taiwan, South Korea and Singapore. These are referred to as the East Asian Tigers, and their development has differed from other parts of East Asia, e.g. the ASEAN countries of Malaysia, Thailand, Indonesia and the Philippines, all of which has experienced growth with little upgrading. Looking to the East Asian Tigers scholars saw a successful development with a combination of both state and market already from the 1970s.

The Tigers had undergone development in three stages. Starting after the end of the Second World War these countries had pursued an ISI led development, followed by an EOI strategy in 1960s (which was about two decades earlier compared to other regions, e.g. the Middle Eastern NICs and the Latin American NICs). In the 1970s they made yet another transition in which they succeeded in industrial deepening and upgrading. Theorists looked into the development of the Tigers, and they developed the developmental state theory and explained each transition with their concept of systemic vulnerability. This theory said that in order to develop a developmental state a country must be facing 1) scarce resources, 2) external security threats, and 3) the risk of political mass mobilization. They argued that

facing these three constraints the state would have to use its resources more efficiently and to create intensive – as opposed to extensive – economic growth. In order for the state to remain in power it would be forced to use its resources more efficiently, as it would have to divert many resources to the military, while at the same time be under pressure to engage in broad coalitions and make side payments to demanding groups of society. The theorists argued that the East Asian Tigers were facing these three conditions of systemic vulnerability in the Cold War period. Taiwan and South Korea were threatened by the potential spread and rise of the Soviet Union plus the communist regimes of China and North Korea, while Singapore faced external threats from Malaysia. Pursuing the developmental state strategy these countries industrialized, build strong state institutions, a strong private sector and underwent democratic development in the 1980s. In other words, the Tigers succeeded in upgrading their economy. My argument is that the building of strong institutions, the economic growth, and the democratic development got the East Asian Tigers close to a “just growth” success. An important note however is that although the developmental state underlines the importance of a combination of market and state in development, varieties of the combination do exist. The East Asian crisis in 1997 illustrates this, as some of the Tigers turned out to be too open and vulnerable to exogenous shocks, while Taiwan to a great extent avoided the crisis thanks to its strong domestic institutions. Taiwan had not been significantly relying on FDI, and the country had developed a strong financial sector with domestic capital markets, investors, and banks.

Thus, based on the historical development of the East Asian Tigers I find the developmental state theory applicable and valid in this region. The developmental state approach to development has been a rapid path to industrialization and development of socio-economic institutions. Moreover, in explaining the development of the Tigers I have showed the applicability of systemic vulnerability. However, the system vulnerability theory can be criticized for more reasons, one of which being its lack of focus on capabilities of the state. The theory just assumes that states are capable both to divert resources to the military and to make side payments in broad coalitions. However, it is questionable if this is always the case.

4.3 Comparing the Tigers with Latin America

Paragraph 4.2 argued for the validity and applicability of the developmental state theory on the East Asian Tigers. I find it useful to compare the development of the Tigers with that of other regions in order to demonstrate that the developmental state theory is not applicable to all other developing regions. This seems like no surprise given that the developmental state theory was inspired by the development that took place in the East Asian countries of Taiwan, Singapore, and South Korea from the 1970s. Moreover, this paragraph serves to illustrate the consequences of pursuing other developmental strategies. Thus, the following will show the weaknesses of the Latin American region.

It is commonly argued that the Latin American region is and has been rather over-globalized. It has experienced periods with high growth as well as economic crises, and levels of inequality have been high. The first phase of the development of the Latin American region was dominated by an ISI strategy. However, as in the case of other regions of the world, the ISI strategy led to massive debt and in 1982 Mexico was hit by a crisis which marked the shift to an open export oriented industrialization strategy (EOI). The region faced a neo-liberal shift, in parts due to pressures from the neo-liberal IMF and World Bank. The Latin American countries experienced growth in the first part of the 1990s, but the second half of the decade was marked by major economic crises. An important part of this story is due to the pesos crisis of Mexico in 1994/1995 and the crisis in Brazil in 1998/1999. It turned out that there had been several weaknesses of the neo-liberal development strategies. For one thing, the neo-liberal adjustment reforms had forced the states to slim down, leading to a decrease in welfare policies. This led to increasing inequality and poverty, and a popular dissatisfaction was fostered. Thus, there were no broad coalitions or side payments like seen the East Asian Tigers. This is not favorable to the economy, as welfare policies increase the coherence of macroeconomic policy. Moreover, the developing countries of Latin America relied to a significant extent on the massive inflows of FDI, and they failed to develop strong domestic financial institutions. One – among many – costs of FDI is the fact that it often constitutes a substitute for local capital ownership. Moreover it creates weak linkages to the local economy in the absence of a strong and active state. Thus, FDI can make the host economy highly vulnerable, and it might fail to create development of its own. Faced with recession in the mid and late 1990s is was the case for Latin American economies, as there were major capital outflows in the region. The Latin American countries revealed their vulnerabilities in the absence of strong state institutions and a strong domestic economic sector. Thus, the region of Latin America has failed to develop a developmental state with strong socio-economic institution. This points towards the importance of building strong institutions, thereby confirming the strengths of the developmental state, which has not developed in Latin America. The importance of strong institutions is emphasized by Rodrik, who has argued that everybody can benefit from globalization as long as they have strong domestic institutions. Thus, institutions are important for the creation of a stable and solid economic development, and as the empirics show there has been a rapid industrialization in the Latin American region without development of such sound institutions, which has made the region vulnerable. Around the millennium the region – and in particular Mexico and Brazil – face a need for reforms. They must develop organized unions, social policies, civil rights, effective rule of law, tax reform and financial institutions.

4.4 Comparing the Tigers with the Middle Eastern development

As in the case of Latin America, the Middle Eastern region has not succeeded in developing a developmental state. While it can be argued that countries of Latin America have been over-globalized, the opposite is the case for the Middle Eastern region. In general the region has been rather under-globalized. In spite of great diversity within the region, some common features exist. On a general level, the region has faced great security threats; they have been the locus for international rivalry, and there has been instability within the region as well. This has contributed to the continuing authoritarian

regimes, and the massive oil reserves in some countries have meant lacking incentives for industrialization. The exceptions in the region are Turkey, Morocco and Egypt, and these are commonly classified as the Middle Eastern NICs. However, not even the development of the Middle Eastern NICs has resembled that of the East Asian Tigers. Their economic levels are far below, and only Turkey is on level with the Latin American region. Moreover, savings have been low and the countries have faced difficulties in attracting FDI on any significant scale. The Middle Eastern NICs have faced the typical pattern of ISI, crisis, and EOI, but they have not succeeded with the rapid industrialization and socio-economic development of the East Asian Tigers. Thus, the developmental state approach is not valid or applicable in the case of the Middle East, neither in general nor specifically in the Middle Eastern NICs.

5.0 Conclusion

My assignment has confirmed a relative applicability and validity of the developmental state theory. It has outlined the evolution of the different development approaches, and it has shown that the debate over development has gone from a market vs. state to a question of *how* the market and the state can work together to create sustainable development. It has shown that the East Asian Tigers have performed well compared to the regions of both Latin America and The Middle East. Since the 1970s the East Asian Tigers have shown embedded autonomy of state and market, and they have combined the state and the market in their industrial deepening and socio-economic development. Thus they have been the empirical evidence of the applicability and validity of the developmental state theory. Being exposed to systemic vulnerability they have succeeded with industrial deepening and upgrading and especially Taiwan has developed the strong socio-economic institutions needed for sustainable and rapid industrialization. Though there has been a degree of difference within the Tigers, I find my empirical evidence sufficient to confirm the applicability and validity of the developmental state theory for East Asia in the Cold War period. Contrary to the Tigers I have not found the developmental state theory applicable to neither the Latin American countries nor the Middle Eastern region. If I was to elaborate further on the research question I would draw parallels to the Sub-Saharan region and the Eastern Europe, none of which have succeeded in making a developmental state on a significant scale.