

**The rise and fall (?) of the developmental state:
The vicissitudes and implications of East Asian interventionism**

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In the aftermath of the Second World War a number of features of the evolving international order were especially striking. Most obviously, the world divided into two implacably opposed ideologically and militarily opposed camps – a structurally entrenched bifurcation that was to distinguish post-war international relations for more than four decades. At the same time, an equally surprising and – arguably – important, but altogether more positive development occurred: much of East Asia began to rapidly industrialise and witnessed a concomitant and seemingly permanent rise in living standards across the region as a consequence. East Asia's transformation was surprising because even as late as the 1960s and 1970s, influential strands of radical scholarship continued to question whether the 'peripheral' parts of an increasingly inter-connected global economy could ever hope to escape the predations and exploitation of the established industrial heartlands of Western Europe and North America.¹ And yet the fact that Japan had rapidly re-established itself as East Asia's pre-eminent industrial economy appeared to be unequivocal evidence that, not only was rapid economic development possible outside the established 'core' economies, but that such a processes might ultimately take on a regional and self-sustaining quality.

Such heady optimism appeared to have a solid empirical basis throughout the 1960s, 1970s, and 1980s. Ironically, the increasingly positive, not to say self-deluding, sentiment that developed about 'Asia' in the 1990s encouraged a flood of speculative capital into the region, fuelling a rising tide of expectations and asset values as a consequence. A detailed analysis of the crisis is not possible here,² but it is important to emphasise that one of the most important consequences of the crisis was to subject the entire East Asian development experience to a rapid and generally unfavourable reappraisal. The distinctive role of the region's interventionist political elites was the object of particular attention as what were formerly seen as 'strong' states were now depicted as centres of self-serving 'crony capitalism'. This remarkable change in the conventional wisdom about East Asian modes of governance was mirrored in, and drove, an externally imposed reform agenda - designed by primarily by the International Monetary Fund with encouragement from the United States - which was intended to completely reconfigure much that was distinctive about East Asian developmental states. The key questions that emerged as a consequence of the crisis and its subsequent economic and political aftermath were: was the East Asian developmental state (DS) actually the cause of the crisis? Can it survive in the face of external reformist pressure in particular and in the face of competitive pressures generated by 'globalisation' more generally?

¹ For an overview of the literature, see Roxborough, Ian (1979) *Theories of Underdevelopment*, (London: Macmillan).

² There is by now a vast literature on the crisis. See, for example, Robison, R. et al (eds. 2000), *Politics and Markets in the Wake of the Asian Crisis*, (London, Routledge).

Before we can hope to answer such questions, we need to look more closely at the evolution and role of the DS in East Asia generally and in Japan in particular, as they are the most important contemporary sites of state-led developmentalism, and at the way that this very distinctive institution has been understood in the theoretical literature. The bulk of this chapter, therefore, is intended to place the developmental state in its specific historical context and to provide a framework with which its past and possible future roles may be assessed.

What are developmental states? Why might we want one?

The idea of the DS is most closely associated with Chalmers Johnson and his seminal analysis of Japan's very rapid, highly successful post-war reconstruction and (re)industrialisation.³ Johnson's central contention was that Japan's quite remarkable and historically unparalleled industrial renaissance was neither a fluke nor inevitable, but a consequence of the efforts of a 'plan rational' state. A plan rational or DS was one that was determined to influence the direction and pace of economic development by directly intervening in the development process, rather than relying on the uncoordinated influence of market forces to allocate economic resources. The DS took it upon itself the task of establishing 'substantive social and economic goals' with which to guide the processes of development and social mobilisation.⁴ The most important of these goals in Japan's case, of course, was the reconstruction of its industrial capacity; a process made easier by a widespread social consensus about the importance of economic development.

At the centre of the Japanese DS - and of its most successful imitators in Taiwan and South Korea - was a highly competent bureaucracy dedicated to devising and implementing a *planned* process of economic development. One of the key elements of a DS - and an essential prerequisite for managing the developmental process - is the existence of a 'pilot agency', like Japan's celebrated Ministry of International Trade and Industry (MITI), which was the main focus of Johnson's original analysis. The pilot agency is charged with task of directing the course of development itself, and employs and devises a range of policy tools to ensure that indigenous business is both nurtured and managed in the overall 'national interest'.⁵ In those countries that have had the greatest 'state capacity',⁶ or the ability to devise and implement various industry policies - primarily the aforementioned Northeast Asian states and Singapore - they have also had extensive, relatively efficient bureaucracies, staffed by the nation's brightest and best.⁷ Not only did such pilot agencies generally enjoy a degree of prestige and legitimacy that actually allowed them to recruit outstanding personnel,

³ Johnson, Chalmers (1982) *MITI and the Japanese Miracle: The Growth of Industry Policy 1925-1975*, (Stanford: Stanford University Press).

⁴ Ibid, *MITI and the Japanese Miracle*, p 23.

⁵ For one of the most authoritative and influential accounts of this sort of development in Northeast Asia, see Wade, Robert (1990) *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization*, (Princeton University Press, Princeton).

⁶ For a very useful discussion of state capacity see, Polidano, C (2000) 'Measuring public sector capacity', *World Development*, 28 (5): 805-22.

⁷ Evans, Peter (1998) 'Transferable lessons? Re-examining the institutional prerequisites of East Asian economic policies', *Journal of Development Studies*, 34 (6): 66-86.

but they were able to utilise policy tools that gave them additional authority over the indigenous business class their actions helped create.⁸

In Japan, for example, MITI and the Ministry of Finance were able to use their control of domestic savings to provide cheap credit for particular industries. In this way, Japanese planners were able to guide a continuing process of initial industrialisation and subsequent industrial upgrading as new, more valuable industries were encouraged and older ones like textiles were encouraged to move off-shore. This pattern of state-led intervention has been emulated across the region with varying degrees of success and to differing extents: Japan's Northeast Asian acolytes Taiwan and Korea copied the Japanese experience earliest and most successfully, while the countries of Southeast Asia followed later and with more mixed results. But before considering the present, rather discredited state of the DS in both Japan and across the region, it is important to emphasise one thing: whatever difficulties Japan and some of its imitators may currently be experiencing, both Japan's and the rest of East Asia's transformation over the last forty or fifty years is a quite staggering and substantial achievement. In considering the possible continuing utility of the DS, therefore, we need to be conscious of the following: the DS has been central to East Asia's unique transformative experience; East Asia has experienced substantial, sustained and real increases in per capita incomes as a consequence; different levels of development and different state capacities mean that the DS may still remain an appropriate – perhaps an inescapable – element of economic development.

The claim that DSs may still be an essential component of successful development is contentious, but strongly supported by the historical record. Ha-Joon Chang is the most prominent of a number of scholars that have drawn attention to the absolutely central role played by states in *all* those countries that have experienced successful economic development. Significantly, Chang points out that both the UK and US – seeming paragons of market, rather than state-led development, and latter day champions of the free market or neoliberal model – enjoyed significant state assistance in their initial industrialising phase.⁹ Indeed, not only is infant industry protection of a sort enjoyed by nineteenth century Britain and America, and twentieth century Japan, still a prerequisite of successful indigenous industrialisation, but attempting to outlaw such practices through the currently dominant neoliberal agenda championed by the international financial institutions (IFIs), amounts to 'kicking away the ladder' to development. The potential utility of the DS has been undermined as much by a shift in the dominant discourse about optimal or appropriate modes of development as it has by any inherent failings. In other words, the continuing utility or feasibility of the DS many depend as much on external geopolitical factors as it does on any specifically domestic ones.¹⁰

⁸ For an important examination of the South Korean experience, see Jung-en Woo (1991) *Race to the Swift: State and Finance in Korean Industrialization*, Columbia University.

⁹ Chang, Ha-Joon (2002) *Kicking Away the Ladder: Development Strategy in Historical Perspective*, (London: Anthem Books).

¹⁰ See Beeson, Mark (forthcoming) 'East Asia, the international financial institutions and regional regulatory reform: A review of the issues', *Journal of the Asia Pacific Economy*; Wade, R (2000) 'Wheels within wheels: Rethinking the Asian crisis and the Asian model', *Annual Review of Political Science*, 3: 85-115.

This possibility is graphically illustrated in the rise and demise of the DS in Japan. Japan's place as a potential bulwark against communist expansion in East Asia in the aftermath of the Second World War meant that it received especially favourable treatment from the US – a country that emerged in the war's aftermath as the hegemonic power of the era. The US's preoccupation with containing communism and nurturing proto capitalist democracies meant that Japan was a beneficiary of American aid and the stimulatory economic impact of the US's military activities in Korea on the one hand, and of a tolerant American attitude to domestic reform in Japan on the other. Johnson's original analysis of the Japanese DS detailed just how ineffective American efforts to reform the Japanese state were during its post-war occupation, something that helps to explain the continuity and effectiveness of state-led development in that country. Indeed, Johnson dryly notes that in the post-war period Japan 'gave a virtuoso performance of how to extract the most from the United States while paying the least to support its global strategies'.¹¹ Significantly, it was a performance that was widely noted and emulated across the region, and given as structural consolidation by Japan's own success. Indeed, Japanese economists were at the forefront of promulgating the 'flying geese theory' of regional development, in which Japan would pull other industrialisation economies along in its wake.¹²

The key point to emphasise at this point, however, is that the tolerant geopolitical environment which saw the US privilege systemic strategic issues over narrower, national economic interests, and which provided the relatively tolerant environment in which the DS states flourished, has been overturned. Indeed, even before the Cold War ended the US was increasingly concerned about economic competition from the successful East Asian developmental states, and more willing to use its economic and political leverage to pursue trade agreements designed to remedy expanding trade deficits.¹³ Now, free of the strategic concerns that formerly constrained its unilateralist tendencies, the US can more actively promote market-oriented reforms which threaten the very basis of the region's DSs.¹⁴ The application of direct American pressure and the more diffuse impact of processes associated with 'globalisation' has caught the DS in a potentially fatal pincer movement that threatens to undercut both its efficacy and its legitimacy. To see why, we need to look at both the internal and external factors that have affected state capacity in the region. The key question in this context is one with implications that go far beyond East Asia: even if we accept that the DS has been a crucial component of successful industrialisation everywhere, is it any longer useful or sustainable in an increasingly integrated global economy dominated by the US?

Is the developmental state any longer appropriate?

¹¹ Johnson, C. (1999) 'The developmental state: Odyssey of a concept', in Woo-Cumings, M. (ed.), *The Developmental State*, (Ithaca: Cornell University Press), p 56.

¹² On the flying geese theory and its impact see Gangopadhyay, P (1998) 'Patterns of trade, investment and migration in the Asia-Pacific region', in Thompson, G. (ed.), *Economic Dynamism in the Asia-Pacific*, (London: Routledge): 20-54. For a critical view of the impact of Japan's industrialisation on the region, see Bernard, M. and Ravenhill, J. (1995) 'Beyond product cycles and flying geese: Regionalization, hierarchy, and the industrialization of East Asia', *World Politics*, Vol. 47, No. 2, pp 171-209.

¹³ In the Japanese case, for example, see Schoppa, L. J. (1997) *Bargaining with Japan: What American Pressure Can and Cannot Do*, (New York: Columbia University Press).

¹⁴ Beeson, M. and Berger, M.T. (2003) 'The paradoxes of paramountcy: Regional rivalries and the dynamics of American hegemony in East Asia', *Global Change, Peace and Security*, 15 (1): 27-42

The East Asian financial crisis dealt a seemingly mortal blow to the image of the region generally and to its distinctive patterns of state-business relations in particular. Not only were such relationships routinely disparaged as forms of ‘crony capitalism’, and synonymous with corruption and inefficiency, but they were seen as incompatible with the sort of dynamic competitive pressures associated with ‘globalisation’. In short, the sorts of business structures, political practices and social relations that had formerly been seen as sources of competitive advantage in countries like Japan, were now seen as self-serving obstacles to necessary change. In order to assess the merits of this debate, we need to carefully assess the theoretical and pragmatic arguments that were made in support of an effective DS, before considering whether such a model is any longer useful. We also need to remember that different countries will inevitably confront very different historical circumstances and developmental challenges, something that makes generalisation more difficult.

As we saw earlier, the key to an effective DS is state capacity, or the ability to formulate and implement developmental policies. For a state to achieve such an outcome, it not only needs a competent bureaucracy, it also needs an effective relationship with the domestic business class that will inevitably be at the centre of any successful developmental initiatives. In an influential comparative study of industrialisation in Asia and Latin America, Peter Evans coined the term ‘embedded autonomy’ to describe the ideal relationship between would-be DS’s and the indigenous business class.¹⁵ Adopting a neo-Weberian typology, Evans argued that the successful DS needed to be both close to, and distant from, the business class it sort to influence and nurture. In other words, the state had to be sufficiently embedded in society so that it was capable of implementing its goals by acting through social infrastructure, but not so close to business that it risked ‘capture’ by particular interests and was thus incapable of acting in the wider ‘national interest’. Ideally, the effective DS should be ‘embedded in a concrete set of social ties that binds the state to society and provides institutionalised channels for the continual negotiation and renegotiation of policies’.¹⁶

Once again, Japan provides the quintessential exemplar of all that can go right – and wrong – with the DS. In its heyday, the Japanese DS had precisely the sort of embedded autonomy Evans describes. Key bureaucratic agencies had both the staff and the policy tools to guide the course of development, a process made easier by the bureaucracy’s close links with Japanese business. Not only were contacts between ‘the state’ and big business in Japan regular and institutionalised in corporatist-style arrangements that allowed precisely the sort of interaction, monitoring and feedback that Evans considered crucial for effective development, but such relationships were further cemented when former public servants joined private sector companies upon retirement.¹⁷ Although there has been a remarkable rethinking about the role of the bureaucracy and its capacity to guide continuing development in Japan,¹⁸ this sort of

¹⁵ Evans, Peter (1995) *Embedded Autonomy: States and Industrial Transformation*, (Princeton: Princeton University Press).

¹⁶ Evans, *Embedded Autonomy*, p 12.

¹⁷ Schaede, U (1995) ‘The “old boy” network and government-business relationships in Japan’, *Journal of Japanese Studies*, 21 (2): 293-317.

¹⁸ Sakaiya Taichi (1998) ‘The myth of the competent bureaucrat’, *Japan Echo*, February: 25-30.

‘infrastructural power’¹⁹ was a central component of Japan’s phenomenally successful post-war renaissance and led to wide-spread expectations that Japan would soon eclipse America as the world’s pre-eminent economy.²⁰

When trying to assess why Japan - and much of the rest of East Asia, for that matter - has not realised these expectations, it is important distinguish between those factors that may have undermined the utility of the DS from within, and those that have affected it from without. In Japan’s case, much of the damage appears to have been self-inflicted. On the one hand, the very relationships that were formerly considered to be integral parts of the Japanese success story, especially close state-business relations, are now seen as fundamental obstacles to reform. Critics cite the frequently corrupt relations that exist in key industries like construction, the way such relationships become a drain on the public purse, and the manner in which these formerly functional patterns of interaction have ossified into self-serving obstacles to reform.²¹ Thus, the Japanese case has a number of implications with potentially widespread significance: first, the institutionalisation of the DS may be an essential determinant of its initial effectiveness, but when relationships become too cosy, or insufficiently autonomous, then the dangers of collusion, corruption and non-transparency are all too real. This is especially the case where such relationships have been in place for decades and where the very success of the DS means that there is potentially more largesse to distribute amongst privileged insiders. The second point to make is that neither the policy tools nor the vision of the pilot agencies may be as effective or appropriate as they once were. Significantly, however, both of these issues are as much to do with external change as they are with questions of internal capacity or competence.

It should be re-emphasised that the market-oriented, deregulatory agenda promoted by the IFIs and the US is a direct threat to the interventionist, state-led economic models favoured in much of East Asia. The big question is whether the distinctive forms of capitalism found in the region,²² of which the DS is such a prominent part, can survive in the face of sustained reformist and competitive pressures. Although governments in East Asia have been reluctant to relinquish some of the economic controls and policy tools that served them well in earlier phases of development, the intense pressure to conform with pervasive international regulatory standards and liberalise key sectors of the domestic economy, like finance, has set in train major structural changes which may fundamentally undercut the capacities of developmental states.²³ The provision of credit, for example, formerly a powerful form of state

¹⁹ For Michael Mann (1993: 59), infrastructural power is ‘the institutional capacity of a central state, despotic or not, to penetrate its territories and logistically implement decisions. This is collective power, “power through” society, coordinating social life through state infrastructures’, Mann, M (1993) Mann, M. *The Sources of Social Power: Volume II*, (Cambridge: Cambridge University Press), p 59.

²⁰ Fingleton, E (1995) *Blindside: Why Japan is Still on Track to Overtake the US by the Year 2000*, (Boston: Houghton Mifflin).

²¹ Beeson, Mark (2003) ‘Japan’s reluctant reformers and the legacy of the developmental state’, in Cheung, Anthony and Scott, Ian (eds.), *Governance and Public Sector Reform in Post-Crisis Asia: Paradigm Shift or Business as Usual?*, (London: Curzon Press): 25-43.

²² For a useful discussion of the differences between different types of capitalism across the world, see Coates, D (2000) *Models of Capitalism*, (Oxford: Polity Press).

²³ Beeson ‘Japan’s reluctant reformers, *op cit*; Woo-Cumings, M (1997) ‘Slouching toward the market: the politics of financial liberalization in South Korea’, in Loriaux, M et al, *Capital Ungoverned: Liberalizing Finance in Interventionist States*, (Ithaca: Cornell), pp 57-91.

leverage over domestic business, is no longer critical in an increasingly liberalised, integrated international financial system where access to global capital markets is a fact of corporate life. Ironically, it was the liberalisation of domestic finance and the withdrawal of regulatory oversight that was a key component of both the East Asian crisis and the difficulties Korea's DS faced as a consequence of liberalising reform initiatives.²⁴ Two further general points about 'deregulation' are worth emphasising: first, even neoliberal capitalism is regulated²⁵ – the crucial question is about its quality, the motivations of those charged with enacting it. The second point to make is that we cannot assume that private sector 'self-regulation' will be any less corrupt – as American capitalism's recent problems remind us.²⁶

But it is not simply the capacity of the DS to implement policy that is in question: a more fundamental and possibly damning criticism of the DS is that bureaucratic elites are simply incapable of guiding the developmental process beyond a certain critical point. In the initial phases of the developmental project, the aspiring DS can – if it has the requisite capacity and vision – 'catch-up' with the existent industrial powers. This was the fundamental insight of Gerschenkron's influential study of 'late' development: countries following in the wake of the early industrialising nations had the opportunity of replicating successful strategies, borrowing key technologies, and generally accelerating the course of industrialisation.²⁷ In Japan, South Korea and Taiwan, where the course of development had to a significant extent been laid out by earlier industrialising nations, the successful and rapid catching-up process was testimony to the effectiveness of the DS. However, when countries reach the 'technological frontier' and confront the fundamental uncertainty that characterises the course of technological evolution, the benefits and capacities of the state-led approach are less certain.²⁸ State planners are clearly not infallible when it comes to deciding which future developments are likely to be at the technological cutting edge and therefore worthy of government support.²⁹ The great comparative advantage of the American system, by contrast, is the availability of venture capital to underpin a plethora of projects in the expectation that some will ultimately prove successful.³⁰

For those countries that lack the resources of Japan, South Korea or Taiwan, however, this debate may be somewhat academic. It is important to keep in mind that the countries of Southeast Asia, in contrast to their Northern neighbours, not only have less initial resources and capacities with which to guide the process of development, but they face the additional challenge of 'late-late' development in which they must confront the challenge of attempting to break into an established hierarchy of global production that includes both the established powers of North America and Western

²⁴ Wade, R and Veneroso, F (1998) 'The Asian crisis: the high debt model versus the Wall Street-Treasury-IMF complex', *New Left Review*, 228, March/April: 3-23.

²⁵ Cerny, P. G. (1991) 'The limits of deregulation: Transnational interpenetration and policy change', *European Journal of Political Research*, 19: 173-96.

²⁶ Krugman, Paul (2002) 'Crony capitalism, U.S.A.', *The New York Times*, January 15, p 21.

²⁷ Gerschenkron, A. (1966) *Economic Backwardness in Historical Perspective*, (Cambridge: Belknap Press).

²⁸ Fong, G.R. (1998) 'Follower at the frontier: International competition and Japanese industrial policy', *International Studies Quarterly*, 42: 339-66.

²⁹ Callon, Scott (1995) *Divided Sun: MITI and the Breakdown of Japanese High-Tech Industrial Policy, 1975- 1993*, (Stanford: Stanford University Press).

³⁰ Saxenian, A-L. (1994) *Regional Advantage: Culture and Competition in Silicon Valley and Route 128*, (Cambridge: Cambridge University Press).

Europe, and the more recently industrialised nations of Northeast Asia.³¹ In such circumstances the potential efficacy of the DS in the contemporary international system becomes even more critical

Does the developmental state have a future?

In Northeast Asia the DS has clearly done its job and underpinned the economic transformation that has distinguished that part of the region. Although some observers argue that the DS can and does still play an important and useful role in directing the course of development,³² many of the institutionalised relationships that were formerly so effective and functional have become self-serving and obstacles to needed reform.³³ This does not mean, however, that the DS cannot still play a critical role in other parts of the world. On the contrary, as Adrian Leftwich persuasively argues, ‘it seems unlikely that it is possible in the modern world for any society to make a speedy and successful transition from poverty without a state that in some respects corresponds to this model of a developmental state’.³⁴ The key issues revolve around the degree of state capacity available to would-be DSs, and the ability of all states to act effectively in an era characterised by increasingly pervasive competitive and regulatory pressures.

On the question of whether states generally still have the potential capacity to guide or initiate economic transformation and upgrading amongst the ranks of would-be developing economies the evidence is mixed, and the very different circumstances of individual states makes generalisation difficult. True, it is possible to make broad brush distinctions between the ‘failed states’ that characterise much of sub-Saharan Africa where development has proved conspicuously elusive,³⁵ and those of Southeast Asia where there has been significant progress, but even in the latter case there are major differences in approach and outcomes. The developmental process in Southeast Asia is not only complicated by the challenges of late-late development noted above, but the possibility of achieving the sort of embedded autonomy that characterised the pioneering Northeast Asian states is made significantly more difficult by the complex patterns of social and ethnic relations that are found across much of the region. Indeed, Woo-Cumings argues that by contrast with their Northeast Asian neighbours, Southeast Asia’s aspiring DSs amounted to little more than ‘protection rings’ designed to shore up particularistic economic and political interests.³⁶ While this may be somewhat harsh and mainly applicable to Indonesia, it does capture an important precondition for establishment of a successful DS: a tradition of national social cohesion and identity is a powerful force of legitimation and may help to mobilise the population around a national development project.

³¹ Beeson, Mark (2002) ‘Southeast Asia and the politics of vulnerability’, *Third World Quarterly*, 23 (3): 549-564.

³² Weiss, L. (2000) ‘Developmental states in transition: adapting, dismantling, innovating, not “normalising”’, *The Pacific Review*, 13 (1): 21-55.

³³ Beeson ‘Japan’s reluctant reformers’, *op cit*.

³⁴ Leftwich, A (2000) *States of Development: On the Primacy of Politics in Development*, (Oxford: Polity Press), p 169.

³⁵ See Castells, Manuel (1998) *End of Millennium*, (Oxford: Blackwell).

³⁶ Woo-Cumings, Meredith (1999) ‘Introduction: Chalmers Johnson and the politics of nationalism and development’, in Woo-Cumings, M. (ed.), *The Developmental State*, (Ithaca: Cornell University Press), p 19.

And yet despite Southeast Asia's typically complex class structures, the continuing economic and political importance of resource production, and the absence of a state capacity comparable with those of Japan, South Korea and Taiwan,³⁷ significant state-led industrialisation has occurred across much of the Southeast Asian region. In Thailand, Malaysia, and even Indonesia, government policy interventions have played a crucial role in encouraging the development of an indigenous manufacturing sector. As Jomo observes: 'there is little doubt that the structural transformation and industrialisation of these economies has gone well beyond what would have been achieved by relying exclusively on market forces and private sector initiatives'.³⁸ True, countries like Malaysia and Singapore have been more reliant on external investment than their Northeast Asian counterparts were, but the key point is that policy activism on the part of domestic governments, though investment incentives, subsidies and the like, provided the critical catalyst with which to accelerate the developmental process.

The key question now is whether even this more limited form of state activism is any longer feasible or desirable in an increasingly integrated international economy. Answering this question involves making a judgement about the impact of that complex array of forces, processes, and interactions subsumed under the rubric of globalisation. Despite globalisation's all-encompassing and consequently imprecise ambit it does point to the very real transformations that have occurred as a result of the increasing disaggregation and transnationalisation of production processes, the liberalisation of global finance, and the growth in regulatory agreements that govern international commerce.³⁹ For some observers, the increased scale and influence of the international financial sector in particular has created a form of 'regulatory arbitrage' in which governments everywhere compete to attract mobile capital by attempting to provide the most pro-business environments.⁴⁰ This view has been popularised by Thomas Friedman, who claims that governments everywhere are locked in a 'golden straitjacket' of policies centred on balanced budgets, shrinking states and economic liberalisation; a failure to subscribe to such policies invites the wrath of 'the markets'.⁴¹ However, it is important to recognise that there remain important differences in the manner in which governments around the world respond to the challenge of international economic openness. Moreover, it is clear that governments in some of the most open economies continue to 'intervene' in economic activity by providing skilled work forces, predictable and effective regulatory environments and more general physical infrastructure in ways that actually encourage rather than deter investment.⁴²

³⁷ Singapore is an anomaly in this context and generally considered with the second tier of industrialising economies – Taiwan, South Korea and Hong Kong – rather than with its Southeast Asian neighbours. On the Singaporean developmental experience, see Rodan, G (1989) *The Political Economy of Singapore's Industrialization: Nation State and International Capital*, (Macmillan, London).

³⁸ Jomo, KS (2001) 'Rethinking the role of government policy in Southeast Asia', in Stiglitz, JE & Yusuf, S. (eds.), *Rethinking the East Asia Miracle*, (Wash. World Bank): 461-508.

³⁹ For a more detailed analysis, see Held, D., McGrew, A., Goldblatt, D. and Perraton, J. (1999) *Global Transformations*, (Stanford: Stanford University Press).

⁴⁰ Cerny, P (1996) 'International finance and the erosion of state policy capacity', in Gummert, P. (ed) *Globalisation and Public Policy*, (Cheltenham: Edward Elgar): 83-104.

⁴¹ Friedman, Thomas L. (2000) *The Lexus and the Olive Tree*, (New York: Anchor Books).

⁴² See, Garrett, G (2000) 'Shrinking states? Globalisation and national autonomy', in Woods, N. (ed.), *The Political Economy of Globalization*, (London: Macmillan): 107-46.

At one level the idea that states remain critical influences on investment flows, trade patterns and the wider regulatory environment within which they occur is unsurprising: even the most *laissez faire* form of capitalism relies on the state to enforce the rules and regulations that provide certainty in the ‘free market’.⁴³ What is less clear is whether the sort of high profile economic intervention favoured by East Asian governments is any longer sustainable: given an international environment in which neoliberal ideas have become highly influential, in which direct state involvement in the economy is being actively discouraged by the powerful IFIs, and in which private sector agencies are increasingly assuming regulatory responsibility for creating the rules and regulations that govern critical areas of the international economy,⁴⁴ what role – and capacity - is left for the East Asian DS and others which would follow its lead?

One of the most important contributors to the debate about the fate of the state under globalisation generally, and about the future of the East Asian DS in particular has been Linda Weiss. Central to Weiss’s position is the claim that globalisation is ‘not only, or even generally constraining...but contributes to the *expansion* of governing capacities through both the transformation of public-private sector relations and the growth of policy networks’.⁴⁵ The basis of this argument is the idea that states have an ‘adaptive’ capacity that allows them to innovate and respond creatively to the evolving international political economy. Significantly, Weiss argues that such adaptive processes will be predicated on, and informed by, an existent pattern of institutions that will delimit the range of possible responses and innovations.⁴⁶ Certainly, institutionally-determined ‘path dependency’ is an important consideration in explaining both the course and pace of reform in East Asia.⁴⁷ It is, however, also important to recognise that the sort of institutional infrastructure Weiss refers as providing the underpinning capacity for effective adaptation may not be as developed in Southeast Asia as it is in Northeast Asia,⁴⁸ or across the rest of the would-be developing world for that matter. Whether one describes these different circumstances as enabling ‘cultural’ factors or, as I prefer, simply the historically contingent patterns of political, economic and social practice that define national and even regional economies, they are plainly critical institutionalised legacies that delimit possible policy responses. Thus, while the DS may still be relevant, the potentially tragic paradox is that the countries that might benefit from it most are frequently disabled by the absence of the very institutional infrastructure that might underpin successful development.

⁴³ Heilbroner, R (1985) *The Nature and Logic of Capital*, (New York: Norton).

⁴⁴ Braithwaite, John and Peter Drahos (2000), *Global Business Regulation* (Cambridge: Cambridge University Press).

⁴⁵ Weiss, L (2003) ‘Introduction: Bringing domestic institutions back in’, in Weiss, L (ed.), *States in the Global Economy: Bringing Domestic Institutions Back In*, (Cambridge: Cambridge University Press), p 19, emphasis added.

⁴⁶ Weiss, *ibid*, p 24.

⁴⁷ Beeson, M (2001) ‘Theorising institutional change in East Asia’, in Beeson, M. (ed.), *Reconfiguring East Asia: Regional Institutions and Organisations After the Crisis*, (London: Curzon Press): 7-27.

⁴⁸ For a more detailed discussion of this point see, Beeson, M. and Jayasuriya, K (1998) ‘The political rationalities of regionalism: APEC and the EU in comparative perspective’ *The Pacific Review*, 11 (3): 311-36

Concluding remarks

All states are being affected by global processes. The internal institutional architecture of formerly discrete national polities is being reconfigured by internal and external pressures from ‘above and below’, with new networks of power and coordination emerging as a consequence – networks that frequently transcend national borders and contain a mix of state and non-state actors.⁴⁹ Those states that have the potential capacity to respond most effectively to the specific challenges of an increasingly integrated international economic order are generally ‘post-development’. This is unsurprising: it has been the existence of effective state capacity that has been the critical historical variable that accounts for development in the first place. Such considerations suggest a number of important conclusions:

- Historically, successful economic development has been reliant on the actions of a DS with effective state capacity and the willingness to use it in pursuit of developmental goals;
- The evolving international regulatory architecture and the prevalence of neoliberal ideas have created a less hospitable environment for DSs;
- But those countries that lack the sort of state capacity and leadership associated with the DS will find it difficult to break out of subordinate positions in the global economy;
- Yet the existence of potential state capacity is not in itself a guarantee that it will be effectively utilised or that it will not become an obstacle to, rather than an catalyst for, effective change – especially where the DS has accomplished its mission;
- The state continues to play a critical role – for better or worse – in determining the position of national economic spaces and labour forces in the global economy.

In some ways, therefore, the debate about the DS is misconceived: *all* states are developmental in the sense that government policy is designed to encourage economic growth; the perennial question remains about the best way to achieve this, especially for economies that are ‘under-developed’. The DS in East Asia has been a critical part of that region’s remarkable and real transformation, despite the fact that there are important differences between the experiences and capacities in the North and South. Whether the DS can remain functional, free of capture by particularistic economic, ethnic or political interests, or capable of guiding the post-development process is a moot point. But its historical role and potential efficacy for those at the bottom of the global economic hierarchy is not in doubt.

In light of the above, what might such state capacities look like? Despite the World Bank’s association with market-, rather than state-led development, its unfortunately

⁴⁹ Jayasuriya, K. (1999) ‘Globalization, law, and the transformation of sovereignty: The emergence of global regulatory governance’, *Indiana Journal of Global Legal Studies*, 6 (2): 425-55.

timed,⁵⁰ but theoretically sophisticated report, *The State in a Changing World*, highlighted many of the potential positives of state intervention. Significantly, the report acknowledged the continuing role states can play in accelerating targeted economic development through industry policies, subsidies and effectively monitored business-government relations, and by investing in basic social services and infrastructure. Crucially, it also highlighted the dangers the DS is prone to and the need to provide ‘incentives for public officials to perform better while keeping arbitrary action in check’.⁵¹ Thus the fashionable mantra of institution and capacity building has some merit, but so does the fundamental recognition of the continuing importance of the state – especially in responding creatively to the multiple challenges of globalisation. In both the developed and the developing world, good policies are clearly better than bad.⁵² While we might all agree that investment in education, encouraging the development of more valuable economic process, and curbing excesses in both the private and public sectors are ‘good things’, achieving them has always been the challenge. It remains so. It is, however, one in which states remain inextricably entwined.

⁵⁰ The publication of the Report, which was broadly sympathetic the interventionist role played by the state in East Asia, appeared just as the economic crisis hit the region in 1997.

⁵¹ World Bank (1997) *World Development Report 1997: The State in a Changing World*, (New York: Oxford University Press).

⁵² For a critical review of the notion of ‘good governance’ and the capacity of East Asian states to implement it, see Beeson, Mark (2001) ‘Globalisation, governance, and the political-economy of public policy reform in East Asia’, *Governance: An International Journal of Policy, Administration and Institutions*, 14 (4), pp 481-502.