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State–market–society alliance

The evolving nature of the ‘21st-century developmental state’

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Abstract: While mainstream economics since the 1980s has been largely characterized by neoliberal ideology, the past decade witnessed the rise of nationalism and protectionist policies globally. The latest COVID-19 pandemic has further refocused attention on the crucial roles played by effective states in protecting public welfare and a working economy. This literature review traces the ‘developmental state’ paradigm as it evolved from the classical developmental state model into the 21st-century developmental state. This paper outlines three main areas of enquiry: What are the key tenets of a developmental state? Why is a state developmental? How can effective economic development be achieved through policy-making? Central to the developmentalist literature is the relationship between the state, the market, and society in pursuit of economic development through industrial policies. This remains an important field of study particularly as the pandemic threatens to usher in a rise of authoritarian surveillance states.

Key words: developmental state, industrial policies, market, society, literature review

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1 Introduction

The search for ideal models of economic governance and the debate over the roles of the state and the market in an economy form the core of the disciplines of political economy and development economics. In light of a pandemic that has halted economies and devastated global value chains, and with threats of climate, food, and migration crises looming, people have increasingly looked to the state for answers. Mazzucato’s (2013) work on ‘the entrepreneurial state’ has experienced a resurgence of interest in popular media (e.g., see Bregman 2020). However, another conceptualization of the role of the state has been largely overlooked—the ‘developmental state’. This review revisits research on the developmental state to examine the nature of the state and the roles that it could play in economic development or crisis mitigation.

Going back to the 18th century, scholarly arguments have oscillated between interventionist states versus laissez-faire states.1 Over the 1970s and 1980s, neo-liberal market-based prescriptions of export-oriented development, economic openness, and small governments occupied mainstream economic discourse (Balassa 1981). This dominant ideological doctrine challenged the state-centred approach of the 1950s and 1960s, and pushed for widespread adoption of free-market policies such as privatization and deregulation in order to achieve greater growth. A list of policies was encapsulated as the ‘Washington Consensus’2 and advocated worldwide by influential international financial institutions, such as the World Bank, the International Monetary Fund, and the World Trade Organization.

It soon became apparent that neo-liberal policies were contributing to rising social inequality, especially in developing countries that accepted the recommendations of the international financial institutions to privatize and liberalize their economies. Distributive effects were increasingly skewed towards elite capitalistic classes (Fine 2011; Harvey 2005; Rodrik 1997; Tickell and Peck 1995). The economies of many countries stagnated, and this model was famously blamed for causing the ‘lost decade’ that worsened the effects of Latin America’s debt crisis in the 1980s.

At the same time, the empirical reality indicated that East and Southeast Asia notched up impressive growth rates and effectively lowered poverty rates. From the 1960s until the 1990s, the East Asian economies of Japan, South Korea, and Taiwan experienced unprecedented economic growth. Japan burst into the export market for manufactured goods in the 1970s, followed closely

1 Since Smith’s (2003) ‘invisible hand’, classical economics has been rooted in the belief in free markets to allocate resources efficiently and create growth, with the tradition continued by neo-classical economics and the rational choice theory. Going even further back, the roles of the state and the market can be read in the indigenous mercantilism of the 1700s to laissez-faire during the colonial period until the revival of mercantilism in the 1930s–1950s (Dewey 1987). In the 19th century, List (1856) introduced the idea of protectionism by the state, while the early and mid-twentieth century saw Keynes (1936) proposing key roles of the state in stimulating aggregate demand. At the same time, Hayek (1944) and the Austrian school were laying the groundwork for the spread of neo-liberal ideology. In development studies, Gerschenkron (1962) argued that the state is crucial in promoting late industrialization, while Hirschman’s (1958) concept of ‘unbalanced growth’ outlined the need for governments to target resources towards underdeveloped regions. The developmental state paradigm built upon these heterodox theories. Hirschman also critiqued the universal strategies of neo-classical and neo-liberal economic theories and emphasized that developmental needs must be analysed case by case, taking into account local resources and structures in policy prescriptions, which the developmental state paradigm provides for (Brohman 2006: 128). Meanwhile, the work by Shonfield (1965) catalysed a range of work on state capacity to plan and implement industrial policies. For a rebuttal of neo-classical views on the state and markets as well as alternative perspectives, see Wade (1990), Dutt et al. (1994), Evans (1995), and Chang (1999). For thorough accounts of the state–market debate, see Gomez et al. (2015) and Colelough (2016).

2 Nevertheless, the author of the term disagreed with its widely held definition (see J. Williamson 2004).
by South Korea and Taiwan. These newly industrialized economies disrupted the traditional patterns of manufacturing and trade in the global economy; for the very first time, developing countries were able to compete with western economies.

Johnson (1982) attributed Japan’s success to the implementation of an industrial policy by a developmental state, based on effective bureaucratic economic planning in the Ministry of International Trade and Industry. After his seminal work, in-depth country case studies emerged on the developmental nature of the governments of South Korea (Amsden 1989) and Taiwan (Wade 1990), as well as comparative works involving various countries, presenting a challenge to the neo-liberal, market-oriented turn taken by mainstream economics in the 1980s (among others, see Chang 1999; Deyo 1987; Evans 1995; Leftwich 1995, 2000; Woo-Cumings 1999b). East Asia’s unprecedented growth catalysed a barrage of research to answer two key questions: What factors can best explain this rapid industrialization? How did East Asian countries (or sectors) upgrade and improve their relative positions in the international division of labour (Evans 1995; Gereffi and Wyman 1990; Sturgeon 2009)?

Despite developing along different trajectories compared with East Asia, the fast growth of Indonesia, Malaysia, Thailand, and Singapore in Southeast Asia also attracted substantial global attention. The World Bank (1993) categorized these countries—together with Hong Kong, Japan, South Korea, and Taiwan—as high-performing Asian economies, part of the ‘East Asian miracle’ of phenomenal economic growth from 1965 to 1990. Meanwhile, Leftwich (2000) labelled Malaysia and Singapore as developmental states, using the concept to describe countries with a sustained annual average increase in its gross national product of 4 per cent or more during the last third of the 20th century. His study considered states with different types of political organization; that is, autocratic (South Korea and Taiwan), democratic (Botswana), dominant single parties (Singapore and Malaysia), and shifting coalitions (Mauritius). The Southeast Asian nations brought a different dimension to the model with their distinct brand of crony capitalism, high rates of corruption, and strong nexuses between business, politics, and the state.

The developmental state as a concept comes with much baggage. As a development model, the historical, institutional, and political arrangements from the successful East Asian experience were narrowly defined and ungeneralizable. Furthermore, the concept was closely associated with the heavy-handed authoritarian regimes of East Asia, which led many scholars to dismiss it as a model to be replicated. As an example, Woo-Cumings (1999a) disagreed that Malaysia and other Southeast Asian countries can be categorized as developmental states. She argued that while state–business relations in the East Asian states were formed through industrial policy as a ‘nationalist mobilization for export-led growth’, Southeast Asian crony capitalism was characterized by state collusion with private businesses, where state–business relations were based on political linkages (Woo-Cumings 1999a: 19).

Nevertheless, Johnson’s (1982) detailed study of the developmental state of Japan revitalized the conversation on state capacity to implement effective industrial policies and, particularly, how state–market relations are organized within national boundaries. Studies that followed argued that ‘states make a difference in long-term economic performance … variation across nations is neither randomly distributed over time and space nor simply the outcome of differential endowments operating through markets’ (Herring 1999: 307). Although highly disputed, the developmental state paradigm was effective because it provided for an analysis of ‘the character of the state, its projects and its embeddedness in society’ (Herring 1999: 307). This was in contrast to the neo-

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However, Jesudason (1997) argued that developmentalism and crony capitalism are not incompatible, describing Malaysia’s model of development as a ‘developmental clientelist state’.
utilitarian development model where the state is seen as a tool for the pursuit of individual-vested interests by those in power, or the neo-classical vision that simply saw the state as a neutral intermediary (Evans 1995: 23–24). Enterprise development can be an outcome of state intervention working in tandem with market actors. Adopting the developmentalist framework (which includes the classic developmental state model⁴ and later theoretical developments) to consider the model of development in an analysis of economic performance presented a fresh approach to study political economy.

The second section of this literature review explores whether the developmental state paradigm is still relevant. After that, the third, fourth, and fifth sections demarcate three main areas of theoretical enquiry within the developmental state literature. The third section examines the what: the key tenets or the organization of institutions within a developmental state. The fourth section interrogates the why: factors or motivations that contribute to the developmental nature of a state and the conceptualization of the relationships between the state, businesses, and society. The fifth section assess the how: the policy tools that lead to equitable economic development. This paper then concludes with some areas for further research. Aside from the influential work on the classic developmental state, this paper also explores new contributions to developmentalism which have captured the ability of the developmental state to evolve and adapt towards a 21st-century developmental state.

2 The relevance of the developmental state paradigm

As indicated in the introduction, a long-standing concern in the field of economics has been whether the state or the market is more effective at mobilizing resources and promoting the accumulation of capital to generate economic growth and development.5 This debate has been approached by numerous scholars arguing from both sides.⁶ However, Dutt et al. (1994) stressed the complementary roles of the state and markets and urged for ways for both to further the goals of development. This review will not go into the well-argued state versus market discussions and

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⁴ The classic characterizations of the developmental state have been focused on the Northeast Asian countries of Japan, South Korea, and Taiwan, particularly from the mid-1960s to the mid-1980s (Evans and Heller 2015).

⁵ Development here points to economic growth, structural change in economic processes, and capital accumulation, but also refers to the 'process involving the promotion and institutionalization of the capacity for constant adjustment, adaptation and change, which all societies must continually undertake as they seek to protect and promote their interests and achievements in an increasingly interdependent but still competitive world order' (Leftwich 2000: 26). For more definitions of development, see Leftwich (2000: 16–70). In particular, this study examines how value chains have been developed to produce and trade the woven products; whether linkages, products, and processes have improved; and whether there is an increase in capital accumulation among actors or output expansion and so on.

takes off with the premise that state involvement in the economy is inevitable. The term ‘model of development’ is used to describe the organization of an economy within national boundaries governed by a state. Scholars have argued that all successful cases of industrialization experienced state intervention and that, even in neo-liberal models of open economies, state action is required to keep them open (Chang 2002; Chang et al. 2012; Evans 1995; Öniş 1991; Weiss 1998). The key question is not whether or how much the state should intervene, but how it intervenes, for what purpose, and what the outcomes are (Evans 1995: 10; Johnson 1982: 18).

After the Cold War ended, several schools of thought developed approaches to analyse the role of institutions in economic development, many with overlapping origins as well as authors. Scholars turned their attention to the diversity within institutional forms of contemporary capitalistic organization across mainly advanced industrialized states, theorizing on the ‘varieties of capitalism’ (Kang 2006). Literature on models of development have also been organized around the regulation theory (Boyer 1990, 2003), social systems of production (Hollingsworth and Boyer 1997a), the theory of flexible specialization (Hirst and Zeitlin 1986; Piore and Sabel 1984), and business systems (Whitley 1992, 1994, 1999), with studies of European economies (Boyer 1990; Hall and Soskice 2001; Hollingsworth and Boyer 1997b; Whitley 1999), Asia (Whitley 1992), and the United States (Nelson 1994). The field of new institutional economics also proliferated.

These bodies of literature have been largely production or firm-centric and do not provide sufficient emphasis on the agency of the state. State-centred analysis is not new but the theorizing surrounding a developmental state took off from Johnson’s (1982) influential MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925–1975 followed by Evans et al.’s (1985) pivotal contribution to the study of states in Bringing the State Back In, both published during the ascendance of neo-liberal ideology in the United States and the United Kingdom. While Evans et al. (1985) pulled together inter-disciplinary studies with a common focus on the organizational structures, potential autonomy and agency of the state, Johnson (1982) reluctantly and more specifically

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7 Hall and Soskice (2001) distinguished two types of capitalist models based on coordination in a political economy: the coordinated market economy, dependent on non-market relations and collaboration between firms; and the liberal market economy, where arms-length, competitive relations, formal contracting, and prices signalling in markets governs supply and demand. The forms of coordination in liberal market economies were drawn from definitions by J. Williamson (2004). The core theoretical idea was that institutional complementarities as conceptualized in five spheres can define comparative advantage: industrial relations, vocational training and education, corporate governance, inter-firm relations, and employees. Amable (2003) continued probing into the heterogeneity of capitalism globally, presenting five types: market-based, social democratic, Asian, continental European, and south European. However, the limitations of these categories were clear, particularly in the example of Asia as the capitalism in Asia clearly cannot be subsumed under one umbrella versus the variety of capitalisms in the West (Gomez et al. 2015: 8). For other studies of the diversity of capitalisms, see Berger and Dore (1996), Safarian and Dobson (1997), Hefner (1998), and Whitley (1998).

8 The new institutional economics defined institutions as ‘a set of rules, formal or informal, that actors generally follow, whether for normative, cognitive, or material reasons, and organisations as durable entities with formally recognised members, whose rules also contribute to the institutions of the political economy’ (North 1990: 3). Institutions can reduce transaction costs and solve problems of information asymmetry (O.E. Williamson 2000). Where institutions are weak with a low density of transactions, there will be high risks and high transaction costs in financial, input, and output markets. On top of that, low population densities and poor communications will culminate in coordination failure and market failure, fueling a ‘low level equilibrium trap’ whereby market failures will lead to even less economic activity and higher transaction costs and risk of transaction failure, creating a cycle of underdevelopment (Dorward et al. 2003: 79).

9 See the argument by Wong and Gomez (2018) that the state remains the only institution accountable to citizens and its role in protecting the availability, accessibility, and quality of public services and regulating the private sector is crucial.

formulated a model of a successful capitalist developmental state based on Japan. A developmental state, as opposed to a regulatory one, was first and foremost characterized as one with the primary aim of achieving economic development in terms of growth, productivity, and technological competitiveness, and less so in terms of welfare.

This model catalysed a whole body of research critiquing the analytical usefulness of the concept, applying the concept to analyse other cases, holding up the developmental state as a model for less developed economies to emulate, or examining the evolution of developmental states. What was so captivating about Johnson’s developmental state was that, close to the end of the Cold War, he presented a political–economic model for state action in national economies which was neither the ‘communist-type command economies’ (state rationale or plan ideological) nor the ‘Western-type mixed-market economies’ (market rationale). Johnson (1982: viii) laid out the foundations of a plan-rationale state, where state ownership of the means of production, rational state planning, and bureaucratic goal-setting created a situation whereby ‘both the public and private sectors have perfected the means to make the market work for developmental goals.

Scholars argued that the growth of East Asia was spurred by state-led industrialization. The developmental states had ‘embedded autonomy’ (Evans 1995) to implement industrial policies and could cultivate large domestic industrial enterprises by ‘getting prices wrong’ (Amsden 1989), ‘governing the market’ (Wade 1990), and pursuing export-oriented policies. State–business nexuses drove industrialization and the rise of domestic enterprises with sufficient export capacity to be inserted into global value chains as well as nurture domestic production networks. With the high growth rates, the state gained legitimacy and also successfully alleviated poverty. The developmental state or ‘developmentalism’, which underlined the development models adopted by the East Asian states, became a broad concept to define ideas on the governance of strategic industrial and technological upgrading by the state, within national boundaries, in collaboration with businesses (Thurbon 2012). Table 1 presents several definitions of the developmental state.

Key themes of legitimacy, the role of elites, and state–business relations emerged. Murakami (1992) defined developmentalism as an ideology in which the political and economic system is based on nationalism and allows government intervention in markets with the key aim of industrialization. Specific political elites transformed the state according to developmental principles as economic development strengthens and legitimizes the state. Thurbon (2012: 275–77) described developmentalism and neo-liberalism as ‘competing ideas about the most appropriate relationship between states and markets’, defining developmentalism as ‘a set of ideas about the centrality of strategic industrial governance to the pursuit of national techno-industrial transformation and about the essential role that long-term, collaborative government-business relations play in that process’. Despite being widely associated with a heavy-handed ‘hard’ state, the developmental state literature did not claim that authoritarianism was necessary nor sufficient to achieve economic success. Developmentalism was a multi-level, multi-stakeholder commitment to economic development, coordinated by the state.

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11 The former was critiqued for curbing freedoms and often leading to a misallocation of resources, while the latter struggled to provide political leadership to the market system.

12 This can be seen in the case of Proton’s vendor development programme that connects small- and medium-sized enterprises to multinational corporations. These networks are also observed in other East Asian countries, although the business systems were differently structured; for example, Japan’s keiretsu system, Korea’s chaebols system, and Malaysia’s government-linked companies system.

13 For this argument, see Jones and Sakong (1980), Weiss (1998), and Jomo and Tan (1999). Not all hard states are equivalent to strong states in terms of economic decision making, nor are corporatist states or democratic states
Table 1: Definitions of the developmental state

<table>
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<th>Source</th>
<th>Definition</th>
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<td>Johnson (1982: 305–08)</td>
<td>A state led by a government that places development as its first priority, a developmental state first and foremost instead of a regulatory state, a welfare state, an equality state, a religious state, etc. The state adopts industrial policy and improves on its effectiveness in advancing economic growth and development through learning and adaptation.</td>
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<td>Castells (1992: 56)</td>
<td>‘A state is developmental when it establishes as its principle of legitimacy its ability to promote and sustain development, understanding by development the combination of steady high rates of economic growth and structural change in the productive system, both domestically and in its relationship to the international economy.’</td>
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<td>Leftwich (1995: 401)</td>
<td>A state ‘whose internal politics and external relations have served to concentrate sufficient power, authority, autonomy and capacity at the centre to shape, pursue and encourage the achievement of explicit developmental objectives, whether by establishing and promoting the conditions and direction of economic growth, or by organising it directly, or a varying combinations of both’.</td>
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<td>Doner et al. (2005: 382)</td>
<td>A particular type of institutional arrangements defined as ‘organisational complexes in which expert and coherent bureaucratic agencies collaborate with organized private sectors to spur national economic transformation’.</td>
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</table>

Source: author’s compilation based on sources listed in Table 1.

The classic literature on the developmental state, specifically those by Deyo (1987), Amsden (1989), Wade (1990), Evans (1995), and Woo-Cumings (1999b), were essentially pragmatic and non-ideological, grounding their studies of history and policy debates instead of theoretical models to uncover lessons learnt. They allowed the data to tell the story, relying on rich information similar to Geertz’s (1973, 1983) ‘thick description’ from the field of anthropology. The country studies were descriptive pathways towards development, instead of the prescriptive economic liberalization proposed by neo-classical economics which tended to downplay the social, political, and historical dimensions of the concept of comparative advantage (Jomo and Tan 1999: 6). Theory building was inductive, with general conclusions drawn from specific empirical observations (Thurbon 2012: 275).

Although it has become increasingly clear that there is no single developmental state model in the same sense as Johnson’s initial Japanese model (Gomez and Lafaye De Micheaux 2017; Haggard 2004), this does not dilute the value in extending understandings of the role played by states in influencing developmental trajectories. Jomo and Tan (1999) turned to South Korea for lessons on Malaysia’s industrialization despite the vast differences between the two economies while Mkandawire (2001) called for Africa to critically examine East Asian developmental states for useful lessons.

Newer studies of the role of developmental states (sometimes referred to as ‘developmental state 2.0’) have incorporated changes depending on the context of their ambitions and the targeted outcomes, whether they are trying to catch up in terms of industrialization (Africa, Southeast Asia, and Latin America) or maintain their competitiveness after the gap with developed nations has necessarily weak in economic leadership. What is crucial is not an authoritarian political system but a stable economic system with discipline and security.

14 The developmental state paradigm continues to be engaged academically, including by scholars who argued for its continued relevance, such as Low (2004), Edigheji (2010), K.-S. Chang et al. (2012), Omoweh (2012), Fine et al. (2013), Williams (2014), Chu (2016c), Wylde (2017), Tapscott et al. (2018), Roy and Kar (2018), and Takagi et al. (2019). Other works critiqued the usefulness of the paradigm, such as Yeung (2016), Carroll and Jarvis (2017) and Hundt and Utram (2017). Academic journals have also continued to highlight developmental states in special issues, among them *Third World Quarterly* (see Gills and Philip 1996; Singh and Ovadia 2018), *Development Policy Review* (see Wiggins et al. 2007), and *International Journal of Political Economy* (see Seccareccia 2008).
been largely narrowed. The developmental state should be seen as a ‘moral ambition’ according to Loriaux (1999), while Fine (2013) noted that the concept was retrospective, not predictive, and was a model to aspire to, not to create forecasts. Haggard (2013) argued that the most enduring contribution of the developmental state paradigm was its observation that the character and capacity of the state can become a driver of growth.

Fine (2006, 2011, 2013) and Takagi et al. (2019) grouped the developmental state literature based on the political and economic logics of state contribution to development. The political school centred on the analysis of the state—its organization, origins, conditions, and mechanisms (usually specified in terms of embedded and relative autonomy) through which the state pursued developmental policies. The economic school identified economic policies and strategies that can correct market and institutional imperfections and lead to high, sustained growth, enabling transition from a largely primary product-based economy to an industrial one. However, in general, the developmentalist literature was built on the need to understand the politics behind economic development. In fact, Amsden (1989), Wade (1990), and Johnson (1995) formulated their economic arguments of industrial policy and economic performance based on their analyses of the configurations of history, state agencies, national goals, and political power. The authors highlighted why the ‘needs of political survival’ were in line with the ‘needs of productive investment’ (Wade 1990: 33).

3 What is a developmental state?

Following from Fine (2006, 2011, 2013), this literature review demarcates three main areas of theoretical enquiry within the developmentalist literature, but recognizes that most works span across more than one area. The political school can be further distinguished into two strands. The first examines what the key tenets of a developmental state are. This literature focused on identifying the institutional organization of successful developmental states to understand what state structures allowed the creation of appropriate policies and capacities for action. Table 2 summarizes selected literature that interrogates questions of this nature. What is clear from the table is the evolution of the literature from a preoccupation with East Asian states and top-down governed, catch-up industrialization to the formulation of wider frameworks to understand the role of developmentalist states in entrepreneurial networks that explore industrial niches in a globalized, knowledge-based economy.

15 Johnson (1982: 307) urged caution, noting that ‘it may be possible for another state to adopt Japan’s priorities and its high-growth system without duplicating Japan’s history, but the dangers of institutional abstraction are as great as the potential advantages.’

16 There is also scholarship on neo-developmentalist in Latin America which developed independently from East Asian developmentalism (see Dagnino 2016; Bresser-Pereira 2017).
<table>
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<tr>
<th>Conceptualization of the state</th>
<th>Explanation</th>
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| Capitalist developmental state (Johnson 1982) | Key tenets of the Japanese developmental state are as follows:  
1. The state is led by a small, elite bureaucracy recruited from the best managerial talents, which provides leadership through industrial policies: to identify industries to be developed, to choose the best strategies, to couple protection with competition.  
2. The role of the bureaucracy is facilitated by a political system that gives sufficient room for bureaucratic agents to take initiatives and operate effectively; the politicians reign and the bureaucrats rule.  
3. Industrial policies do not displace the market, but the state intervenes using market-conforming methods and cooperates with businesses, preserves competition, and gears towards market rationality in the long term.  
4. There is a pilot agency within the bureaucracy to coordinate policy formulation and implementation of industrial policies, with strong administrative capacity to undertake selective, yet strategic intervention. |
| ‘Strategic capacity’ model of development (Deyo 1987) | This model explains East Asia’s success in domestic structural change and responsiveness to external developmental environments based on the institutionalism of modernization theory and the coalitional and interest-based arguments of dependency theory.  
There are three keys to understanding East Asian development:  
1. State coalitional autonomy—politics of strategy choice.  
2. Institutional consolidation—policies and structures through which strategies are implemented.  
3. The temporal sequence and nature of political and economic linkages to core societies. |
| Successful late-industrializing state (Amsden 1989) | Institutions of late industrialization in the case of South Korea transformed the productive structures of the economy and raised incomes on the basis of borrowed technology and learning. The institutions are:  
1. A disciplined (or developmental) state that deliberately ‘gets prices wrong’ to create profitable investment opportunities that stimulate economic growth and discipline capital based on performance particularly in exports to avoid power abuses.  
2. Large diversified business groups, the modern industrial enterprise, act as agents of expansion, initially competing at the lower end of various markets.  
3. Strategic focus on the shop floor by abundant salaried managers, mostly well-educated engineers who strive to improve shop floor management and increase productivity and quality.  
4. Low-cost well-educated labour that is politically and economically weak but motivated by high average real wage increases. |
| Authoritarian corporatist state (Wade 1990) | The ‘governed market theory’ refuted the neo-classical ‘free-market theory’ and ‘simulated-market theory’ of East Asian successful economic development. The government can ‘lead the market’ (take initiatives on products or technologies) or ‘follow the market’ (provide assistance), using incentives, controls, and mechanisms to govern market processes of resource allocation to bring about production and investment outcomes. These policies were supported by a particular organization of the state and the private sector, where a hard or soft authoritarian state was in corporatist relations with the private sector. State intervention allocated more investments to key industries than would have occurred without intervention. |
| **Developmental bureaucratic state, developmental network state (Ó’Riain 2004)** | Two distinct developmental state projects are recognized—the task of catching up with more advanced nations and the task of developing industries that are able to compete at the technological frontier. The developmental bureaucratic state provides firms with financing and other incentives to copy the production technologies of Western firms, but its centralized nature and the arms-length relationship between government agencies and private firms are largely ineffective to assist entrepreneurs who must overcome continuous technological challenges. A developmental network state, decentralized and involving on-going collaboration between public agencies and private firms, is more suited to facilitate and nurture capacities to meet new demands of the global trade regime. Successful catch-up firms increasingly require skills similar to firms capable of ‘indigenous innovation’—adaptability, the capacity to learn and upgrade technologies continuously, and strong network connections with firms with complementary skill sets. |
| **Developmental welfare state (Riesco 2007)** | The legitimacy of the state is derived from social equity objectives through welfare policies and active state intervention, as opposed to East Asia’s legitimacy by high economic growth. |
| **Reconfigured developmental state (Chu 2016b)** | The state serves as a leader and an arbiter of interests in a reconstitution of the developmental alliance among the state, businesses, and the people. The state is geared towards the knowledge economy, articulating its visions and deploying public resources to structure the market and shape innovation. The commitment to economic leadership persists and policy coherence is sustained. |
| **21st-century developmental state (Evans 2010; Evans and Heller 2015, 2018)** | The focus of the state is on facilitating the delivery of ‘capability-enhancing’ collective goods, particularly in knowledge-based tertiary or service sectors, instead of the 20th century’s preoccupation with manufacturing. The state should focus on improving human capabilities and ensuring that growth can be translated into capability expansion. Certain democratic forms of embeddedness are more likely to strengthen capability-enhancing state interventions. |

Source: author’s compilation based on sources listed in Table 2.

4 **Why is the state developmental?**

The second strand that emerges from the political school are works that examine the motivations behind actors’ commitment to development. Where do the policy goals of the state-led economy come from? Why do some developing country states end up transforming their economies successfully while others end up as ‘rent-seekers’ that prey unproductively on domestic resources? What shapes elite commitment to inclusive development and state effectiveness? This literature explored the state’s developmental origins, political conditions, and the less-emphasized social conditions that led to suitable policies being adopted, in contrast to the prevailing perspective that the creation of symbiotic state–business relations will lead to rent-seeking and political corruption.

One leading theorist in this category is Evans (1995), with his concept of ‘embedded autonomy’ as summarized in Table 3, along with other works that conceptualized state–society relations as a main source of state capacity. He argued that variations in state involvement depend on the structural characteristics of states—internal organization and relations to society, which would create different capacities for action. The outcomes of state action would then depend on the context and how well the plans are executed. ‘The state wants’ because ‘some group of individuals within the state apparatus has a project’, as a result of ‘internal political conflict and flux’ (Evans 1995: 19). Block and Negoita (2016) distinguished ‘organizational autonomy’ from ‘cognitive autonomy’. The former refers to the insulation of the state from lobbying efforts of special interest groups; the latter refers to the ability of government officials to think independently about the technologies they are overseeing.
Table 3: Developmental state–society relations

<table>
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<th>State–society relations</th>
<th>Explanation</th>
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<td>Embedded autonomy (Evans 1995)</td>
<td>1. The internal organization of a developmental state takes the form of a Weberian bureaucracy, where bureaucrats are recruited for the long term based on meritocracy, and commitment and coherence are rewarded. Corporate coherence accords ‘autonomy’ to the state from particularistic interests to resolve collective action problems and promote strategic developmental goals to achieve industrial transformation.</td>
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<td>2. State apparatuses are embedded in social ties that form institutionalized alliances between the state and society (specifically between officials and industrial capital, entrepreneurs and technologists, and increasingly for other social groups) for the continued negotiation of goals and policies.</td>
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<td>3. Whether outcomes are successful depend on the type of state structures and the various roles pursued by the states. Successful state actors are those who manage the conflicting pulls between embeddedness and autonomy, providing the underlying structural basis for state involvement in industrial transformation.</td>
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<td>4. For potential to be translated into action, states can play different roles, distinguished as ‘custodian’ (regulator), ‘demiurge’ (producer), ‘midwifery’, and ‘husbandry’ (management of relations between state agencies and private entrepreneurial groups).</td>
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<td>5. The analysis of states and how institutions guide industrial transformation must continue even in new industrial landscapes, to capture the ever-changing state–society relations.</td>
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<td>Governed inter-dependence (Weiss 1998)</td>
<td>1. The capacity to redistribute resources is distinguished from the ‘transformative capacity’ of a state to devise and implement policies that can coordinate industrial change in the face of shifting external environments and augment a society’s surplus.</td>
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<td></td>
<td>2. The state is not the sole source of its transformative capacity. State capabilities are dependent on the nature of domestic linkages and national strategies, more so than with particular policy tools or levels of economic openness, international integration, or private-sector weakness.</td>
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<td>3. State capacity comes from more than embedded autonomy between a possibly authoritarian state and the industrial business community; it is a form of infrastructural, not coercive, power to reach society and deliver things, a ‘governed interdependence’ between the bureaucracy and the industrial sector for transformative success.</td>
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<td>4. Both the state and social groups are strong. State agencies are insulated while industry is highly organized and able to negotiate with the state. Domestic linkages for industrial transformation are narrow but tightly constituted. The government provides leadership, but there is also self-governance.</td>
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<td>Inclusive embeddedness (Robinson and White 1998)</td>
<td>1. The ‘democratic developmental state’ must have ‘inclusive embeddedness’, where the social basis and range of accountability go beyond local elites to embrace broader sections of society. State ‘infrastructural capacity’ comes from the penetration of society to elicit developmental cooperation and consensus from social partners for economic reforms.</td>
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<td>2. The democratic political system is a source of state autonomy. ‘Institutional coherence’ is apparent in the distribution and use of political power, bureaucratic relations, and the party system.</td>
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<td>3. The nature of political society, which refers to the structure and social base of the party system, creates channels for political participation. The social base of a political party would likely dictate its developmental agenda. For example, political parties that focus on the poor would likely advance a poverty reduction strategy.</td>
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<td>4. The political system fosters relationships between citizens and political parties. Citizens must trust the political process to create developmental and democratic outcomes. ‘Programmatic relationships’ with dense networks of civic associations are based on collective deliberation on public issues and create stability in the political system. ‘Clientelistic politics’ is based on personal favours or coercion, where voters’ choices are made not on alternative development programmes but on primordial factors such as religion, ethnicity, race, and personality.</td>
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Source: author’s compilation based on sources listed in Table 3.
Studies have recognized the significant state-led industrialization that occurred across Southeast Asia. Policy interventions were crucial in developing domestic manufacturing sectors and driving structural transformation, going beyond what would have been achieved if resource allocation was left to market forces. The reliance on foreign investment had been cultivated by policy activism through investment incentives and subsidies (Jomo 2001). But while some studies on the nature of the state had considered Malaysia, Thailand, and Indonesia as developmental states, research that interrogated the question of why states are developmental clearly distinguished Southeast Asia from Northeast Asia. Emphasizing the historical examination of states, Kohli (1999), Doner et al. (2005), and Kim (2009), among others, stressed that the classic developmental states emerged as an enduring legacy of Japanese colonialism.

Kohli (1999: 132) noted that Evans (1995) did not sufficiently explain where the developmental goals came from. Kohli called for more explicit focus on the political processes of a society, that is, how the highest authority in a country balances its own preferences against national and international pressures. However, he also stopped short of providing an analysis on the politics of how developmental goals emerge as a priority except to say that it is an important aspect in the study of developmental states. Comparing Northeast and Southeast Asia, Kim (2009) argued that colonialism, institutional frameworks inherited at independence, and relative income equality advanced by political socio-economic transformations featured heavily in the origins of the Northeast Asian developmental state. Unlike the Japanese colonizers who established industry in South Korea and Taiwan, most Southeast Asian countries continued ‘extractive colonial institutions’ which perpetuated income inequality. Domestic industrial development was not a priority of the British in Malaya or the Borneo states as they were markets for British manufactured exports. Manufacturing was limited to raw material processing and cheap mass consumption items like beverages (Edwards and Jomo 1999).

Meanwhile, Doner et al. (2005) disagreed that state capacities originated from ‘state autonomy’ from popular pressures, but rather from the need to maintain legitimacy in response to ‘systemic vulnerability’ in constrained political environments—extreme geopolitical insecurity, severe resource constraints, and restive popular sectors. The authors contended that this systemic vulnerability did not confront elites in Malaysia and Southeast Asia in general, hence local elites were able to retain political power without delivering the state-building capacity needed to generate fast growth. In general, compared with Northeast Asia, Southeast Asia has had more natural resources (the extraction of which is highly political and economically important), less state capacities to guide development, faces ‘late-late’ development, and has diverse social and ethnic relations that complicates state–society relations (Beeson 2004).

However, instead of being a barrier for Southeast Asian states to be included in studies of developmentalism, these characteristics of Southeast Asia can enrich scholarship on the building of developmental states—why and how development has been pursued in the face of these diverse circumstances—particularly given the initial conditions of developing countries currently (Hayashi 2010). Tan (2009) argued that the state is neither inherently predatory nor benevolent, and it can be assumed that the state is motivated by the objective of remaining in power. Hence, the state will formulate policies to meet this political objective; whether the policies or strategies enhance growth (developmental) or reduce growth (predatory) depends on the nature of social and power structures in the country, which are rooted in historical contexts and often reflect the interests of political and bureaucratic elites. In other words, the ‘primacy of politics’, the character of the state and the type of politics it is associated with, is a central determinant of developmental performance (Leftwich 2000, 2008).
Theorizing on the democratic developmental state by White (1995, 1998) and Robinson and White (1998) and more recent works by Edigheji (2010), Omoweh (2012), and Rock (2015) further enriched analyses of the motivations of a developmental state. Tapscott et al. (2018) argued that developmentalism was complementary to democratic practices as neo-liberal capitalism was inherently undemocratic due to its nature of enhancing inequalities. Nevertheless, Chu (2016a) exercised caution on the compatibility between democratic government and developmental intervention.

5 How can the state be developmental?

While the prior two sections examined political and social aspects of developmental states, this section follows from the economic school that interrogated the question of how effective economic development can be achieved and what policy tools there are. In general, developmental state intervention embodied three major components according to Öniş (1991: 124). First, the state focused on building economic infrastructure and developing capacity through education, training, and research. Second, the state promoted cooperative labour–management relations. Third, the state was a lead actor in the creation of comparative advantage but refrained from direct control and ownership of industrial production, working with and promoting the market (domestic and international) as an instrument of industrial policy. Table 4 presents some policy tools adopted by developmental states, but this table is certainly not exhaustive given the wide range of challenges and options facing the states.
Table 4: Developmental policies

<table>
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<th>Policy tools</th>
<th>Explanation</th>
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<td>Selective interventions in industries and sectors</td>
<td>The state selects promising areas for high levels of productive investment based on in-depth research into economic indicators and forecasts on future competitiveness, facilitating the transfer of new technologies to production.</td>
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| Resource coordination                            | 1. Protection: the state lures firms to enter new industries and protect infant industries by limiting the number of firms allowed to enter (entry restrictions), rationing credit, and setting quantitative import restrictions (quotas).  
2. Subsidy: the state intervenes with fiscal subsidies to deliberately distort relative prices (through the setting of interest rates, or providing subsidised credit, tariff protection, and financial incentives for export) in order to stimulate economic activity or direct it towards greater investment. |
| Disciplined support                              | The state utilizes the market to discipline capital, ensuring that firms and sectors mature and grow. Effective competition is created by forcing industries to compete in international and domestic markets. Export performance standards must be met in exchange for protection, subsidy, and other state support, while poor performers will be penalized, subjected to rationalization, or have funding withheld. |
| Facilitative and consultative strategies with businesses (particularly in scientific innovation) | The various roles of the state include the following:  
1. Become network partners for technologists or new firms to reduce incidences of network failure.  
2. Provide funding and other types of support for research and development in early stages of technology development.  
3. Connect technologists or firms with government laboratories or university-based researchers to overcome technological barriers.  
4. Create public–private innovation alliances, research consortia, collaborative public spaces or bridging institutions within which technologists from different organizations share ideas. Inter-firm collaborations are more effective when a public entity is involved, providing public resources and discouraging firms from stealing another firm’s intellectual property.  
5. Through these spaces, be alert to the needs of emergent industries and develop common strategies for handling shared problems.  
6. Overcome barriers to creating an effective business with entrepreneurial leave programmes.  
7. Validate intellectual property held by a new firm and monitor quality.  
8. Raise the capacity of organizations across an entire supply chain; coordinate research and development efforts among groups of potentially competing enterprise to allow firms to move up global value chains.  
9. Act as public entrepreneurs or an ‘entrepreneurial state’ and take risks with innovation (Mazzucato 2013).  
10. Create new industries by moderating platforms to link up people with different resources and by strategizing to overcome barriers together with the industry.  
11. Provide institutional support such as the development of strategic plans, the implementation of standards to coordinate economic actions among businesses, and the facilitation of coordination across national borders. |

Building the 21st-century developmental state further

The studies reviewed argued that historical, political, and institutional factors are key reasons why some countries develop and some countries (or sectors) remain ‘backward’, and that a strategic state is important even in the globalized world of today. However, there are some areas where attention by developmentalist scholars have been limited. First, the developmental state has been examined in terms of its ability to ‘pick winners’, which refers to its selective support for certain industries or firms; the natural outcome would be one where non-strategic sectors receive no state attention at all. But this is not the case. Sustained state involvement exists in various sectors based on political, cultural, or historical reasons and remains under-researched.

Second, the focus of the developmentalist literature on functionalism and institutions has underemphasized the fundamental political and social processes that determines institutional structures and quality (Haggard 2004). Emergence of advantage depends on a complex evolution of competitive and cooperative ties among local firms, on government policies, and on social and political institutions. State, market, and society are embedded in each other and constructed by their interactions with one another (Ó’Riain 2000).

Third, the emphasis on the political and economic roles played by bureaucrats in works on the classic developmental states created a model that is ‘apolitical and socially disembodied’ (Pempel 1999: 145), where domestic politics was framed in terms of state and non-state intra-elite relationships among bureaucrats, generals, politicians, and business leaders, overlooking the roles of other social groups including landowners, farmers, consumers, workers, and small shopkeepers. Likewise, Evans and Heller (2015) argued that diverse networks within a cross-section of civil society is essential to development, instead of focusing on close ties between the state and industrial elites. They urged for debates on the nature of the developmental state to go beyond the original conceptualization of East Asian industrialization, to shift the attention from capital accumulation to human development, and also rethink state–society relations. Development is increasingly about state–society relations, creating democratic spaces, and capacity building, with society inclusive of both market actors and civil society. Policy networks must be inclusive to all stakeholders.

Fourth, the role of the local developmental state is increasingly recognized. Local state capacity, autonomy, and communication with the private sector were crucial in driving industrialization in the State of Penang in Malaysia (Hutchinson 2008). McIntyre and Dallago (2003) found that the small enterprise sector needs support from local-level institutions, linkages with successful large enterprises, and facilitative demand conditions to create significant and sustained economic growth. They showed that healthy markets, small-scale individual entrepreneurship, and ‘self-organization’ were influenced by local policies and institutional, historical, and cultural forces. Local and regional governments are vital for stimulating the growth of small- and medium-sized enterprises by creating markets and market institutions, such as a local finance system, and directing entrepreneurial functions.

Fifth, national strategies are shifting from a preoccupation with manufacturing and industrialization towards a knowledge-based economy and ‘industries without smokestacks’

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17 On how institutional factors best explain the backwardness of countries compared with arguments on natural resource endowment, population, or market forces, see Amsden (1989: 11–14). For their arguments on the continued relevance of the role of the state in a globalized world, see Weiss (2000, 2003), Jessop (2003), Suzuki (2007), Hayashi (2010), and O’Hearn and Wilson (2011).
(Newfarmer et al. 2018), particularly when facing the increasing threat of climate change. Studies on the role of the state in development can be expanded across more sectors, especially as the calls for states to direct investment towards carbon-neutral industries are increasing.

Academically, the developmental state paradigm is unceasingly being engaged, expanded, or critiqued, although mainstream economics still sidesteps it. In terms of policy practice, several developing countries have identified with or even declared the aim of becoming developmental states, including countries in Africa (Dadzie 2013; Mkandawire 2001; Routley 2014; Stiglitz 2016), Latin America (Ban 2013; Caldentey 2008), and Central Asia (Ahrens and Stark 2014; Stark 2010). This highlights the importance of persistent scholarly engagement with the developmental state model, especially in the developing and democratic world. The on-going pandemic that began in 2019 further emphasizes the importance of a competent government with efficient public goods delivery beyond just being a regulatory state, even as scientists predict more crises ahead—economically, ecologically, and in terms of public health. Central to the developmentalist literature is the relationship between the state, the market, and society in the pursuit of economic development through industrial policies, but policy-making by the 21st-century developmental state extends beyond industrial development. The developmental state literature is now more relevant than ever, both to sustain critical lenses on expanding states powers and surveillance and to hold up models of state–market–society cooperation for scrutiny.

References


18 Fine (2013) observed the notable absence of the term ‘developmental state’ in Deconstructing Development Discourse: Buzzwords and Fuzzwords by Cornwall and Eade (2010), which he argued is a reflection of how the (developmental) state has been side-lined by neo-liberalism.

19 See Hayashi (2017) for her argument that although the developmental state theory has evolved with increased liberalization and responsiveness to civil society, the theory is still relevant to scholars and policy makers.


