Review Article

The Logic of the Developmental State

Ziya Öniş


Development theory and policy during the last decade have been thoroughly dominated by the neoclassical paradigm and the neoliberal economic measures closely identified with this paradigm. "Structuralist" development theory had been the prevailing orthodoxy during the 1950s and early 1960s. A central idea associated with structuralism was the belief that market failure is a pervasive feature of the underdeveloped economy with the corollary that the state has an important role to play in correcting it. The neoclassical resurgence, which can be traced back to the late 1960s and early 1970s, attacked structuralism on three separate grounds. First, extensive state intervention to promote import-substituting industrialization had generated inefficient industries, requiring permanent subsidization for their survival with little prospect of achieving international competitiveness. Second, extensive government intervention to promote import-substituting industrialization had generated inefficient industries, requiring permanent subsidization for their survival with little prospect of achieving international competitiveness. Second, extensive government intervention tended to generate "rent seeking" on a substantial scale, which detracted the attention of economic agents from productive activities into lobbying for increased allocations of government subsidies and protection. Third, and most significant in the present context, empirical evidence on the experience of the most successful countries to emerge from the Third World, namely the four East Asian countries, Taiwan, South Korea, Hong Kong, and Singapore, showed that these countries achieved extraordinary rates of economic growth, which moreover had been consistent with a relatively egalitarian distribution of income. The unique performance of these economies had been generated by using an outward-oriented model driven by market incentives and a strong private sector.¹

What we are now witnessing is the emergence of a countercritique of the neoclassical
paradigm based on a reinterpretation of the East Asian development experience. The four books under review in this essay are outstanding examples of a growing literature which seeks to refute the neoliberal vision of East Asian growth in terms of the economic benefits of trade liberalization, private enterprise, and a restricted role for the state.\(^2\) The central thesis associated with the newly emerging countercritique, which we might classify as broadly “institutionalist,” is that the phenomenon of “late development” should be understood as a process in which states have played a strategic role in taming domestic and international market forces and harnessing them to national ends. Fundamental to East Asian development has been the focus on industrialization as opposed to considerations involving maximizing profitability on the basis of current comparative advantage. In other words, market rationality has been constrained by the priorities of industrialization. Key to rapid industrialization is a strong and autonomous state, providing directional thrust to the operation of the market mechanism. The market is guided by a conception of long-term national rationality of investment formulated by government officials. It is the “synergy” between the state and the market which provides the basis for outstanding development experience.

The institutionalist perspective attempts to transcend the structuralist development economics which downplayed the key role of markets in the industrialization process. Similarly, it attempts to transcend the subsequent neoclassical resurgence which rapidly moved to the opposite extreme and interpreted all successful industrialization episodes as the outcome of free markets, with the necessary corollary that the domain of state intervention in the economy had to be restricted as far as possible. The broad institutionalist perspective elaborated, albeit with somewhat different emphases, in the four studies under consideration aims to move beyond what appears to be an increasingly sterile neoclassical-structuralist controversy in a number of fundamental respects. At a very crude level, to propose market-oriented and state-led development as alternatives is simply ahistorical and misleading. All successful cases of “late industrialization” have been associated with a significant degree of state intervention. The problem, therefore, is to find the appropriate mixture of market orientation and government intervention consistent with rapid and efficient industrialization. Equally central is the issue of which set of institutional and political arrangements is compatible with the appropriate mix of state intervention and market orientation in the economy. Hence what we observe in the context of the institutionalist countercritique is a fundamental shift of the problem from the state-versus-market dichotomy towards differences in the ways that market-oriented or capitalist economies are organized and towards how these organizational differences contribute to the contrasts in both policies implemented and the subsequent economic performance.\(^3\)

In the present essay, the focal point of our interest is on the institutional and sociopolitical bases underlying the capacity of the East Asian states to implement effective and coherent development strategies. In particular, we identify and synthesize the contributions made by the four volumes in the following set of issues. Is there a prototype “development state,” or are there fundamentally different variants of the developmental state, even in the East Asian context? Is the East Asian developmental state a product of specific cultural and historical circumstances? Does the developmental state require a particular regime type? Is the developmental state fundamentally incompatible with pluralistic forms of democracy? What
is the future of the developmental state, and is it inherently unstable? What are the challenges posed by the model of the developmental state for neoclassical development theory and neoclassical political economy in general. From a comparative perspective, what are the specific constraints on the transferability or the replicability of the East Asian developmental state in other institutional contexts or environments? Finally, what are the key problems that the second generation newly industrializing countries are likely to encounter in their attempts to borrow or emulate Japanese or East Asian style institutions and policies?

The Developmental State and Strategic Industrial Policy

Chalmers Johnson is the pioneer of the concept of the “capitalist developmental state.” His model of the developmental state, based on institutional arrangements common to high growth East Asian economies, embodies the following set of characteristics. Economic development, defined in terms of growth, productivity, and competitiveness, constitutes the foremost and single-minded priority of state action. Conflict of goals is avoided by the absence of any commitment to equality and social welfare. Goals formulated specifically in terms of growth and competitiveness are rendered concrete by comparison with external reference economies which provide the state elites with models for emulation. There is an underlying commitment to private property and market, and state intervention is firmly circumscribed by this commitment. The market, however, is guided with instruments formulated by a small-scale, elite economic bureaucracy, recruited from the best managerial talent available in the system. Within the bureaucracy, a pilot agency plays a key role in policy formulation and implementation. Close institutionalized links are established between the elite bureaucracy and private business for consultation and cooperation. The organizational and institutional links between the bureaucratic elites and major private sector firms are crucial in generating a consensus on goals, as well as in exchanging information, both of which constitute essential components of the process of policy formulation and implementation. Yet another crucial component is a political system in which the bureaucracy is given sufficient scope to take initiatives and operate effectively. The politicians “reign” while the bureaucrats “rule.” The objective of the political elite is to legitimize the actions of the elite bureaucratic agencies and make space for the latter’s actions.

Strategic industrial policy forms a central component of the developmental state model. Both Amsden and Wade build upon the original formulation of Johnson with respect to Japanese industrial policy and make significant contributions towards understanding the nature of strategic industrial policy and its impact on industrial performance. Wade proposes a governed market theory of East Asian industrialization as an alternative to the neoclassical “free market” or “simulated markets” explanations. The governed market theory is an attempt to specify Johnson’s model of the developmental state in a testable form against the alternative neoclassical explanations of East Asian development. The essence of the governed market (GM) theory may be captured by the following set of propositions. The superior economic performance of East Asian economies is to a large extent the consequence of very high levels of investment, more investment in certain key industries than would have occurred in the absence of government intervention, and exposure of many industries to
international competition in foreign markets, though not in domestic markets. These are the proximate causes. At a more fundamental level, these outcomes themselves are the causes of a specific set of policies which enable the government to “guide” or “govern” the process of resource allocation so as to produce a different production and investment profile than would result under a free market system. The set of incentives, controls, and mechanisms to spread risk, which may all be gathered under the banner of strategic industrial policy, are in turn supported by specific political, institutional, and organizational arrangements pertaining to both the state apparatus and private business as well as their mutual interaction.

Amsden’s account of South Korea provides an outstanding illustration of the developmental state in action. The picture which emerges from Amsden’s analysis of the Korean case contains a number of strong parallels with Johnson’s account of MITI and Japanese industrial policy and to a lesser extent with Wade’s account of the Taiwanese experience. The essence of Amsden’s argument may be elaborated as follows: Korea may be characterized as a prototype case of a guided market economy in which market rationality has been constrained by the priorities of industrialization. The government has performed a strategic role in taming domestic and international forces and harnessing them to national economic interests. Rapid industrialization per se has been the overriding consideration, as opposed to maximizing profitability on the basis of current comparative advantage. The state has heavily subsidized and directed a selected group of industries and subsequently exposed them to international competition. What is interesting, however, is that the industries apart from the priority sectors experienced policy intervention only intermittently, while the remaining industries have been exposed unaided to the rigors of market competition. Hence a high degree of selectivity has been the centerpiece of industrial policy. The state has retained sufficient instruments of control so that, whatever happened in the rest of the economy, sufficient investment would be forthcoming in the strategic sectors. Thus, the market was guided by a conception of the longer-term rationality of investment formulated by the state elites. Furthermore, the state has provided a stable and predictable environment within which the corporations could undertake long-term risks. The basic criteria for the choice of strategic industries involved high incomes elasticities of demand in world markets plus the potential for rapid technological progress and labor productivity growth.

State intervention involved the creation of price distortions so that economic activity was directed towards greater investment. Hence, in striking contrast to the logic of neoclassical development theory, a high degree of government intervention has occurred to distort relative prices so that the desired levels of investment could materialize in the strategic sectors. Yet the discipline imposed by the government on business behavior constituted a crucial component of the industrial strategy. The government has specified stringent performance requirements in return for the subsidies it has provided. As a result of the discipline exercised over the performance of firms located in strategic sectors, price distortions such as heavily subsidized rates of interest on long-term credits did not lead to a waste of resources as in the case of many other middle income economies. The discipline exercised over private firms involved both rewarding good ones as well as penalizing poor performers. The government has deliberately refrained from bailing out firms which were badly managed in otherwise profitable industries. Hence the way in which industrial policy has been implemented differed decisively from the negative forms of industrial policy that
are characteristic of a number of West European countries, which have involved subsidization of declining firms or industries experiencing financial difficulties.

The discipline exercised over private business has assumed a multitude of forms. Through its industrial licensing policies the state has managed to limit the number of firms allowed to enter an industry. The policy has facilitated the realization of economies of scale but at the same time encouraged intense competition for market shares among the existing firms in the industry. Hence the mixture of competition and cooperation was central to the success of industrial policy. The state has deliberately accelerated the process of industrial concentration as a basis for successful competition in international markets. It is clear, therefore, that East Asian style industrial policy does not make sense without the associated East Asian style competition policy. The large diversified business groups, Chaebols, have developed under direct state influence and guidance. Nonetheless, the state has attempted explicitly to prevent the abuse of monopoly power by imposing stringent price controls, negotiated on an annual basis. Furthermore, extensive restrictions have been placed on the capital account. Investors have been subjected to controls on capital flight and remittance of liquid capital overseas. Regulation of the financial system represented a central pillar of Korea’s industrial policy. Until very recently all commercial banks were owned and controlled by the government. The government’s strict control over the financial system has helped to divert the attention of Chaebols towards capital accumulation by closing off the options available for rent seeking. A well-defined technology policy has been an integral component of the government’s broader industrial strategy. Technology has been acquired through investing in foreign licensing and technical assistance. Massive imports of foreign licenses have been conceived of as the principal means of attaining technological independence. Direct foreign investment has played a comparatively limited role as avenues of capital inflow and technology transfer in the Korean economy. Finally, the government’s fiscal policies have complemented its highly interventionist industrial policies. Expenditures from the budget have been directed almost exclusively to long-term investment. The state has invested heavily in education and human capital formation. Yet the welfare state function has been virtually absent. The state has assumed no responsibilities outside the domains of production and capital accumulation.

The central insight to emerge from Amsden’s study is that the government not only subsidized industries to stimulate growth, but also set stringent performance criteria in exchange for these subsidies. Hence government discipline over business was crucial, and this dual policy of support and discipline constitutes the core component of a Japanese or Korean style industrial policy. Here we have a strong contrast between East Asia and many middle income economies which have made extensive use of subsidies to industry. Precisely because of the latter’s failure to integrate subsidization with discipline over business performance, these subsidies have proved to be counterproductive and emerged as a major avenue for rent seeking.

Institutional and Political Bases of the Developmental State

The formulation and implementation of strategic industrial policy have been facilitated by specific political and institutional arrangements. Interesting contributions by Deyo and by
Koo and Johnson in the same volume make important contributions towards understanding the two different facets of the developmental state. A key distinction is introduced between the political basis for strong, autonomous developmentalist states and the institutional basis for state intervention and effective policy implementation. The former aspect draws attention to the broader sociopolitical context which facilitated strategy formulation. The strategic power of the East Asian developmental state has depended on the formation of political coalitions with domestic industry and on the destruction of the left and curtailment of the power of organized labor plus other popular groups. State intervention, in turn, has relied on organizational and institutional links between politically insulated state agencies and major private sector firms. The effectiveness of state intervention has been amplified through the fostering of state-linked private sector conglomerates, banks, and general trading companies that dominate strategic sectors of the economy. The distinction between the coalition basis of strategy choice and the institutions and structures through which policies are implemented refers to the two separate, yet fundamental, aspects of development capacity.

Underlying these political and institutional requirements for effective state intervention in the form of strategic industrial policy are the two central features associated with the developmental state, namely, the unusual degrees of bureaucratic autonomy and public-private cooperation. The coexistence of these two conditions allows the state and the bureaucratic elites to develop independent national goals and, in the subsequent state, to translate these broad national goals into effective policy action. The coexistence of these two conditions is critical. In fact, in the absence of bureaucratic autonomy public-private cooperation easily degenerates into situations in which state goals are directly reducible to private interests. Countries such as Mexico and some of the other "bureaucratic-authoritarian" states in Latin America are striking examples of such political economies, in which close government-business cooperation has materialized in the context of "weak states" which lack autonomy from powerful groups in society.

From a comparative perspective, among the most puzzling and intriguing aspects of the East Asian developmental state are how bureaucratic autonomy was acquired in the first place and why it was subsequently directed to developmental goals as opposed to the self-maximizing or predatory forms of behavior so common in other contexts. An extremely meritocratic form of recruitment constitutes the starting point in understanding the extraordinary degree of bureaucratic autonomy associated with the developmental states. The system was designed in such a way as to attract the best managerial talent available to the ranks of the bureaucratic elite, which in numerical terms was quite small by international standards. Rigorous standards of entry not only ensured a high degree of bureaucratic capability, but also generated a sense of unity and common identity on the part of the bureaucratic elite. Hence the bureaucrats were imbued with a sense of mission and identified themselves with national goals which derived from a position of leadership in society. The early retirement of the elite bureaucrats and their subsequent move to top positions in politics and business also helped to enhance their power and legitimacy. The common educational backgrounds plus the high degree of intraelite circulation were instrumental in generating an unusual degree of cooperation among the bureaucrats, the executive, and the entrepreneurial elites.

All bureaucratic systems are confronted with an inherent tension between autonomy and accountability. Autonomy from both societal interest groups and other layers within the
state is a necessary condition for effective action. Yet the powers granted to the bureaucratic elites may easily be misused in the absence of external checks and balances on bureaucratic power. In the context of the developmental state, several mechanisms were instituted with the purpose of resolving the tension between bureaucratic autonomy and accountability. First, the size of the bureaucratic apparatus was kept extremely small by international standards. The limited size of the bureaucracy helped to consolidate the elite position of the bureaucrats in society and also to contain the problems involving lack of control and accountability associated with massive bureaucracies. The second element designed to achieve an equilibrium between autonomy and accountability concerned the powers granted to pilot agencies such as MITI in Japan and EPB in Korea, which emerged as the principal institutions responsible for the implementation of industrial policy. The problem here was to find the mix of powers needed by the pilot agency without giving it control over so many sectors as to make it all-powerful or so few as to make it ineffective. The dilemma was resolved by confining the powers of MITI to a limited number of selected strategic sectors of the economy. Hence the pattern of MITI's (or its Korean and Taiwanese counterparts') involvement in the economy was consistent with both the economic logic of selective industrial policy, based on infant industry protection, and the logic of finding an equilibrium between bureaucratic autonomy and effectiveness, on the one hand, and bureaucratic power and accountability, on the other. The third mechanism whereby autonomy and accountability were reconciled involved the unusual division of labor within the state, among the executive, bureaucrats, and military. The relationship between the executive and the bureaucracy is particularly interesting. Johnson draws attention to a striking structural characteristic of the developmental state, the implicit division of labor within the polity between the tasks of ruling and the tasks of reigning. Politicians reign while bureaucrats rule. The politicians provide the space for the bureaucrats to rule by holding off special interest claimants who might deflect the state from its main developmental priority and also legitimate and ratify the decisions taken by the bureaucrats. The existence of an independent executive is crucial for the operation of the system in the sense that it allows the bureaucrats the freedom of action necessary for effective policy intervention but at the same time constitutes an important barrier to the misuse of this freedom of action. The task performed by the military in Korea and Taiwan has been similar to the role performed by the executive or the political elites in the context of postwar Japan. The commitment by the military elites to developmental goals as a means of securing national survival and independence has been a key factor in ensuring the effective deployment of bureaucratic power. As a fourth element, in spite of the inherent weakness of civil society in the East Asian context, certain elements within civil society have nevertheless contributed to the process of increased accountability. Amsden singles out the hyperactive student movement in the Korean case, which has helped to check the abuse of bureaucratic and governmental powers.

The logic of the developmental state rests precisely on the combination of bureaucratic autonomy with an unusual degree of public-private cooperation. Common educational backgrounds of the bureaucratic and business elites, as well as their significant cross penetration, have played a key role in generating extraordinary degrees of elite unity. Yet it would be rather misleading to attribute public-private cooperation exclusively to these forces. Public-private cooperation has also been directly and deliberately engineered by the state elites. In both Japan and the other East Asian states which have evolved along the lines
of the Japanese model, the state elites have consciously sought to create cooperative relationships with private business via the creation of a series of unusual institutions. For instance, the state has played a leading role in nurturing the peak organizations of private business. The huge business conglomerates, the Keiretsu of postwar Japan and the Chaebols in Korea, owed their phenomenal growth to the special incentives provided by the state. The fact that they have been nurtured by the state in the first place has, in turn, rendered them extraordinarily dependent on the state for their future survival. Hence the extremely tight policy networks which characterize East Asia have been largely engineered by the state elites. It would be misleading, therefore, to conceive public-private cooperation as an outcome of voluntary compliance by the business elites. The significant element of compulsion exercised by the bureaucrats in securing public-private cooperation constitutes a central characteristic of the developmental state. The extraordinary degrees of monopoly and control exercised by the state over the financial system plus the extreme dependence of individual conglomerates on bank finance have also been instrumental in eliciting compliance with the requirements of strategic industrial policy.

The central insight is that the degree of government-business cooperation and consensus on national goals, unique to the developmental state, is not purely the product of a given cultural environment but has been largely engineered by the state elites themselves through the creation of a special set of institutions relying on a significant element of compulsion.

The Historical Origins and Specificity of the East Asian Developmental States

To an external observer, one of the central puzzles posed by the East Asian industrialization experience is how to explain the single-minded commitment of the state elites to growth, productivity, and international competitiveness. One possible line of explanation tends to focus on regime type, namely, the authoritarian political structures associated with the East Asian states. It is a well-known fact, however, that authoritarian regimes, like their democratic counterparts, are confronted with the problems of legitimacy and typically fail to generate the consistency and commitment to national goals characteristic of East Asian developmental states. Hence we need to search for more penetrating explanations of the intractable commitment to long-term growth. Two factors, both of which are the products of specific historical circumstances, deserve special emphasis.

The first element involves the unusual degree of external threat confronted by the East Asian states in the postwar period. The security threat has been aggravated by the extremely weak resource base and shortage of raw materials in the economies concerned. The security threat has been particularly pronounced in the case of Taiwan, which faced an immediate threat from mainland China. The fact that these nations were under direct Communist threat implied that they had to justify their very existence against competition from the Communist regimes and associated ideology. Hence the extraordinary security threat faced by the East Asian states helped to bolster the nationalistic vision inherent in these states and the unique commitment to the long-term transformation of the economy, which enabled the state elites to ignore considerations relating to income distribution and social welfare.

Geopolitical influences, however, constitute only one element of the legitimation process. The second element concerns the fact that the major East Asian economies under
consideration all experienced a major redistribution of income and wealth from the outset, with the corollary that the industrialization drive in the postwar period has been initiated from a relatively egalitarian base. In the Japanese case, the devastating impact of the war was such that all Japanese were made equally poor. In the cases of Korea and Taiwan, extensive land reforms during the process of colonial rule performed a similar function. The impact of the land reforms was such that, not only was the distributional profile equalized, but also competition from potentially troublesome social groups such as large landlords was eliminated. Precisely in this respect we observe a strong contrast with the Latin American experience. Hence we should locate the unusual and exclusive attachment to economic growth and competitiveness in the combination of extraordinary external threats combined with a relatively egalitarian distribution of income prior to the process of rapid industrialization.

Cumings’ contribution is particularly important in accounting for the origins of the East Asian developmental states. Cumings locates the historical origins of East Asian industrialization in the broader regional context of Japanese and then American hegemony. Under Japanese rule, extensive industrial and infrastructural investment provided a base for subsequent industrial growth in Korea. The build-up of the bureaucratic apparatus and the associated administrative capacity were also to a large extent products of Japanese rule. In the postwar period, Korea and Taiwan assumed a key geostrategic significance, and as a result of their newly acquired geostrategic advantage they have benefited disproportionately in terms of trade, capital, and technology from the core countries. Hence any analysis of the East Asian developmental state has to take into account the international context within which East Asian growth materialized in the postwar period. Unlike the experience of many Third World states, Korea and Taiwan benefited from heavy interaction with the strongest and most dynamic countries within the cores, the United States and Japan. Yet, as Haggard and Cheng demonstrate, it was not only the special nature of their interaction with the core which explains their superior success, but also the way that they have managed their interaction with the external environment with respect to both trade and capital inflows. The strength of the East Asian states enabled them to direct and limit the impact of foreign capital in local economies. Here again we locate a strong contrast with Latin America, whose dependent relationship vis-à-vis the core has been attributed to the interaction of powerful foreign firms with relatively weak states, amply demonstrated in Peter Evans’ comparative analysis. The key point made by Koo is that the international context, combined with the domestic structural characteristics described, enabled strong authoritarian states to emerge in East Asia prior to reintegration into the U.S.-dominated capitalist world economy in the postwar period. Hence, in retrospect, the timing of incorporation into the world economy appears to be crucial for the subsequent success of the East Asian states.

Another striking contrast which explains why the East Asian states did not experience the legitimation problems confronted by the bureaucratic-authoritarian states in Latin America can be traced to the exclusion of labor from the political process from the outset. The corporatist regimes in Latin American newly industrializing countries (NICs) incorporated labor into a populist coalition and emphasized increased wages and public services in the early stages of industrialization. The subsequent bureaucratic-authoritarian regimes in Argentina, Brazil, Chile, and Uruguay aimed to promote industrialization by excluding from power the previously mobilized economic groups and by developing collaborative
relationships with the multinational corporations. The fact that such regimes have been built on the exclusion of previously mobilized groups has generated severe legitimation problems for them.

Our discussion has hitherto focused on the essential unity of the East Asian developmental states. Yet a closer analysis suggests the presence of striking differences among the individual variants of the developmental state. The Japanese developmental state in the postwar period, for example, has differed from its Korean and Taiwanese counterparts in that it has been able to coexist with democratic political institutions. Important contrasts may also be identified between the Korean and Taiwanese models. Wade demonstrates, for example, that Taiwan satisfied Johnson’s “bureaucratic autonomy” condition but failed to conform to the “public-private cooperation” condition and in this respect differed significantly from both Japan and Korea. Close cooperation and interaction among politicians, bureaucrats, and business elites have been the foundation stone of the developmental state. Yet, compared to Japan and Korea, Taiwan has been characterized by more of a cleavage between the government and the private sector. Given the weak institutionalized links between government and business, industrial policy in Taiwan has been implemented through a rigorous but very different type of policy network linking the central economic bureaus with public enterprises, public banks, public research and service organizations, universities, foreign multinationals with operations in Taiwan, consulting firms, and some “special status” private manufacturing companies linked to the party, military, and economic ministries. Hence the public sector has been a central component of the policy network in Taiwan. The different policy network which prevailed in Taiwan may also be explained by the relative absence of a limited number of extremely large conglomerates, characteristic of Japan and Korea. This also explains why the “public-private cooperation” condition could not be fulfilled in the Taiwanese case. What is quite critical in the present context is that the vision of a uniform East Asian developmental state is misleading. In fact, in spite of substantial similarities among the Korean, Taiwanese, and Japanese cases, the presence of important differences should not be underestimated, particularly in trying to generalize from the East Asian experience.

The Developmental State and Corporatism

At a very broad and general level of analysis, it is possible to formulate a correspondence between the East Asian model of the developmental state and corporatist political arrangements. At one extreme, both Korea and Taiwan appear to conform rather closely to the pattern of “authoritarian corporatism,” which involves institutionalized collaboration between the state and business elites in the policy formulation and implementation process, accompanied (at least until very recently) by severe repression of popular groups and the exclusion of labor from the political arena. In contrast to Taiwan’s and Korea’s “authoritarian” or “exclusionary” corporatism, the political arrangements underlying the Japanese developmental state in the postwar period have been much closer to the western European or Scandinavian model of “societal” or “democratic” corporatism.10 In the case of Japan, close, institutionalized cooperation between the state elites and business groups for the realization of strategic goals has coexisted with democratic political institutions. Clearly,
the common denominator in both the “authoritarian” and “democratic” forms of corporatism is institutionalized public-private cooperation in the process of policy formulation and implementation.

Attention drawn to the corporatist nature of the developmental state serves at least one important purpose. It is unambiguously the case that the model of the developmental state explored in the present essay is inconsistent with the vision of a pluralistic form of democracy, in which a multitude of small-scale interest groups enjoy broadly equal and unrestricted access to the state. By definition, restricted and preferential access to the state by organized groups in civil society is an inherent and integral feature of the developmental state. Moreover, the developmental state by its very nature involves an unusual concentration of public and private power which would be extremely hard to justify by the standards of pluralistic democracy. The emphasis on the corporatist nature of the developmental state also helps to draw a broad parallel between the two major groups of countries which constitute the major success stories of outward-oriented development, namely the small European countries, on the one hand, and the East Asian group, on the other. The common element in what originally appears to be exceptionally dissimilar cases is that both sets of countries have managed to build over time institutional and political arrangements which have facilitated highly effective forms of integration into the international economy. The nature of the internal political arrangements was crucial to the ability of these groups of countries to successfully manage their association with the world economy and their subsequent ability to benefit from this interaction.11

Beyond this level of abstract comparison, however, the emphasis on the corporatist character of the developmental state might be more misleading than illuminating. Consider the parallel drawn by Johnson between the postwar Japanese developmental state and the European type democratic corporatism. The fundamental distinguishing characteristic of the latter is that policy is formulated and implemented through institutionalized interaction and cooperation between the politicians and business, on the one hand, and peak associations of labor and business, on the other. Central to the idea of democratic corporatism is the notion that relatively autonomous state elites bargain with autonomous peak associations within civil society. Yet it is quite obvious that this vision of democratic corporatism deviates from the postwar Japanese model in a number of critical respects. First, in spite of the presence of democratic institutions, labor has been systematically excluded from the policy process. Second, it could be incorrect to characterize the policy formation and implementation process in Japan as the outcome of bargaining between equal, yet independent, partners. The studies reviewed in this essay suggest that in Japan, and perhaps even more so in Korea and Taiwan, the state has possessed considerable leverage over private business in terms of securing compliance with its strategic choices. The state elites have unambiguously been the senior partner in their relations with business groups. Hence the degree of autonomy and strength associated with the East Asian models has been considerably greater than the degree of state autonomy associated with the European type democratic corporatism. It is quite self-evident that Japan conforms to a model of an extremely limited form of corporatism. At a more general level, the concept of corporatism makes sense as a means of identifying, as an ideal case, the characteristics associated with the Scandinavian or Austrian type democratic corporatism plus the contributions that such institutional arrangements can make in terms of political stability and improved economic performance. The “ideal case” may, in
turn, be utilized for the purpose of broad, macro-level comparisons with the other political arrangements and systems. However, to extend the limits of corporatism beyond this ideal case and to search for the presence and strength of corporatist arrangement in highly dissimilar contexts reduces the usefulness of corporatism as an analytical concept for macro-comparative analysis.

The concept of “authoritarian corporatism” constitutes a loose category and is less satisfactory than “democratic corporatism” in defining an ideal type. Hence, in our judgment, the characterization of Korea and Taiwan as variants of authoritarian corporatism is meaningful only at a descriptive level. Wade makes the important point that one can not deduce the degree of state strength or specific policy choices from the underlying corporatist political arrangements. Mexico, for example, is considered to be a prototype case of “state” or “authoritarian” corporatism in the context of a single party regime. Arguably, as a consequence of its corporatist arrangements, Mexico has enjoyed a high degree of political stability which is unusual by Latin American standards. Yet the “authoritarian corporatism” model associated with the Mexican case has been consistent with a very different set of strategic choices and policy outcomes as compared with the Korean and Taiwanese models. Moreover, in spite of its authoritarian corporatist characteristics, Mexico has hardly been a case of economic success. The general point emerging from the discussion is that the East Asian developmental state, in a very loose sense of the term, may be classified as a corporatist state, in the sense that institutionalized government-business cooperation is an underlying feature of such a state. Yet, at a deeper level, the characterization of the East Asian developmental states as corporatist states is ahistorical and misleading. Corporatist arrangements by themselves, without recourse to a full range of conditions specified earlier, can not explain why the East Asian states have elected to pursue strategic industrial policies and why such policies have proved to be so effective in practice. Furthermore, corporatist arrangements can be consistent with and have in fact facilitated the achievement of quite distinct objectives such as macroeconomic stability plus income redistribution and the build-up of the welfare state, hardly the objectives associated with the logic of the developmental state.

Is the Developmental State Model Transferable?

To a practically minded scholar, the immediate question concerns the lesson to be drawn from the East Asian development experience which can subsequently be generalized to and applied in other newly industrializing countries. In our judgment, such an approach is extremely ahistorical. In fact, the studies under review demonstrate quite conclusively that the East Asian model of the developmental state is the product of unique historical circumstances with the logical corollary that there exist major constraints on its transferability to or replicability in alternative national contexts.

Three key elements of the developmental state are extremely difficult to emulate. They are the single-minded adherence to growth and competitiveness at the expense of other objectives, the unusual degree of bureaucratic autonomy and capacity, and the equally unique and unusual degree of public-private cooperation. As emphasized earlier, the single-minded pursuit of growth and productivity was clearly related to the severe external
threats that these countries were confronted with. While external threats have helped to legitimize the long-term growth strategy, the geostrategic position of these states in the cold war context enabled them to extract important advantages vis-à-vis the core, the United States in the case of Japan and both the United States and Japan in the case of Korea and Taiwan, which have made a significant contribution towards the consolidation of state autonomy as well as the formation of state capacity. In the domestic sphere, Korea and Taiwan benefited from the unusual combination of an authoritarian regime and a relatively egalitarian distribution, which itself was the product of particular historical circumstances. Consequently, the East Asian states have been able to withdraw from the distributional realm and concentrate exclusively on providing strategic guidance for production and capital accumulation.

A fundamental question centers around the compatibility of the “developmental state” with political liberalization and democratic forms of governance. This also raises the key question whether the transfer or replicability of the East Asian state forms is desirable in the first place, in environments where democratic values and institutions as well as widespread political participation emerge as central objectives in their own right. It is self-evident that in countries which have experienced a long trajectory of democratic development it would be inconceivable for the state to withdraw entirely from the distributional realm and focus exclusively on growth and productivity objectives. At a deeper level, the extreme degrees of concentration of private and public power associated with the East Asian developmental states could also be incompatible with widespread political participation. Although such concentration of private and public power has been consistent with a democratic political system in Japan in the postwar period, this coexistence was more due to the unique features and structural imperatives of Japan as distinct from an inherent compatibility of the developmental state with democratic institutions. As Korea and Taiwan currently find themselves in the process of democratic transition, it would be extremely interesting to observe whether and to what extent the institutions of the developmental state will survive under conditions of popular participation and democratic governance. Hence the question whether East Asian type political economies can coexist with a liberal western type political system emerges as a central problem for comparative political economy during the next decade.

Another critical issue in this context revolves around the long-term stability of the developmental state. Several scholars, including Alice Amsden, have drawn attention to the fact that the East Asian developmental state is inherently unstable. There exists an inherent tension within the developmental state between the “bureaucratic autonomy” and the “public-private cooperation” conditions. The Korean example, for instance, clearly testifies that the developmental state creates the seeds of its own destruction. As argued earlier, the Korean state has been instrumental in the creation of private business groups, Chaebols, as a basis for securing cooperation for its industrial policy and enhancing its autonomy in implementing its strategic goals. The recent evidence suggests, however, that the Korean state has been increasingly unable to control or monitor the activities of the Chaebols. In fact, the relative power and autonomy of the Chaebols have increased dramatically in the course of the liberalization drive during the 1980s, which in turn has progressively limited the capacity of the state to control the actions of these groups and to direct them towards strategic goals. The Korean example illustrates quite conclusively that it is extremely
difficult to engineer an equilibrium between the two apparently contradictory conditions "bureaucratic autonomy" and "public-private cooperation" and to sustain it over time. The knife-edge equilibrium can easily be disturbed due to the more rapid growth of private vis-à-vis public power.

It is quite obvious that, unless the "autonomy" and "cooperation" requirements are satisfied, attempts to implement Japanese and Korean style industrial policies will prove to be counterproductive. In such an environment, bureaucratic elites will lack the capability to identify dynamic industries to be targeted in the first place and will be in a weak position in terms of monitoring and regulating the activities of firms located in the strategic industries. The inability of the state elites to discipline private business in exchange for subsidies may lead to a situation where selective subsidies can easily degenerate into a major instrument of rent seeking by individual groups. A central lesson that emerges from the institutionalist literature on East Asian development is that the transfer of specific strategies or policies to new environments will be self-defeating in the absence of the political and institutional conditions required for their effective implementation. We also need to take into account the fact that the East Asian style developmental state and associated industrial policies have proved to be successful in a global environment characterized by rapid growth of production and world trade and also by the absence of similar institutions and strategies in the rest of the international system. The obvious question to pose is whether such institutions and strategies are likely to be effective in a less favorable environment typified by growing protectionism and declining growth in world trade. Moreover, are such institutions and policies likely to work in an environment in which other nations are trying to adopt similar types of institutions and policies?

On a more optimistic note, however, some important, yet qualified, lessons can be extracted from the East Asian model of the developmental state with a view to its applicability in alternative national settings. A key lesson is that there is no obvious correspondence between effective market-augmenting state intervention, on the one hand, and the size of the bureaucratic apparatus or the public sector, on the other. The East Asian model of the developmental state testifies that highly effective forms of market-augmenting intervention can be consistent with relatively small bureaucratic structures and public sectors. Yet, contrary to popular belief, small public sectors have nevertheless embodied highly productive and profitable public enterprise sectors. Another key message is that a small but powerful pilot agency such as MITI or EPB can provide important strategic guidance in the selection of key industries to be encouraged and also in the provision of a stable and predictable environment for private investors to undertake risky, long-term investment projects. Hence sector-specific forms of indicative planning can be an essential complement of market-oriented growth. Effective market-augmenting forms of state intervention require both bureaucratic autonomy and close public-private cooperation. These institutional conditions are not easily transferable, but they are not the unique product of a particular cultural environment either. Factors such as traditions of social and political hierarchy and group solidarity have played an important role in East Asian industrialization, but it would be wrong to associate the degree of social consensus and cooperation associated with the East Asian developmental state purely with cultural explanations.13 Chalmers Johnson's account is particularly crucial in this respect. Johnson demonstrates that the key institutions underlying rapid economic growth in Japan are of relatively recent origin.
Similarly, the consensus and cooperation which constitute the central pillar of the developmental state are a specific postwar phenomenon. The rejection of the purely culturalist explanation has an important ramification, namely, that bureaucratic capability and public-private cooperation are not cultural givens but can be built up over time through a process of institutional reform. Hence bureaucratic reform as well as attempts to institute organized forms of bargaining and cooperation between the public and private spheres assume critical importance as a basis for improving the effectiveness of state intervention in a market-oriented setting. The challenge for the political economist is to devise forms of industrial policy which are consistent with the norms of democratic accountability and with more limited concentration of public and private power than has been the case in the East Asian context.

Towards a New Paradigm

Institutionalist accounts of the East Asian developmental states embody important ramifications for more general debates in comparative political economy concerning state autonomy and state capacity. A central insight concerns the precise meaning to be attached to the notion of a “strong state.” The developmental state thesis suggests that strong states are typically characterized not only by a high degree of bureaucratic autonomy and capacity, but also by the existence of a significant degree of institutionalized interaction and dialogue between the state elites and autonomous centers of power within civil society. Central to our understanding of the strong developmental state is the distinction between “despotic” and “infrastructural” state power. “Despotic power” or what we could prefer to call “coercive autonomy” may be associated with highly centralized and authoritarian states in which the state elites extensively regulate economic and political activity but at the same take decisions without routine, institutionalized negotiations with groups in civil society. “Infrastructural power,” in contrast, signifies the ability of the state to penetrate society, organize social relations, and implement policies through a process of negotiation and cooperation in society.

The crucial point to emphasize is that highly centralized and authoritarian states which possess “despotic power” will not necessarily have the “infrastructural power” which would allow them to elicit consent for their policies, organize and coordinate society, and mobilize resources for long-term development. Some degree of autonomy from societal pressures is a precondition for effective state intervention. Yet the distinction between despotic and infrastructural power implies that there exists no direct, linear correspondence between “state autonomy” and “state capacity.” From the perspective of long-term economic transformation, the most successful states are typically those which are able to work through and in cooperation with autonomous centers of power. The autonomy of the developmental state is “of a completely different character from the aimless, absolutist domination of the predatory state. . . . It is an autonomy embedded in the concrete set of social ties which bind state and society and provide institutional channels for the continuous negotiation and renegotiation of goals and policies. The specific nature of this ‘embedded autonomy’ must be seen as the product of a historical conjuncture of domestic and international factors.”

The notion of “embedded autonomy,” which Peter Evans uses to characterize strong developmental states in the Third World, also has a direct counterpart in the corporatist
literature of a strong state in the context of advanced industrial economies. In the corporatist literature, the state performs a key role in the creation and the subsequent consolidation of corporatist arrangements involving peak associations of labor and private business. Corporatist arrangements facilitate the implementation of both incomes policies to control inflation and sectoral adjustment policies for smooth industrial transformation. The ability of the state to establish and consolidate corporatist structures depends on two basic attributes, which are perfectly consistent with the general thrust of our analysis. First, the state must be autonomous enough in the policy formation and implementation process not to be overwhelmed by special interest groups. Second, the state must be weak enough to recognize that the costs of imposing a policy authoritatively will exceed its benefits. The state must also be willing to relegate some of its most distinct resource, legitimate coercion, to organizations which it does not control.

Selective interventionism constitutes a fundamental characteristic of the strong state. Such states seem to be able to focus their attention almost exclusively on increasing productivity and profitability and restrict their intervention to the strategic requirements of long-term economic transformation. Neither a large public sector nor a large public enterprise sector is necessary for the state to undertake its strategic role in the process of economic transformation. Indeed, the very size of the public sector, combined with pervasive subsidies and controls, nurtures the proliferation of special interest groups, whose “rent seeking” activities may seriously impede state capacity for effective intervention. Similarly, an excessively large public enterprise sector may undermine the strength of the central government through the emergence of clientelistic relations.

The type of intervention associated with the developmental state embodies three major components. First, direct ownership and control of industrial production is of secondary importance as compared with the process of building up economic infrastructure through education, training, and research. Second, the state performs a key role in the promotion of cooperative labor-management relations. Third, and most significant, the state undertakes a leading role in the creation of comparative advantage. The state is involved in creating the conditions for economic growth and industrial adaptation, yet refrains from exercising direct control. A central feature underlying this process is that the state works with and often promotes the market. The market is employed as an instrument of industrial policy by exposing particular industries to international competitive pressures. Developmental states systematically manage the market as a means of long-term economic transformation. The ability of the state to undertake selective, yet strategic intervention is based on the existence of strong administrative capacity. Again, what matters is not the size of the bureaucratic apparatus, but its coherence. Developmental states are characterized by tightly organized, relatively small-scale bureaucratic structures with the Weberian characteristics of highly selective, meritocratic recruitment patterns and long-term career rewards, which enhance the solidarity and the corporate identity of the bureaucratic elite.

Institutional perspectives embodied in the developmental state model make another important contribution to the broader comparative political economy literature by developing a serious critique of the neoclassical and public choice schools of political economy. In fact, both the institutionalist and public choice scholars start from a common base of a high degree of state or bureaucratic autonomy. The idea that the state elites constitute a distinct interest group, which we associate with the institutionalist perspective, is closely reflected in
the contributions of the public choice school. Public choice analysts, however, entertain highly deterministic notions concerning the manner in which state autonomy is utilized in practice. They argue that autonomous action by self-maximizing bureaucrats and politicians will necessarily result in malevolent state action and misallocations of resources. Hence a direct correspondence is postulated between bureaucratic autonomy and the model of a predatory state, in which the state elites extract large investable resources but provide little in the way of "collective goods" in return so that they act as a barrier to economic transformation. The logical corollary of this reasoning is that constitutional restrictions are needed to contain government growth. Here lies the central difference between the public choice and institutionalist reasoning. The latter does not prejudge the issue regarding the utilization of state autonomy. Furthermore, it contends that state action can have a positive developmental effect. In general, whether autonomous state action will assume a malevolent or benevolent form depends on historical and structural conditions and can not be deduced from first principles. Furthermore, it treats state autonomy not as a permanent or absolute condition, but as a highly contingent or historically specific phenomenon. The degree of state autonomy may vary significantly from one country to another as well as between different historical epochs within an individual country. To make the argument concrete, in the East Asian context the bureaucratic elite has identified itself with national goals and has displayed an unusual degree of integrity in attempting to realize these national goals. Consequently, bureaucratic autonomy has been associated with extremely effective forms of state intervention in the economy. However, it was not bureaucratic autonomy per se which ensured effective state action, but rather a whole set of additional factors which collectively guaranteed that bureaucratic autonomy was translated into effective state action.

Finally, the institutionalist framework underlying the developmental state thesis provides a serious critique of the one-dimensional, universalist logic of neoclassical development theory, with its emphasis on a specific set of appropriate policies, designed to establish a free market, regardless of the historical, institutional, and political context. The institutionalist logic has also identified a set of policies, namely, market augmenting strategic industrial policies, which have been associated with high rates of GNP growth in the East Asian context. Yet the analysis also makes clear that the formulation and implementation of such policies have been facilitated by specific political and institutional preconditions. The corollary of this proposition is that the same set of policies will be counterproductive or at least ineffective in the absence of the associated set of institutional and political structures or contexts. Hence the institutionalist perspective points towards the importance of multiple logics in the interaction of governments and markets in the development process and draws attention to the multiple trajectories of economic and political development available to present-day developing countries.

NOTES

I would like to thank Ezra N. Suleiman for encouraging me to write this article.


8. Peter Evans, “Class, State and Dependence in East Asia: Lessons for Latin Americanists,” in Deyo, ed.


11. See the collection of essays in Ruggie, ed., *Antinomies of Interdependence*.


14. See Evans, Rueschemeyer, and Skocpol, eds., *Bringing the State Back In*.


17. Evans, “Predatory, Developmental and Other Apparatuses.”