

CHINA AS A DEVELOPMENTAL STATE

KINA KAO DRŽAVA KOJA SE RAZVIJA

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Abstract: *Developmental state is often conceptually positioned between liberal open economy model and a central-planned model. The theory of developmental state isn't capitalist or socialist. The developmental state is based on combinations of positive advantages private business and the positive role of government. First of all, economic development requires a state which can create and regulate appropriate conditions for development. Successful conditions require a state which has the necessary tools to deal with burden, and it is not merely the guardian of certain freedoms. The model of developmental state is present by China example. This paper try to contributes discovering the main futures of the model developmental state.*

Key words: *developmental state, interventionism, free market, neo-liberal economy, democracy.*

Sadržaj: *Model država razvoja se često konceptualno postavlja između modela liberalne otvorene ekonomije i modela centralno-plansek ekonomije. Teorija države razvoja nije kapitalistička niti socijalistička. Država razvoja se zasniva na kombinaciji pozitivnih prednosti privatnih biznisa i pozitivne uloge vlade. Prije svega, ekonomski razvoj traži državu koja može stvarati i regulisati odgovarajuće uslove za razvoj. Uslovi za uspjeh takođe traže državu koja ima potrebna sredstva za rješavanje mnogih situacija, a to nije samo zaštita određenih sloboda. Model države razvoja je prikazan na primjeru Kine. Rad ima, pored ostalog, i cilj da prikaže glavne karakteristike države razvoja.*

Ključne riječi: *država razvoja, intervencionizam, slobodno tržište, neo-liberalna ekonomija, demokratija.*

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1. The Theory of Developmental State

1.1 Definitions

Meredith Woo-Cumings (1999: 1) describes the theory of developmental state as the explanation for the East Asian industrialization. According to Chalmers Johnson 'it is a shorthand for the seamless web of political, bureaucratic, and moneyed influences that structures economic life in capitalist Northeast Asia' (Johnson 1982). Chalmers Johnson in his book *MITI and the Japanese Miracle*, used this term analysing the process of the industrialisation of Japan.

It is often conceptually positioned between a free market capitalist economic system and centrally planned economic system, and called a plan-rational capitalist system, 'conjoining private ownership with state guidance' (Woo-Cumings 1999: 2). Johnson

admits that 'one of [his] main purposes in introducing the idea of capitalist developmental state [...] was to go beyond the contrast between the American and Soviet economies' (Johnson 1999: 32). Its roots are drawn from the theory of mercantilism advocating intervention of the state in the economy.

It is believed that, historically, developmental state existed in Bismarck's Prussia and in Japan during the Meiji era. The governments of those states followed a state designed developmental path and until now have been favouring a state interventionism over a liberal open market, be it in the form of East Asian fast developer or of what later became the continental-European model of a capitalist welfare state. It is, however, the research on East Asia which eventually prompted the theory's formulation and allowed for it to be implemented in the scholarly debates and literature.

1.2 Developmental state and state interventionism

Positioning the theory of developmental state between a liberal open economy model and a centrally-planned model suggests its being neither capitalist nor socialist in texture. The process of post-socialist transformation in countries such as Poland witnessed calls for the establishment of neither capitalism nor socialism, but a system comprising market ability to fast socio-economic development and socialist welfare stability. This debate, however, misplaced certain concepts as the two postulates could be achieved, as for example, in capitalist social models of interventionist state such as those existing in continental Western Europe. According to Loriaux, 'the developmental state is an embodiment of a normative or moral ambition to use the interventionist power of the state to guide investment in a way that promotes a certain solidaristic vision of national economy' (Loriaux in: Woo-Cumings 1999: 24). Ha-Joon Chang underlines that 'economic development requires a state which can create and regulate the economic and political relationships that can support sustained industrialisation – or in short, a developmental state' (Chang 1999: 183). Consequently, a developmental state seems to be an interventionist state.

The introduction of developmental state theory into the state ideology means, in real terms, a departure from a neo-liberal economic ideology and a drift towards state interventionism. It seems, however, that this interventionism does not handicap socio-economic development as it was often the case in the centrally-planned economies of Central and Eastern Europe, but it supports developmental trajectory. Moreover, Johnson (1999) points out to the important element of the developmental state from a microeconomic perspective, namely the cooperation between private business and government or, in other words, the private sector and the public sector. Private business becomes a partner for the government in the developmental endeavour. It is, then, private business which is an important part of the developmental state; hence a developmental state is capitalist in nature, as historical examples prove.

Can a developmental state be created in an economy of a neo-liberal nature? It seems hardly possible to achieve extensive developmental goals in an environment where authorities have very limited power in directing investment, regulating its intensity and influencing institutions, companies and communities so that they follow a certain overall development

strategy. A neo-liberal economic model seems to have a number of shortcomings which hinder fast development in developing countries. Chang (1999: 185-7) argues that this is due to the fact that it does not take into consideration that for developmental purposes there has to be a limit in liberalisation and depoliticisation of an economy. He points out that 'politicising certain "economic" decisions may not only be inevitable, but also desirable, because the world is full of assets with limited mobility and owners who are naturally determined to prevent changes that threaten their current positions' (Chang 1999: 191). He also underlines that 'the most important insight from early development economics was that systemic changes need coordination' (Chang 1999: 192). Successful coordination requires a state which has the necessary tools to deal with the burden, and is not merely the guardian of certain freedoms.

In East Asia, it had been judged that a theory of neo-liberal model of economy was not suitable as a state policy aimed at accelerating socio-economic development, long before this very neo-liberal ideology became the world dominating doctrine and a decade or so later turned out to be a failure.

One can, however, argue that in the case of the United States and, to a lesser extent, the United Kingdom, the economic model brought about extensive positive changes as far as socio-economic development is concerned. Two issues need to be addressed in analysing this particular case, firstly, the history of those states' economic policies and secondly, the time in which such rapid development took place. Firstly, in analysing developmental successes and failures of the American economy, one needs to take into consideration the importance of interventionist policies of the XIX century, especially in the agrarian sector, which allowed the accumulation of capital. Tomkiewicz (2006) argues that domestic capital accumulation is essential in enabling stable, long-term development. One can also argue about Great Britain's colonial past, which allowed for significant wealth expansion. Having obtained wealth one would advocate liberal economic models, as it simply would extent opportunities for the accumulated capital to be re-invested. This leads us to the second point. In all cases of developmental state, the countries would not have accumulated wealth to dispose of it in the hope of additional gains. As the UK and the US case shows, one needs to acquire a certain volume of economic assets first, using often interventionist policies, to continue liberalisation, if this liberalisation is indeed

needed. Once a developmental state reaches a certain level of development, as Japan, Korea, Taiwan and Singapore have, one can argue for liberalisation, not however falsely, as a remedy to the underdevelopment of the world, but for its own internal interest to create conditions for wealth expansion.

Moreover, the question of neo-liberal economy and interventionist state can be addressed from the global perspective. The so called global economy is by no means liberal. Casting aside Joseph Stiglitz's important argument about asymmetry of information, and Alexander Hamilton's (in: Woo-Cumings 1999: 5) shyness of capital, one needs to remember that there still are many trade barriers, hence the need for WTO negotiations, as well as powerful forces such as governments of large economies and international corporations, which simply influence, for example, prices of goods, by following certain policies (See more in: Ha-Joon Chang 1999: 197). Developmental states, as their economies are initially mostly export-driven, must comply with the international conditionality and work out their own position in the global economy. It cannot be achieved without a strong state, legally able to influence the directions of development.

1.3 Developmental state and democracy

Another issue refers to the question of political systems of developmental states. Due to its alleged sensitivity, as well as, in a way, doctrinarian character, there seems to be very little research conducted on the political environment necessary for a developmental state to thrive. Although there does not seem to be a direct link between a developmental state theory applied and the genus of political system existing in a particular country, the possibility of such a correlation should not be easily dismissed. It is true that developmental state has existed in authoritarian Korea and Taiwan as well as in allegedly democratic Japan. In fact, Japan was the first East Asian state to be considered a developmental state.

One should, however, search for a plausible explanation for drastic reduction in the dynamics of economic growth in both Korea and Taiwan upon the introduction of Western-style democracy. One should also take into consideration that developmental state in Japan can be traced back to the Meiji era, an undemocratic period of time in the Japanese history, as well as the fact that in contemporary Japan it is the bureaucratic structure which is believed to manage the country's affairs and democratically elected politicians seem to have limited influence on the running of

the state. Japanese state bureaucracy, unaffected by democratic elections, as it in fact should be in a liberal democracy, seems to have a larger control over state governing than in other democracies. As Johnson puts it, 'who governs Japan is Japan's elite state bureaucracy. It is recruited from the top ranks of the best law schools in the country; appointment is made on the basis of legally binding national examinations – the prime minister can appoint only about twenty ministers and agency chiefs - and is unaffected by election results (Johnson in: Woo-Cumings 1999: 14).

If indeed, it is "the elite state bureaucracy" which governs the state, and also serves as a buffer between politicians and the state, or more precisely, between democratically elected politicians' ideas and management of the state which is balanced and developmental in nature, then a democratic system can probably be replaced by a form of authoritarianism, where the power legitimacy is drawn from developmental achievements and not directly from public elections. On the other hand, however, we may think about democracy as a pervasive system in which we defend the right of the society to choose their leaders and be governed by them, at the same time realizing fully that in order to maintain a developmental path one needs to curb aspirations of the democratic leadership. This is an achievable goal, as we can be satisfied by having the power to choose our rulers, regardless of how imaginary their role in governing the state is, and as we are convinced that the developmental path of our country bringing improvement to our lives will be maintained. In Western democracies, the public administration seems to be a type of shield to protect public interests from politicians, in addition to being a structure to transform the ruling elite's ideas into policies. In Japan, however, this role seems to be even greater.

Consequently, it seems justifiable to claim that a developmental state would be difficult to sustain in a fully democratic system in which people enjoy extensive rights. In order to follow a strict developmental path one needs to limit society's ability to counteract the state's efforts, in favour of particular goals dependent on one's affinity to a certain social group. My conviction derives from a lack of belief in an altruistically motivated conduct in the majority of each society, even less so in the long term. In the macro perspective, societies, democratic or not, are mostly interested in increasing their own wealth in a relatively short period of time. The developmental state enables developmental advancements. However,

the process of improvements is by no means linear and steady and would involve interim recession and undoubtedly geographical and social differentiations in gains. Hence it requires a set of policies motivated by an overall long-term target and not individualistic micro goals.

Johnson, however, stresses the significant differences between traditionally authoritarian states and authoritarian or limited democracy type developmental states, by drawing from the concept of legitimacy of power. I am not aware of Johnson's motives in making such a strong distinction; nevertheless the argument about the legitimacy seems convincing. He stresses that 'the source of authority in the developmental state is not one of the Weber's "holy trinity" of traditional, rational-legal, charismatic sources of authority. It is rather, revolutionary authority; the authority of a people committed to the transformation of the social, political or economic order. Legitimation occurs from the state achievements, not from the way it came to power' (Johnson 1999: 53). 'In the true developmental state, [...] the bureaucratic rulers possess a particular kind of legitimacy that allows them to be much more experimental and *undoctrinaire* than in the typical authoritarian regime' (Johnson 1999: 52).

1.4 Developmental state in East Asia

As mentioned earlier, the nativity of developmental state is believed to have taken place in Europe and Asia. Johnson (1999: 6) suggests that in East Asia, economic development, aimed to be achieved via the introduction of developmental state theory into the mainstream policies, was supposed to combat Western imperialism and ensure national survival. One can risk an assumption that, from the historical perspective, it was the Asian developmental state concept which prevailed whereas the early-capitalist European model was replaced by the social-democratic interventionist capitalist state present in parts of continental Europe such as France and Germany or in Scandinavian countries. One cannot dismiss the developmental achievements of those states, however, one needs to acknowledge the very different conditions of Asian states while embarking on and following a developmental path. Consequently, it is the East Asian states which are considered to be or have been developmental states, namely, Japan, Korea, Taiwan, Singapore. Naturally, more attention has been paid to large economies such as Japan and Korea in the analyses of the developmental state theory.

That is not to say, that other countries have

not applied some sort of developmental state theory into their governments' policies. B.R. Schneider (1999) describes the *desarrollista* states of Mexico and Brazil, being examples of developmental states. Those cases, however, are significantly different from their Asian counterparts. Schneider believes that two main elements of the *desarrollista* state are political capitalism and appointive bureaucracy. The first term refers to the close ties of business and the ruling elites, which may suggest a conceptual closeness to the East Asian states. In East Asian countries, however, the relation between business and government is based on an agreement on common goals, strategies and rules, on mutual complementarity in achieving developmental targets and on a type of partnership. In political capitalism the state and business seem to be connected in one structure, where the ruling elite is also a business elite. The position of businesses in the economy depends solely on who is in the government. Although the East Asian model is undoubtedly not free from corruption, the Latin American model seems in fact to be an essence of corruption. The appointive bureaucracy is, on the other hand, a very distinctive element of a *desarrollista* state, where a new government usually appoints most of the positions within the administration, unlike in Japan.

In view of the recent economic achievements of India, one also needs to investigate the Indian case as a potential developmental state. During most of the second half of the XX century, the Indian developmental state failed and the social and economic achievements throughout that period were rather insignificant, though there were some evident successes. There seem to be various reasons for India's failure, one of them being the fact that the economy was not liberalised enough and state policy too interventionist in nature. Although one needs to acquire a balance between liberalisation and interventionism, and the Beijing Consensus suggests that such a balance is endemic to every country, it is also evident that what is being criticized is an element of the developmental state. It is not, however, state interventionism itself which should be considered a part of the institutional environment of the developmental state, but rather, as mentioned earlier, a wise, developmentally-focused interventionism. Unlike in the case of liberal ideology, where almost everything is left to the invisible forces of the market, with state interventionism comes responsibility to manage the country in a wise manner. This very management of the state and, especially, the economy, and its failure seem to be the main obstacle

in India becoming truly a developmental state. Moreover, it is probably not entirely unfounded to claim that the Indian political system could, to some extent, contribute to meagre developmental results as the main agenda seems to be achieving short-term effects.

There does not seem to be a comprehensive explanation for the reasons why it was particularly the East Asia region, where the developmental state model actually worked, except for some arguments as to why it has not worked elsewhere. Undoubtedly, the state philosophy, as portrayed in the theory, was attractive to ruling elites and societies and there were conditions to implement it. The existence of “fertile ground” can probably be traced back to historical and cultural reasons.

2. The Developmental State of China

Having analysed the concept of developmental state one needs to pose the question, how much is China a developmental state? Does it fulfil the requirements to be called one? Does the Chinese government use developmental state theory as the main ideology of the state? It is by all means clear that Marxism or even Maoism had long been abandoned as guidelines for the authorities conduct, although socialism, with somewhat “spacious” interpretation possibilities “of Chinese characteristics”, remains officially in place.

Let us reiterate the very features of the developmental state, as they have been agreed in the course of international research on the subject. Firstly, a developmental state is a state in which the authorities’ objectives are to achieve fast socio-economic development. Secondly, these objectives are achieved via the process of industrialisation. Thirdly, although the strategy and goals might be drafted by the ruling elite, the state transformation is facilitated by competent bureaucracy, a state administration, which is a structure largely independent from possible democratic choices of the society, unlike in Mexico and Brazil. These choices might as well be irrelevant as a political system of a developmental state is usually authoritarian, or at least heavily guarded from the influences of democratically elected politicians. Fourthly, the process takes place in the institutional environment in which it is the state which dictates not only the norms and the rules of the social, political and economic existence, but also the directions of development. Hence it is an interventionist state in nature. Fifthly, although it is indeed an interventionist state, the economic environment is capitalist, where the

private sector plays a crucial role in the development of the country. Moreover, one can insist that East Asia cases provide a pattern defining an adequate developmental path for countries of the South. The developmental state is introduced to rather poor economies which require significantly better developmental dynamics. This dynamics can be mostly sustained by export-led growth, which then, in theory, will create means for combating poverty, generate new work places, etc. Hence, a developmental state becomes an exporter of its own products. In time, the volume of exports remains high, its nature changes, but the development is more and more fuelled by domestic consumption. Eventually, once the society reaches a certain standard of living, it will be the domestic consumption which will generate the economic growth. Probably at that stage a developmental state becomes a developed state.

Is China then an example of a developmental state? It seems beyond any doubt that the post-socialist transformation in the PRC has been aimed at the significant acceleration of socio-economic development. In fact, the facilitation of a developmental path was an element of China’s institutional arrangement prior to the reform era. Lin (2006) points out that one of the main goals of the CCP upon taking power, was to overcome backwardness and allow the state to develop faster. Among misplaced policies and misdesigned strategies, some positive changes were achieved. Johnson (1999) argues that in order to accelerate development, China and North Korea chose communist modernisation, whereas Japan and South Korea, a capitalist developmental state model. The “communist modernisation” did not achieve expected results, hence the necessity for *gaige kaifang*. Developmental trajectory of China’s post-socialist transformation cannot be put in question. One can, at most, question the Chinese achievements in the social strata of development. On the other hand, however, ‘Japanese people’s standard of living did not change anywhere near as much as the change in the Japanese gross national product’ (Johnson 1999: 50), which, some claim, has become a pattern in the Chinese transition.

As far as the process of industrialization is concerned, China has continued the efforts of the pre-reform era, though modernizing the industrial sector, changing to a certain extent its profile, and developing new branches. Socialist heavy industry development has been replaced by market value added goods production.

Does China possess a competent state bureaucracy? The reforms, in which Party officials have been replaced by civil servants, indeed increased the competence and effectiveness of the state administration. Civil servants are relatively well paid. The structure, however, unlike in Japan, is designed to fulfil the wishes of the ruling elite. The ruling elite, however, is to a great extent free from societal pressure. As this might not be so dangerous on the state level, where the leadership seems to be drawn from competent cadres, it might pose problems at a provincial level, where corruption is higher, transparency non-existent and temptation greater. In time, one should, however, expect an evolution of the public administration towards greater independency and higher professionalism in governing the country and provinces, as it has been the case for the last 20 years.

Is the Chinese state an interventionist state? The communist legacy and a lack of democratic rules and procedures would suggest that the state has all the means to intervene in every aspect of political, social and economic life. Indeed, the Chinese state is perceived as interventionist. One needs, however, to distinguish between interventionist and intrusive. Although the authorities can and often do exercise extensive control over the three above mentioned areas, there seems to be a trend in the Chinese economy to accelerate liberalization. The trend is perceived by some as a slow but firm departure from interventionism towards a liberal market economy, perhaps even an American style economy. Nevertheless, the state so far does control the developmental directions of the country and its regional intensity and realizes the agreed strategies. Naturally, it does not mean that China moulds its institutional system or even less develops in the exact manner and speed as expected by the ruling elite.

Some believe that China's departure from socialism is not definite and not decided. It is claimed, therefore, that China does not have a capitalist economic system. The official propaganda does not help in clearing any doubts in this matter, as it advocates the existence of the Chinese model of socialism. Some scholars would be confused by the Chinese economic arrangements due to the fact that it is the communist party which still maintains the power, so it is allegedly not possible for such a structure to preside over a capitalist system (see: Balcerowicz 1997), or that alleged gradual Chinese reforms would not as yet result in the capitalist model. Following this

pattern of logic one must arrive at the conclusion that China is not an example of a developmental state, as the theory of developmental state can be applied in market economy conditions. All those assumptions seem wrong. Capitalist systems around the world differ. China's economic system is merely a type of capitalism, despite the fact that it might be perceived as not entirely developed and to a great extent malfunctioning. Its existence does not preclude its evolution towards other types of capitalism. Private production means rights – an important element of every capitalist system – are extremely unlikely to be abolished, regardless of the ideological and institutional direction the PRC decides to follow.

Although it cannot be proved yet, current trends show that China will follow the developmental state pattern. Current growth is export-driven. For decades China's products have been present around the world, often to the dismay of local producers, the affluent in developed states and the poor in developing countries. An increasing share of Chinese production is, however, consumed domestically, as a richer society can afford to purchase more goods.

The above analysis shows that China is a developmental state. The Chinese authorities conduct a developmental policy via industrialisation, in an undemocratic environment. It is the state who supervises the economic changes of the country and intervenes where necessary, although its power is by no means absolute. Constant improvements of the public administration will probably prevent the type of bad management that has been prevalent in India, or the chaos of political rotation that has dogged Mexico and Brazil.

The developmental state theory is not a recipe for successful civilisational advancements of a nation. It is, however, a state philosophy which can create an adequate ground for developmental efforts. This ideology puts development in the forefront agenda. We shall not, however, accept this theory as dogma. Perhaps, in view of the Chinese developmental achievements one needs to reshape the theory constructed in the 80's, based on the retrospective economic achievements of certain states throughout the XX century. Its sidetracking in the 90's is a vital signal of the necessity of its reformulation. First of all, the means to development will probably be less and less dependent on industrialisation of the states and more at developing services. It is an inevitable consequence of the post-industrial era. Second, the more educated and enlightened the societies, the

less reason to maintain undemocratic or “shielded” democratic regimes, hence fully liberal democracies may become developmental states, provided the societies can choose a competent elite to govern. Third, better transparency in business relations and less asymmetry in information about the global economy caused by technological advancements may slightly reduce the role of the state in supervising the development, though this role will probably never be eliminated entirely.

One also needs to remember that introduction of the developmental state theory into the state policies and state main ideology may result in some negative effects, which, on the other hand, are also common in other countries. In the process of enriching the nation the state might prefer to enrich itself and not the people. The corruption, so endemic in centrally-planned economies and also existent in liberal economies is indeed a great threat to development, as Dutta and Mishra (2004) show in their studies analysing poverty traps and inequality.

The competent elite and professional administration should ensure balanced development of all regions and all groups. This tool is not available to those governing a neo-liberal model of economy, as the capital ventures where it sees best opportunities.

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Another major threat to the actual implementation of the theory of developmental state could be a sequel to the situation of early 90's where the triumph of the neo-liberal economic ideology rendered the interventionist policies useless and wrong in achieving economic prosperity. The current attack on the idea of developmental state may unlikely come from the proponents of the discredited economic philosophy, but rather from the supporters of the idea of building a global economy in which, by definition, the role of states seem to be on the decrease. One, therefore, needs to underline the fact, that the only proven track of dynamic socio-economic advancements of poverty stricken developing countries has been realised by states, which have had extensive powers to influence the economic, political and consequently social life, and to control the directions of development. It does not necessarily mean that such a state must be an authoritarian one, as it may as well be democratic. It must, however, be an interventionist state. No neo-liberal experiments with a limited state role have produced in the developing world significant improvements in the standard of living of the poorest parts of societies, despite De Larosiere's (2002) claims regarding Morocco.

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