Redefining developmental states:
experiences and lessons from East Asian and Latin American development models

Ricz, Judit

Preliminary draft paper prepared for the
First World Congress of Comparative Economics (Rome, June 25-27)

Please do not cite, however any comments are welcome
ricz.judit@krtk.mta.hu

Intellectual debate on the role of the state in development and state interventionism has been revitalized by new challenges in the twenty first century in general and experiences and consequences of the recent financial and economic crisis of 2008-9 in particular. We aim to contribute to this debate by looking at historical and recent development experiences of East Asia and Latin America and the new economic policy model emerging since the Millennium across the two regions.

In the first part we compare two classic examples of developmental states the East Asian and Latin American cases, and to draw some lessons for contemporary developmental states we use a historical approach while focusing on the second part of the last century. First we highlight main differences of growth and development paths by looking at the numbers, and then we sum up the classic characteristics of the East Asian developmental state while embedding it in its specific context. This classic paradigm of developmental state serves as reference while summarizing main cornerstones of the fundamentally different developmental model of Latin America.

In the second part we critically investigate recent changes and evolutions in the Latin American and East Asian region and highlight main similarities (continuities) and differences (changes) respectively to their classic developmental state approach. Our aim is to search for possible generalizations on the level of stylized facts regarding the changing role of the state in development, more concretely to draw some conclusions regarding the new concept of developmental state in the twenty first century.

Keywords: developmental state, East Asia, Latin America, globalization, financial crisis, development

---

1 Ricz, Judit, research fellow at Institute of World Economics, Centre for Economic and Regional Studies of the Hungarian Academy of Sciences. ricz.judit@krtk.mta.hu
In the light of recent financial crises (especially the Asian Financial Crisis (AFC) in 1997-99 and the Global Financial Crisis (GFC)) and the new challenges shaping the 21st century some common elements emerge in the case of (in some developmental aspects) successful East Asian and Latin American countries’ economic policies.

The aim of this paper is to contribute to the intellectual debate on the role of state in development, especially regarding the transformation of developmental states. For this we look at the classic models of developmental state (DS), the East Asian and Latin American cases applying historical and comparative approach, and analyse historical and more recent trends and economic policies in both regions. Based on these results we try to draw up some cornerstones of a revised developmental state concept.

We compare the East Asian, classic type of developmental state with the fundamentally different developmental model of Latin America and argue that though differences in the two models, both were embedded in a similar post-world war global economic and political context, that made them to a certain degree successful for a period of time. Changes in this special context showed however inherent failures and shortcomings of these classic developmental state models, and a new era of “de-statization” started.

Finally we critically investigate recent changes and evolutions in Latin America and East Asia. We highlight main continuities and changes in response to ‘recent’ economic crises (in Latin America dating back to the 1980s, in East Asia more relevantly since 1997/99) and the 2008-9 global financial and economic crisis, as well as to other changes described above. We aim to search for possible generalizations on the level of stylized facts regarding the changing role of the state in development, more concretely to draw some conclusions regarding the new concept of developmental state.

**Defining scope and subject of research**

In the twenty first century, especially following the financial and economic crises of 2008-9 and the occurring wide-ranging government interventions throughout the world with the aims first to manage the crisis, then to help the economic recovery, to stimulate the economy and mitigate social effects of the crisis we can observe a renaissance of the developmental state concept.

Already before the crisis we can observe the “misuse” of the term DS, as it has become ‘a generic term to describe governments that try to actively “intervene” in economic processes
and direct the course of development rather than relying only on market forces’ (Beeson, 2007: 141). In our study however we rely on a stricter definition of developmental state, as we are convinced that in contrast to recent use of this word, DS is a much more complex institutional solution (aiming to promote the catching up of less developed countries with the advanced world) and it is not justifiable to call any active, interventionist state (relying on selective industrial policy measures) a developmental state.

The archetype of DS is the Japanese model, as described by Chalmers Johnson (1982: 19-23): the developmental state is a capitalist plan-rational state being able to set substantive social and economic goals (high-speed economic growth and economic catching up being the most important priorities), and to mobilize the society for achieving these. In Johnson’s interpretation the developmental state is consistently and continuously committed to its first priority of economic development (and to the development-oriented approach), and is backed by wide ranging social consensus on social and economic priorities as well as on the role of the state.

Since Johnson’s work the concept of DS has been applied and expanded first to other East-Asian, and later to other emerging countries, while today it is most often used related to fast-growing African economies. Still we argue that in order to have a common language in the unfolding debate around the DS of the twenty first century, it is inevitable first to define the term DS. For this we go back to Johnson’s DS interpretation and formulate the following definition. The term developmental state refers to a: 1. capitalist model: private property dominating the economy (no ideological commitment to state ownership); 2. state-led development model: bureaucratic coordination replaces market coordination, and the active (even pro-active) interventions of state reach all parts of economic life, discretionary and selective interventions dominate; 3. the central role of economic (development) planning: medium and long term economic plans are formulated and implemented (though often on a pragmatic, rather flexible manner); 4. long term commitment to development-oriented approach (not US-type regulatory, nor Soviet-type socialist approach); 5. wide social consensus on both the central role of the state in promoting development and the most important social and economic priorities (with high-speed economic growth and catching up being the most important ones).

We are convinced that this general definition of DS can be applied besides the classic East-Asian cases to describe several other development-oriented regimes, such as Latin-American,
or African ones. Thus it may help to apply the comparative approach and analysis while looking at developmental states.

In our comparative analysis we consider two regions of world: East Asia and Latin America. Both being extremely diverse and heterogeneous regions, with huge differences not just among their countries, but in several cases within their countries as well (think for example on China or Brazil). Still large literature exists on both regions, as there are essential basic similarities on a higher level of abstraction, that make these groups of countries more different from other parts of the world, as from each other. Furthermore the two regions, East Asia and Latin America differ from each other in almost all aspects. So by comparing their growth and development experiences, and especially focusing on the role of state in development we rely on the methodology of comparing different cases with the aim to search for possible generalizations for economic policy-making.

Why East Asia? We look at East Asia (EA), as the home region for DS concept, the archetype for the DS model as laid down by Chalmers Johnson, based on the Japanese case and later on the extended versions of DS (the so called classic DS model) by the revisionist school serve as the basis of reference for further analysis (Johnson, 1982; Amsden, 1989; Wade, 1990; Evans, 1995). In DS literature the classic DS type refers to the Northeast Asian countries, namely Japan and the four Newly Industrializing Economies (NIEs), Hong Kong, South Korea, Singapore and Taiwan. According to Woo-Cumings (1999:1) „‘Developmental state’ is a shorthand for the seamless web of political, bureaucratic and moneyed influences that structures economic life in capitalist Northeast Asia.” In an extended East Asian DS model further South-East Asian countries are also incorporated, mostly Indonesia, Malaysia, the Philippines and Thailand. In this paper we aim to refer to these nine countries as EA. In empirical analysis sometimes Japan is left out, as being the most advanced one, as it has gone through the phases of economic and social transformation earlier than all the other countries of the group. Most international statistics also treat the EA region differently, as group of countries (mostly referring to 16 countries), so we will always add a note, when data refers to this broader category.

2 The case of China is also a special exemption (as always) in DS literature. According to the original DS concept laid down by Johnson (1982) it would not count as a DS, as being a socialist country, and not a capitalist one. In the 21st century’s DS literature however authors often refer to China as a DS using a broader definition and include statistical data on China also in analysis, which often results in huge differences looking at the results (be it on economic growth, poverty reduction or even flows of FDI).
And why Latin America? Latin America (LA) has often been seen as a laboratory for experiments on the role of the state in development, though according to Kingstone (2011:128) it was often rather similar to a battlefield. We will see that in the light of recent processes and changes in LA, this region deserves renewed attention of economists, as its experiences might serve with useful lessons for countries and policy-makers throughout the world. LA covers a number of countries, depending on the definition and demarcation. In this paper we look at the most important economies of LA, and mostly refer to the following eight (larger) countries: Argentina, Brazil, Chile, Colombia, Mexico, Peru, Uruguay, Venezuela. However as international statistics are often based on the categorization of international organizations or databases, we sometimes will refer to the larger region called Latin America and the Caribbean (including 26 countries).

With Gereffi’s words (1992:4) “…the East Asian and Latin American nations … are a good base from which to build solid comparative generalizations because they embody different routes to industrial success.”

Comparing East Asian and Latin American development state models (1950-99)

Comparisons between economic and social development of EA and LA are numerous in economic literature. Differences in growth and development trajectories as well as differences regarding the role of state in development have been well documented3.

Here we focus on the similarities and differences of developmental state models of the two regions, mainly on the level of stylized facts based on comparative synthesis of qualitative and quantitative analysis existing in the literature, with the aim to shed light on some lessons for contemporary theories on developmental states.

To set the context, first we look at the economic growth achievements of the two regions, and some other dimensions of their socio-economic development. Main elements and characteristics (as well as success or failure) of the different DS models of the two regions have to be regarded in the light of these growth and development records.

East Asian and Latin American development paths: some numbers and economic policies

In 1950 Latin America was the most developed region outside the industrial countries, with per capita GDP levels at around one-fourth that of the US (Table 1), its relative position has

---

declined during the decades preceding the Millennium (Elson, 2006). In East Asia the trend was in the opposite direction. The GDP per capita levels of the fast growing economies of the East Asian region\(^4\) has almost tripled in relation to the United States, but the per capita GDP level for the larger EA region has also more than doubled. Thus during the second half of the last century a reversal in the relative position of the two regions has taken place compared to the US.

Regarding growth records and applied economic policies the last half of the last century can be divided into different periods in the case of the two observed region. A so called golden age of developmentalism can be dated between 1950 and 1973 in Latin America, while the same in East Asia started (ended) later and took place mainly between 1960 and 1995. The era of the so called neoliberal reforms, or the demise of the developmental state in LA can be dated between 1973/78 and 1998/2000, depending on the observed country. The EA region started later and less comprehensively with neoliberal reforms, mostly from 1990/97 to 2000s. Since the millennium a new developmentalist period is documented in LA, and also throughout the EA region some similar trends (and also main differences) can be observed. We turn however to this period at the end of our paper.

*Table 1: Changes in GDP per capita levels in relation to the US (1950-2010)*

<table>
<thead>
<tr>
<th>Year</th>
<th>Latin America (8)*</th>
<th>Latin America</th>
<th>East Asia (8)**</th>
<th>East Asia (w/o Japan)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>0.282</td>
<td>0.262</td>
<td>0.178</td>
<td>0.175</td>
</tr>
<tr>
<td>1980</td>
<td>0.317</td>
<td>0.293</td>
<td>0.364</td>
<td>0.313</td>
</tr>
<tr>
<td>2000</td>
<td>0.222</td>
<td>0.205</td>
<td>0.510</td>
<td>0.481</td>
</tr>
<tr>
<td>2010</td>
<td>0.255</td>
<td>0.222</td>
<td>0.642</td>
<td>0.631</td>
</tr>
</tbody>
</table>

* Argentina, Brazil, Chile, Colombia, Mexico, Peru, Uruguay, Venezuela
** Japan, Hong Kong, Korea, Singapore, Taiwan, Malaysia, the Philippines, Thailand

Data: Maddison-project, 2013

Most of the divergence of the social and economic indicators between the two regions occurred or at least worsened in the last quarter of the last century. While the East Asian countries continued to grow rapidly during the 1980s and even accelerated their growth rates (Table 2), after the oil crises of the 1970s Latin America swept through the so called “lost developmental decade” of the 1980s (with GDP per capita rates falling below zero for some periods) and the structural adjustment programs accompanied by severe macroeconomic imbalances and low growth rates marking the 1990s.

\(^4\) EA 8: Japan, Hong Kong, Korea, Singapore, Taiwan, Malaysia, the Philippines, Thailand
Table 2: A comparative perspective of per capita GDP rates (1950-99)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>4.9</td>
<td>8.1</td>
<td>3</td>
<td>0.9</td>
</tr>
<tr>
<td>East Asia*</td>
<td>4.4</td>
<td>3.4</td>
<td>5.1</td>
<td>5.8</td>
</tr>
<tr>
<td>Latin America</td>
<td>1.7</td>
<td>2.5</td>
<td>0.7</td>
<td>1.4</td>
</tr>
<tr>
<td>United States</td>
<td>2.2</td>
<td>2.5</td>
<td>2</td>
<td>2.1</td>
</tr>
</tbody>
</table>

* China, Hong Kong, Malaysia, Singapore, South Korea, Taiwan, Thailand

Data: Maddison, 2006:143

Regarding per capita GDP levels one could argue, that just a few North-East Asian countries have done their job of economic catching up, and all others (Southeast Asian and Latin American countries) still lag behind (Diagram 1), and have a long way to get closer to the economic development levels of the more advanced countries.

Diagram 1: Major East Asian and Latin American economies catching up with US (GDP per capita)

Data: Maddison-project, 2013

To consider development in wider sense, first we look at the human development index, taking into account besides the economic component, health and education dimensions. Aggregate human development index datasets are only available since 1980, single human development indicators would also worth to be analysed, but this is out of the scope if this paper, as here we just aim to show a snapshot of development trends and achievements of the two considered regions.

In terms of human development index we can see (Diagram 2) that Latin American countries in general have started at higher levels in 1980 than their East Asian counterparts, and their improvement shows more or less similar trends, reaching the HDI levels between 0.7 and 0.8 (with Chile and Argentina showing somewhat higher levels). In East Asia (besides Japan and the city states of Singapore and Hong Kong with very high human development levels) Korea
shows impressive results and Malaysia also fared well, while for example the Philippines have started from higher HD levels than Thailand, Indonesia or even China, but fell behind in the ranking during the last 30 years.

Diagram 2: Major East Asian and Latin American economies catching up with US (HDI)

Looking at poverty trends the two regions show similar achievements, significant reduction in poverty regarding any poverty thresholds has taken place during the last half of the twentieth century. In Latin America poverty measured with the 2 $ a day line has decreased from almost 60% in 1950 to under 30% in 1980 (Perry et al., 2006:2), with more severe poverty showing the same decreasing trend. Between 1980-2000 poverty continued to decrease but at a rather moderate rate, due to sluggish economic growth and neoliberal reforms. Extreme poverty in LA fell from 10,7% in 1981 to 8,6% in 2004 while the share of people living under 2 $ a day improved also only moderately (from 28,5% in 1981 to 22% in 2004\(^5\)(Chen – Ravallion, 2007).

In East Asia numbers vary significantly across the countries, with for example Korea, where only 23% of the population lived under the 1 $ a day poverty line in 1970, while in Malaysia and Indonesia the poverty incidence was above 50% by then (but in Thailand it also almost reached 40%). However in all countries significant poverty reduction took place and at the Millennium in Korea and Malaysia (!) less than 5% of the population lived in extreme poverty, in Indonesia and Thailand a somewhat higher share of population (23 and 13% respectively) counted as poor, which still meant less than half of the shares of the 1970s (data according to Jomo, 2006:4).

Regarding inequality rates however the difference between the two regions is the most apparent. Latin America started with historically high inequalities back in the 1950s, not just

---

\(^5\) This decrease has however taken place in Brazil and Mexico, and without these two countries it has increased from 21,8% to 27,5% within the same time period (World Bank, 2006 - PovcalNet Data).
in income terms, but also regarding the distribution of land or human capital\(^6\). Income inequalities were also among the highest in Latin American countries, also regarding regional average, or individual countries of the continent (with Gini coefficients in most cases above 0.5 or even 0.55). Between the 1950s and 1980 income inequality declined in several countries of the region to a moderate rate, mainly due to the urban bias of the ISI policies\(^7\) and the Gini coefficient for the whole LAC region it fell below 0.49 by the early 1980s (Cornia, 2012:4).

Starting from the late 1970s and early 1980s most LA countries introduced market-oriented (neoliberal) reforms, that had a regressive distributional impact on the whole continent. The average regional Gini index rose by 5.5 points during the two decades of reforms, and reached once again extremely high levels at around 0.52-0.53 (Cornia, 2012:4). This trend was reversed ‘surprisingly’ in the first decade of the twenty first century, with a sizeable decrease in income inequalities, and the continent managed to return to the average regional inequality levels of the early 1980s (we will come back to explaining this at the end of the paper).

A very different picture of inequality trends can be drawn for the Asian case. Here the surprising phenomenon took place in the early developmentalist period. As going against theoretical considerations and historical evidences high performing East Asian economies have achieved their economic success with much lower and declining inequality levels between 1960-90 (WB, 1993:4), even deserving the ‘growth-with-equity’ adjective. Jomo (2006) considering a little bit different time period (1970-2000) however argues that the common claim of egalitarian growth in East Asia may have been exaggerated, and despite significant reductions in poverty, income inequality trends have varied across the countries significantly (and even more since the 1990s). In 1970 the Gini coefficient in Korea, Taiwan and Indonesia were around 0.3, while in Malaysia and Thailand they were much higher (around 0.5 and 0.45 respectively) (Jomo, 2006:5-7). By the end of the 1990s only Indonesia and Malaysia had experienced some decrease in their inequality levels, while in Korea and Thailand after some increases inequalities were back at their initial levels by the Millennium, however in Taiwan a slight increase in inequalities could be observed.

---

\(^6\)The Gini coefficient of land distribution was 0.61 in the case of Mexico with many countries with even higher levels (such as Paraguay with 0.93) (Cornia, 2014:23)

\(^7\)Some countries (like Argentina, Costa Rica, Uruguay and Venezuela) have experienced even a more significant decline in inequalities until the mid-1970s (Cornia, 2012), mainly due to growing urbanization and some public policies (the introduction of income tax, redistributive policies and the introduction of some welfare state functions).
Looking at the region as a whole however it can be stated that inequalities were more or less stable or somewhat decreasing between 1960-90, while they showed a slight increase since then (mainly during the liberalization and other neoliberal reforms since the 1990s, but also ongoing after the Millennium) (Wang, 2011:3).

To sum up the regional comparison one could argue that in the last half of the 20th century the trends of poverty and income inequality has shown some differences, with the East Asian region being better off (also starting from a better initial level) and the Latin American region showing (rather moderate) results in poverty reduction, but no significant changes or even slight increases in inequality terms. At the end of the paper we will however argue, that after the Millennium this situation has changed, and at least in terms of income inequalities, the trends in Latin America seem to be more favourable.

This socio-economic achievement of the East Asian economies between 1960-1995 is often called East Asian miracle (EAM) (e.g. World Bank, 1993) or ‘growth-with-equ(ality)’, while in the case of Latin America the “miraculous” economic growth period was shorter, and was accompanied by much less improvement in social fronts, while it was followed by much more turbulent periods in economic (financial) and also social terms.

Caldentey – Titelman (2014:68) highlights that not just growth records were lower, but growth volatility was significantly higher for Latin America than for East Asia, especially since 1980. Elson (2006) goes on in showing that domestic savings and investment rates as well as trade openness and financial deepening had substantially higher values in East Asia than in Latin America, and differences between the two regions have been expanding over time. It would be worth to compare other indicators of macroeconomic performance of the two regions to show further significant differences, however this is out of the scope of this paper, so now we turn to the analyse the role of state in development and present main differences in the applied developmental state models.

*The East Asian developmental state model: the classic paradigm of DS*

Vast literature on developmental states emerged since the conceptualization of the original idea of Chalmers Johnson’s (1982) plan-rational capitalist developmental state, the Japanese model. In this chapter we aim to sum up most important features of the classic model of developmental state, based on experiences of Northeast-Asian countries (Japan, South-Korea,
Taiwan, Hong Kong and Singapore. Most important cornerstones of the model are relevant and applicable to development experiences of Southeast-Asian countries (as Malaysia, Thailand, Philippines and Indonesia), in this study we cannot go into detail on this extended model.

To set the cornerstones of the classic model of DS, we rely on basic DS literature, such as Johnson (1982), Amsden (1989), Wade (1990), Evans (1995), Leftwich (1995), and the summarizing works of Onis (1991) and Woo-Cumings (1999).

In this section we present the most important cornerstones of the classic paradigm of developmental states, based on the experiences of Northeast-Asian developmental states between 1965-90, the so called economic miracle period. This will serve as reference for the comparison with the Latin American model. To fully understand the success and failure of the classic model of DS however we have to embed it in its own historic and institutional context as these unique conditions contributed to the overwhelming economic success but at the same time make the model non-transferable and not-repeatable in other times and places (Pempel, 1999).

The classic model of developmental state can be described by the following elements:

1. **Economic nationalism and social mobilization.**
2. **Strong, centralized and authoritarian state:**
   i. Relative autonomy from influences of social groups.
   ii. Small and determined elite.
   iii. Power of the state to discipline business.
   iv. Developmental dictatorship.
3. Wide ranging interventionism and central role of industrial policy (selective and discretionary measures and the practice of picking winners).
4. Central (economic, political and social) role of large diversified business groups.
5. **Meritocratic bureaucracy** with embedded autonomy

---

8 The Japanese case is in several aspects unique, and the two city states (Hong Kong and Singapore) deviate from the structuralist point of view, still it is argued in literature, that these Northeast-Asian countries have relied on such similar economic policy mix, that makes them „unique as a group from most other regimes” (Pempel, 1999:160).

9 Main differences of North- and Southeast-Asian countries are highlighted by Booth (1999), while for specificities of Southeast-Asian development models see Raquiza (2012).

10 The high-performing Asian economies (Japan, Hong Kong, the Republic of Korea, Singapore, Taiwan, Indonesia, Malaysia, and Thailand) have reached outstanding growth performance between 1965 and 1990, on with a yearly average of 5.5% growth rates in GDP per capita levels, outperforming any other region in the world (World Bank, 1993:2)
6. Primary role of agricultural sector and land reform.


8. Financial repression
   i. Based on high domestic savings, fiscal and other incentives by the state, and state direction towards subsidized, strategic industries.
   ii. Implicit and explicit state guarantees.
   iii. Bail-out policies (and practices) towards financial institutions as well as the business sector.
   iv. Limited entrance into financial markets.
   v. Closed and subordinated role of capital markets.

9. Macroeconomic stability, good macroeconomic management.

10. Shared and equitable growth.

The classic model of developmental state builds on Northeast Asian experiences, and according to Johnson (1998:653) it consists “…of Asian values on subjects such as the nature of government, priority given to the community over the individual, and government guidance of a nonetheless privately owned and managed market economy, with economic growth tied above all to exports.” Thus it is a state-led market economy, a capitalist model with substantial economic growth and increasing wellbeing, that serves the whole society.

Context of economic success of Northeast Asian developmental states

A historic interplay of (political, economic, ideational, social, regional and security) forces has contributed to the East Asian economic miracle, part of these were time-related, while others were geographically-determined, region-specific, and all together make the Northeast Asian developmental state model non-repeatable, non-replicable for other countries, regions of the world in different time-periods.

Three elements of the general environment (based on Pirie, 2008: 2-3): 1. The global political context of the postwar period (national capitalist development concept, economic nationalism). 2. The global economic context of the postwar period (neo-mercantilist approach, growing protectionism, relatively closed economic systems and models). 3. The context of late-development (national-based Fordist capitalism, promotion of strategic national industries, and in the context of underdevelopment, mass poverty and infrastructural
deficiencies caused by the destructions of the war, economic catching up as first priority supported by wide social consensus). These permissive global conditions meant that national economic performance depended to a large degree on competitiveness of large national firms, and created the basis for national dirigiste state-led development policies.

Three region-specific conditions can be highlighted as contributing to the unique context of the Northeast Asian developmental experience: First Japan’s outstanding role within the region: 1. as former colonial ruler (laying down important institutional and other basis); 2. later as important economic donor, providing development aid, and later on capital, and 3. in more general terms, as regional economic leader (providing market and being an economic partner); and 4. last but not least as a role model of economic and development policies to follow. Second security policy and economic role of the USA has also been complex by providing 1. development and military aid based on geopolitical considerations; 2. foreign direct investments; 3. preferential market access. 4. In more general terms, USA has committed itself to secure the stability of the region by all means (as to stop the spread of socialism-communism, and to secure the borderline between the two poles in the Cold war), and this led to several implicit and explicit benefits for the Northeast Asian region. And finally historic and cultural factors: most considered countries have relatively homogenous societies (with small ethnic, religious, racial, linguistic or other differences), have inherited extensive and good quality institutional systems from the colonial period (for example string and well performing core administration, extensive and good quality educational system). Asian cultural values have also played pivotal role, as it places community and its priorities before individual interests, and this has wide ranging economic consequences. To name two of these we highlight 1. very strong individual commitment and maximizing efforts to contribute to the implementation of community priorities (incorporating for example in extremely long working hours compared to European standards); 2. providing social security and welfare primarily through the family, community and business enterprises and not the state.

We have summed up most important characteristics of the Northeast Asian developmental states, also called classic paradigm of developmental state. We have embedded the Northeast Asian experiences, its economic miracle in its own context of time and place. During 1990s (with some processes starting even well before) these general and specific conditions have substantially changed and disintegrated the internal and external coherence of the model, leading to the decline of the classic model of developmental state. Before however turning to
these processes, first we look at the different features of developmental state models in Latin America.

The Latin American developmental state model

Developmental state as defined by Johnson (1982) took a particular form in Latin America, often called the *desarrollista* state (for the detailed analysis of the examples of Mexico and Brazil, see Schneider, 1999). The term of developmental state, and in a broader sense developmentalism or development –oriented approach were long present in the Latin American debate on economic development, already before 1982. In development theories several precedents of desarrollista state model could be mentioned, analysis of developmentalism and especially national developmental strategies was intense already in the 1950-60s (see structuralist school, dependency or modernization theories\(^{11}\)). Our focus is however much narrower in this study: we concentrate on the Latin American concept of developmental state. According to Schneider (1999:277) Fernando Henrique Cardoso and Enzo Faletto (1979:143-148) made the first reference to “developmentalist states” in Latin America\(^{12}\). Although Schneider (1999:278) also mentions Glaúcio Ary Dillon Soares (1975)\(^{13}\) using more explicitly the term “desenvolvimentista state” to describe many Latin American states in the postwar period (and to distinguish them from other, classic minimal and welfare states). Within Latin America intensity of debates around developmentalism differed, it was less central for example in Mexico (at least in the 60s) than in Brazil. In general however the terms developmentalism and developmental state have long tradition throughout the Latin America\(^{14}\), and to review this is out of the scope of this paper.

As in Johnson’s developmental state model, the main component of Latin American developmentalism in the postwar era was *industrial policy* and those responsible for it were *bureaucrats*, the so called *state technocrats*. Sikkink (1991) contrasted the Latin American developmentalism to other consumption-oriented populist models in the region, and highlighted the central role of the strong industrial elite. The three basic elements by Sikkink (1991) are as follows: 1. import-substituting industrialization (ISI) focusing on the promotion

---

\(^{11}\) On the history of developmentalism in Latin America see Hirschman (1971) or Schneider (1999).

\(^{12}\) The original, Spanish version of their book was published in 1971, and had a section on the developmental state.


\(^{14}\) Sikkink (1991) traces back the origin of developmentalism to the debate at the United Nations just after the Second World War, prior to the establishment of the Economic Commission for Latin America (ECLA, also known by its Spanish acronym CEPAL), although most authors link developmentalism in Latin America to the discussion at ECLA, especially drawing on Raúl Prebisch’s thoughts and theories.
of capital goods production; 2. capital accumulation depending in most cases on foreign capital; and 3. wide ranging state intervention in the economy. Most typical examples for such developmental models, are the policies of the Kubitschek (1956–61) in Brazil and the Frondizi era (1958–62) in Argentina, but we will see in the chapter on Brazil, that state has played an active role in the economy already well before Kubitschek, as form 1940, but with some historical legacies even from earlier times.

To describe more explicitly the Latin American model of developmental (desarrollista) state in its classic period (also called the ISI developmental model) mainly from 1930s to 1980s, we rely on Schneider (1999:280-293) and highlight four essential characteristics: 1. Political capitalism, where profits and investment are not driven by market mechanisms but depend on decisions made by the state, thus the state has pervasive and discretionary control over resource allocation\(^\text{15}\). 2. Developmental discourse was dominated by the ideology of developmentalism, with consensus on the dominant role of industrialization and the leading role of the state to promote it. 3. Political exclusion of the majority of the society, also called limited pluralism, when the majority of adults are denied to make free and meaningful choices in regular elections (free from direct coercion and with meaningful chance for the opposition to come to power)\(^\text{16}\). 4. Appointive bureaucracy: a fluid and weakly institutionalized bureaucracy in which power and representation is structured by appointments. With some exceptions (as Brazilian National Bank for Economic and Social Development – BNDES), these huge bureaucracies were overcentralized, fragmented, with low professional ethics, low salaries and poor training, typically high corruption rates, and unsurprisingly little public esteem.

This Latin American model of developmental state describes the motivation behind the actions of the state elites (developmentalism), the structure of power within the state (appointive bureaucracy), the predominant forms of state interaction with the economy (political capitalism), and with the society (political exclusion). Schneider (1999) emphasizes the systemic interaction of these four components of desarrollista state, as these affect and often reinforce each other.

Though the Latin American experiment with developmentalism dated earlier, than its East Asian counterpart (and was basically differing from the classic model, as we shall show in the

\(^{15}\) Schneider here relies on Weber’s term for wartime or booty capitalism (Gerth – Mills, 1991/1946:66-67), but broadens it for normal peacetime conditions.

\(^{16}\) This is not necessarily limited to authoritarian regimes, as for example during the democratic period 1945-64 in Brazil literacy requirements excluded a majority of adults from political participation.
next section), some aspects of the specific context, we have identified in the East Asian case, were present also in the cases of Latin American developmental states. In particular the three elements of the general environment, the global political and global economic context as well as the context of the late-development. After the short comparison of the two DS models, we will turn back to analyse the changes in this context.

Comparing the classic, East-Asian-type and the Latin American developmental state models

Although basic discrepancies of Latin American and East Asian developmental state models could already be seen, in the next section we sum up in a table by explicitly comparing the two models while highlighting some common features and underlining most important differences. While constructing the following table we mainly rely on the two previous sections, based on standard DS literature, and especially draw on the work of Gereffi (1992).

Table 3: Comparing main characteristics of East Asian and Latin American DS models

<table>
<thead>
<tr>
<th></th>
<th>East Asian DS</th>
<th>Latin American DS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Colonial heritage</td>
<td>good institutions (strong, meritocratic core administration, good educational system), improvements in agricultural productivity</td>
<td>extreme unequal distribution of wealth and land, economic activity based primarily on natural resource extraction and plantation agriculture</td>
</tr>
<tr>
<td>Cultural norms</td>
<td>based on Confucianism</td>
<td>'Ibero-Catholic' or Hispanic heritage</td>
</tr>
<tr>
<td>Top socio-economic priority</td>
<td>very strong, single-minded emphasis on economic growth</td>
<td>strong emphasis on economic growth (but less embedded)</td>
</tr>
<tr>
<td>Economic nationalism, social mobilization</td>
<td>situational imperatives (of resource scarcity, small size, and military threats) and situational nationalism (Johnson, 1982)</td>
<td>strong developmentalist ideology security considerations less relevant</td>
</tr>
<tr>
<td>Agricultural production</td>
<td>main driver of structural transformation land reform</td>
<td>neglected, sub-ordinated to ISI missing or incomplete land reform</td>
</tr>
<tr>
<td>Dynamic interplay of different phases of industrialization</td>
<td>primary ISI – primary EOI – secondary ISI – secondary EOI quick switch to EO</td>
<td>primary ISI – secondary ISI – debt-led secondary ISI – export promotion longer period of IS</td>
</tr>
<tr>
<td>Priority given to external trade</td>
<td>strong</td>
<td>weak and mainly primary products</td>
</tr>
<tr>
<td>Other aspects of inward and outward orientation</td>
<td>discipline of international competition</td>
<td>international competition excluded, filtered or distorted</td>
</tr>
<tr>
<td>State structures and social coalitions</td>
<td>‘bureaucratic-authoritarian industrializing regimes’ (Cuming, 1984) Strong, centralized and authoritarian state – weak society significant autonomy from local social groups and no confrontation with the activated popular sector international capital rather a minor actor labour excluded</td>
<td>‘bureaucratic-authoritarian’ regimes (O’Donnell 1973, Collier 1979) Weak, decentralized and authoritarian state – weak society repressive towards previously mobilized popular sector organizations central role of international capital labour excluded, but still a more influential actor</td>
</tr>
<tr>
<td>Interventionism and</td>
<td>selective and discretionary measures,</td>
<td>selective and discretionary measures,</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>central role of industrial policy</strong></td>
<td>the strategy of picking winners</td>
<td>the strategy of picking winners more market-distorting interventions</td>
</tr>
<tr>
<td><strong>Role of „big business”</strong></td>
<td>large diversified domestic business groups wide-ranging social, economic and political roles</td>
<td>special role of TNCs and SOEs TNCs constraining the formulation of national industrial policies clientelism and patronage</td>
</tr>
<tr>
<td><strong>Core administration, bureaucracy</strong></td>
<td>meritocratic with long historic tradition competent and autonomous but embedded</td>
<td>appointive bureaucracy underperforming, dysfunctional captured by interest groups (industrial elites)</td>
</tr>
<tr>
<td><strong>Financing development</strong></td>
<td>high domestic savings significant amount of foreign assistance primary focus on external trade</td>
<td>low domestic savings reliance on FDI foreign loans</td>
</tr>
<tr>
<td><strong>Financial system</strong></td>
<td>implicit and explicit state guarantees, bail-out policies weak financial regulation closed and subordinated role of capital markets</td>
<td>implicit and explicit state guarantees, bail-out policies weak financial regulation closed and subordinated role of capital markets</td>
</tr>
<tr>
<td><strong>Role of foreign capital</strong></td>
<td>mainly limited, or filtered (until 1980s)</td>
<td>substantial role of FDI from beginning (infrastructural investments)</td>
</tr>
<tr>
<td><strong>Macroeconomic stability</strong></td>
<td>good macroeconomic management</td>
<td>financial vulnerability, hyperinflation, indebtedness</td>
</tr>
<tr>
<td><strong>Distributional aspects</strong></td>
<td>shared, inclusive growth</td>
<td>highly unequal growth, distributional shortcomings</td>
</tr>
</tbody>
</table>

### Causes of decline and decline of the classic DS paradigm

In this section we shortly present those substantial changes in external and internal environments that had led to changes in the room for manoeuvre for individual states, but also changed expectations and perceptions as well as decisions of economic actors and individuals. These changes meant that the specific context that enabled the successes of the classic DS models (as drawn up in the previous section) has changed significantly and led to its demise.

The Asian Financial Crisis of 1997-99 was a milestone signalling the end of an era (and a beginning of a new one), however changes in the specific context of the classic DS have already started years and decades earlier and summed up while culminating in the AFC.

The classic DS model emerged in a closed economic system, where trade flows dominated interactions between national states. The structural transformation of the global economy has started already by the end of 1960s, leading to an open global economy dominated by capital flows, and transnational corporations transcending national borders.

Other dimension of the structural transformation of the global economy has been the forging ahead of the service sector, and the emergence of the bit-based, knowledge economy, appreciating human capital investments, access to information and innovation and networking activities. Technological changes have not only affected sectors of the new economy, but have
altered organization forms of traditional economic activities as well as modes of corporate governance.

Changes in the global financial system has been even more striking than changes in the economic production system described above. Financial globalization led by private sector activities has been intensifying ever since the 1970s. Several interconnected elements can be highlighted: deregulation of financial systems, separation of flows of goods and financial flows, speculative transactions gaining weight, intensifying capital flows, appreciating role of stock exchanges and virtualization of financial transactions. All these processes taken together have significantly altered the options to finance a national-based development model.

Economic environment and structures basically differ today from the ones that reflected the specific context in the case of late-developers back in the 1970s. Changes were even more pronounced in the finance sector. Financial liberalization, globalization and open capital account put efficient resource allocation into the heart of any development strategy today. Gone are the days of financial repression and selective industrial policies led by the state and its bureaucracy as was common in the case of the classic DS models. In the light of ever more complex economic activities the state, or any other actor is less and less able to collect sufficient information to intervene directly and successfully in shaping industrial structures or to choose leading industrial sectors or enterprises.

In line with changes in economic structures and transformation of the financial system, global governance and regulatory environment has also significantly altered (see e.g. World Trade Organization, Basel Accords, International Accounting Standards, etc.). All these evolutions has meant significant constraints on developmental states’ classic tools to stimulate the economy and repressive financial practices.

International political and ideological settings have also changed, and the end of the cold war and the demonstration effects of the post-socialist transition countries have all contributed to the decline of the specific context of the classic DS. It is enough to think on the end of the 40 years sequestration of China from the global economy, having unprecedented effect on the international competitiveness of the East Asian (especially Southeast Asian) countries.

Ideational changes have also taken place, and not only has outward orientation became superior to national-based economic strategies, but also the capability-based interpretation of development according to Amartya Sen (1999) meant a significant departure from the former
growth-oriented approach. Besides economic dimension of development social, political and environmental issues came to fore (as well as spatial, generational and gender dimensions of development).

Intensifying globalization has also led to changes on people’s day to day lives. Demonstration effects via the spread of new ICT and new mass media tools have altered people’s preferences towards democratic systems and “good governance” issues (such as non-corrupt, rules-based, participatory, transparent and accountable governance). Democratic transition through Latin America and in several East Asian countries have taken place, but the new ICT has also contributed to these societal changes (changes in preferences and expectations and in individual values).

All the above described processes and changes altogether have meant the decline of the special context of classic DS, that enabled the states to directly guide the market and stimulate the economy with the “traditional tools and measures”.

One of the most important implication is, that the liberalization process starting in the 1980s, has undermined the internal coherence of the classic DS model, and the classic model of DS was not able to adapt itself to new internal settings (shaped by weakening state and stronger private sector) and significantly altered external conditions.

According to the extensive economic literature the decline of the classic DS model has to be regarded as a systemic phenomenon, and the AFC in 1997-99 has only put these internal controversies to the fore.

The decline of the classic DS models can be summed up along the following argumentation:17

1. Structural transformation of the economy: global, transnational organization of economic production, and growing complexity of economic activities undermine direct state guidance and “picking winner” strategies in industrial sector, whereas domestic subsidies in a globalized production line do not necessarily increase domestic investments and production.

2. Significant societal changes: a more urbanized and “enlightened” society is less probably accepting authoritarian and repressive regimes, while at the same time might lead to increasing consumerism (as in the case of Latin America).

17 This argumentation heavily builds on the presentation on developmental states by László Csaba and the following discussion at the Central European University during the course New Political Economy of Development on 19. February, 2015.
3. Changes in global financial system and capital market leave no or very limited room to development models based on state directed and repressed national finance systems, where resource allocation is subordinated to long term industrial goals rather than any efficiency measures (let alone price signals). Successful integration into the globalized financial system and capital market is however preconditioned on institutional reforms, as relational banking and cosy relations between the state and business sector are not compatible with the new global rules of the game.

4. Changes in corporate governance are inevitable consequences of the above described trends, as above certain development levels, increases in investments have to be accompanied by better management practices, efficient resource allocation (and well-functioning capital markets) and foreign ownership (and knowledge) (Joh, 2007).

5. Changes in state – business relations were also forged by the changes in the economic and social context, on the short run the Northeast Asian states could discipline the business sector, however on the longer run with intensifying integration into the world economy and efficiency criteria coming to fore, the capabilities of the state have weakened and crony capitalism emerged (with rent-seeking and corruption becoming the rules and not exceptions).

6. Legitimacy of the mostly authoritarian, string developmental states was provided on the one hand by US security considerations during the cold war, on the other hand by exceptional growth performance that equally benefitted different classes of the society (at least in East Asia, in Latin America somewhat different legitimizing forces prevailed, with stronger ideological base and historical legacies). Both internal and external legitimacy bases were broken down by the 1990s, showing the fragility of the developmental models.

We have shown that the classic model of DS has reached its limits at the latest by the end of 1990s, as inherently signalled by the AFC, in the following we will argue, that this does not mean the end of the story. Though significant changes took place in East Asian as well as Latin American developmental states, and after the years and decades of market-oriented and structural reforms, the state still plays a significant role in both regions economy, and certain continuities with the past prevail. Before turning to analyse the more recent period, we sum up most important lessons from the historical experiences and comparison of the East Asian and Latin American DS models.
Some lessons from the historical comparison of different DS models

While pointing out some lessons from the historical comparison of the East Asian and Latin American developmental state models, we aim also to contribute to recent debates on the role of the state and the revision of the developmental state approach in the twenty first century.

There are some common characteristics that validate to call both experiments developmental state models. Both were capitalist state-led development models, with highly interventionist, mainly authoritarian states (or at least restricted democratic regimes), aiming to (pro-)actively stimulate structural transformation (industrialization) and economic growth of their countries.

We have also argued that both models were made possible by external (economic, financial, political and regulatory) conditions, and a specific context of internal and international threat, with unique geographically and timely limited contextual consequences, and due to changes in these, both models failed in the 80s-90s.

We have also shown that the EA model was more successful in economic and social terms, due to better internal coherence of the model, and also due to some region-specific favourable conditions.

To sum up the historical comparison, we aim to highlight some lessons deriving from the more successful EA DS model, by going beyond differing initial conditions (e.g. EA’s advantage of a more equitable society, better colonial heritage in terms of institutions affecting educational and bureaucratic performance) and the region-specific advantageous context (massive aid and preferential market access from US), we aim to highlight differences mainly regarding aspects of economic policies and policy-making:

1. a more balanced structural view of development: the role of agrarian sector – land reform, and raising agricultural productivity (a more balanced approach to structural transformation and not to overemphasize industrialization);
2. more balanced structure of investments: high emphasis on the role of human capital – investments in health and education and also massive investments in industry supporting infrastructure;
3. strengthened role of good macroeconomic management, solid macroeconomic basis;
4. superiority of outward orientation: quick switch from ISI to EOI – shorter ISI period, backed and co-financed by agricultural development, better timing of EOI, also a role

Still in very preliminary form.
in curbing the potential for rent-seeking and providing the discipline of the international competition;
5. sustainability of financing development: role of FDI (foreign aid – and loan should play a temporary role at the best) and domestic resource mobilization;
6. human development as ultimate goal: inclusive and shared growth in the case of EA was rather a by-product of the classic DS model (thanks to initial conditions, cultural setting, institutional heritage), as this focused on economic growth as the top and only economic priority;
7. good quality and integrity of public institutions: performance-based, meritocratic, technocratic core administration with islands of excellence (pilot agencies with relatively autonomy and insulated technocratic elite);
8. effective (and balanced) alliance of state and business (building on reciprocity);
9. more balanced and inclusive state – society relations;
10. more entrepreneurial role of the state (in the historical lesson, it was meant to support capital accumulation at the local level as Evans (1987:221) has put it decades ago) but this lesson is still relevant today, albeit with some modifications.

Elson (2006) highlights three areas, where the Latin American experiences (in contrast to the East Asian ones) have important messages for any future development strategy: 1. the persistent problem of macroeconomic instability in Latin America; 2. the relatively weak state of integration of Latin America into the global economy; 3. the poor quality of its public institutions (or as Kay (2002) puts it the state capacity and policy performance).

In institutional terms, both East Asian and Latin American experiences have shown that institutions and institutional arrangements are context-specific and need to be adapted over time. In East Asia in the absence of a well-developed legal framework after the world war II, alternative solutions have emerged in evolutionary manner and worked well during the golden age of the classic developmental state. With the changes in the economic, political and societal context from the 1970s – 1980s and at later stages of development, however these alternative institutional solutions became rigid, were not adopted to the new circumstances and contributed to the decline of the classic DS model.
Recent trends and a new policy model emerging in Latin America (2000-15)

State-led and market-oriented development models have been altering in Latin America in different time periods, though this cyclicality showed some variations throughout different countries, as we speak about a large and diverse continent. We have shown some typical features of the so called ISI-type old developmental model starting from the 1930s, the failure of this model however was signalled clearly by the debt crisis and the lost decade of the 1980s. A new era started: the turn to the market-oriented reforms aimed at stabilization and structural adjustment, as well as driving back the role of the state in the economy and enhancing the role of market forces. The period between the 1980s\(^{19}\) to 2000 is the era of the Washington Consensus type neoliberal reforms throughout the Latin American continent. Although we could argue, that certain continuities prevailed, and state influence on the economy did not decreased to such a scale as it was expected by the implementation of the market-oriented reforms. Forms and modes of state influence have changed, but the legacies of the strong and extended old developmentalist approach did not disappear within a few years or decades (Boschi, 2011).

It is out of the scope of this paper to deeply analyse the period of neoliberal reforms in Latin America, for this see Fanelli (2007) and Arestis – Sawyer (2007). To sum up experiences with old developmental state model and the more neoliberal economic approach we refer to Kingstone (2011:8) who claims that neither state-led nor market-led approaches to development have lived up to its promises, meaning to result in considerable and sustainable improvements in human wellbeing throughout Latin America.

As the next milestone for changes throughout Latin America most authors mention the election of Hugo Chavez in 1998 for president in Venezuela\(^{20}\) and the following period of the ‘turn to the left’, or ‘pink tide’. Until 2015 leftist presidents were elected in 14 further Latin American countries\(^{21}\), resulting that more than three quarter of the population of Latin America is governed by leftist governments. In most of the countries leftist presidents have even successfully stood for re-election (with the exception if Chile in 2010, but with a return to the left in 2014).

\(^{19}\) In Chile neoliberal reforms go back to 1973, while in Brazil a rather slow and gradual reform process started as late as by the end of the 1980s, or even in the beginning of the 1990s.
\(^{20}\) We will see that in Brazil the turning point was the election of Lula in 2002.
These leftist governments have varied in the degree of departure from market-oriented economic policies, but all have introduced or strengthened redistributive social policies. Roberts (2014) calls this turn to the left throughout Latin America the politicization – or re-politicization – of social issues and drives it back on the democratization of the region. He (in line with many other specialists of the region) argues however that the main reason behind the shift to the left was the growing frustration with the disappointing results of the neoliberal reforms (in line with the Washington Consensus and its augmented version). The swing to the left was thus not an ideological realignment, but rather a retrospective economic voting reflecting the rising social needs of the population.

Kingstone (2011:92) analysing this “stunning and almost completely unexpected” turn to the left emphasizes that the story is more complex than simply voting against authoritarian and neoliberal regimes. In this new, post-adjustment era (in part as a result of the democratization process of the 1980s and 1990s) social problems of poverty and inequality have returned to the top of the political and development agenda.

In line with others Kingstone (ibid) calls attention to differences within the continent, and distinguishes between two types of leftist regimes in contemporary Latin America: contestatory left regimes (Venezuela, Bolivia, Ecuador) and a more moderate and pragmatic approach (Brazil, Chile and Uruguay). Roberts (2014) refers to these latter regimes as social democratic ones, and he further differentiates between the left-nationalist regimes of Argentina and Ecuador, and a third group, the more radical populist approach of Venezuela, Bolivia (and since 2007 Nicaragua).

In this paper we will have a closer look on the classic example of the more moderate left regimes, the case of Brazil that represents a more pragmatic policy-making approach. Though it could be argued, that similar results were achieved by regimes reflecting all types of political orientation (e.g. decreasing inequalities have been documented by centrist or right-wing regimes as well as more radical leftist systems Cornia (2014)), but improvements (e.g. in decreasing income inequalities) were stronger in social democratic, or more moderate left regimes. The following analysis considers the wider Latin American region, and aims to synthetize main common characteristics shared by the region’s countries in the twenty-first century22 (though best demonstrated or more comprehensively implemented in moderate, also called social democratic regimes).

22 A note on outliers, and exceptions should be inserted.
The Latin American region has reached considerable but not spectacular growth records in the first decade of the twenty-first century, with an arithmetic average of 3.2% between 2000-2013 (WDI: 2015) (Diagram3). These average rates were somewhat above of the two previous decades (almost 2% in the 1980s and 3% in the 1990s), and also higher than high income (OECD) countries or the world average reached within the same period (1.7 and 2.7% respectively). Still it remained (well) below the high growth rates of other regions of the world, especially East Asia, the Middle East or the Sub-Saharan African countries, and commentators often argue that it remained below the “theoretically” potential, natural growth rates.

Poverty rates have been declining throughout Latin America during the last decade as in the rest of the world. Significant progress have been achieved in reducing extreme poverty, especially in the first decade of the new Millennium, as extreme poverty (share of population living on less than 1.25 USD per day) decreased from almost 11% in 1999, to 4.76% in 2010 (WDI, 2015), but the trend slowed down, and poverty indigence has stalled (and even a slightly increased in 2013 and 2014) in most Latin American countries since then (ECLAC, 2015). Similar advances were made in tackling poverty, as defined by the 2 dollar line poverty threshold, with rates above 20% in 2000 and under 10% in 2010 (WDI, 2015). Looking at national poverty lines decreasing trends can be observed, but at much higher levels (due to
substantially differing definitions and poverty lines). Though the picture in 2015 has much improved to previous periods, still significant parts of the society struggle in their daily lives, live in shanty towns work informally (if at all) and have limited access to all possible services needed to live a “good life” (as defined by Amartya Sen (1999)). Even if we consider poverty as a resilient feature of the Latin American continent, success in this area has well outpaced improvements reached in the area of inequalities.

Cornia (2014) documents a sizeable decline of income inequality in the majority of Latin American countries in the first decade of the twenty first century. With an average regional decline in the Gini coefficient of 5.5 points between 2002-10, Latin America could offset the inequality rises of the prior twenty years (the neoliberal period). This meant a return to the average inequality level of the early 1980s, with a Gini coefficient levelling at around 48% (Cornia, 2014:5). Further improvements were achieved in the period between 2008 and 2013, as the participation in total income of the poorest 20% of the society rose to 5.6% from 5.2%, while the participation of the richest 20% decreased to 46.7% from 48.4% (ECLAC, 2015). This data though the still very high levels of inequality, shows the reversal of a secular trend, and the decreasing levels of inequalities is a unique phenomenon (not just in historical Latin American terms, but also compared to concurrent trends for example in fast-growing Asian countries).

Notwithstanding the fact that favourable external conditions have driven economic growth and led to reducing poverty levels, the reversal of the trend in inequalities constitutes to be already a more complex phenomenon.

Commentators mostly argue that several reasons (altogether) have led to reducing poverty and inequality simultaneously throughout LA. According to Cornia (2014) proximate and underlying causes can be identified. As proximate causes first she highlights achievements in labour market: increased employment and raises in wages for unskilled workers, but also significant increase in female participation in the labour market, and a decrease in the rural-urban wage gap have contributed to favourable trends. As a second group of proximate causes progressive fiscal policies are highlighted, especially in the form of redistributive transfer programs -such as Bolsa Familia or Oportunidades and others. Among underlying causes of falling inequalities in LA Cornia (2014) identifies the following: 1. improvement in external conditions, 2. impact of rapid economic growth (mainly through job creation and faster rise in the participation rate of the poor), 3. improvement in the distribution of human capital, 4. the spread of progressive regimes and new policy approaches.
Instead of further analysing economic and social performance of the region, we turn towards analysing public policy changes in the region, as most commentators (like Kingstone, 2011, Wylde, 2012 and Cornia, 2014) argue, that public policies have played a role in positive (albeit moderate) improvements in economic and social development) throughout the Latin American continent.

While synthetizing recent economic literature consensus seems to be forming around the fact that a new policy model is emerging in Latin America since the Millennium. This new policy model is called differently by different commentators, their content and approach however overlaps to a considerable degree. So according to recent developmental state literature we can speak about new developmental welfare state (Draibe, 2007), new social developmental state (Kerstenetzky, 2014), new developmental regime (Wylde, 2012), open economy growth with equity model (Cornia, 2014). Others on the other hand underline market-oriented elements of this new approach, and thus call it a new model of pragmatic or moderate neoliberalism or neoliberalism with a human face (Kingstone, 2011).

Most authors highlight the following core policy areas of this new policy model: macroeconomic policies, social policies, labour market policies, industrial policies, but sometimes others (like trade policy or taxation) also are mentioned.

In terms of macroeconomic policies the common objectives of low inflation and deficit are at the heart of the new approach, while most countries pursued prudent macroeconomic management and applied a mainly orthodox approach. With fiscal and monetary policies aiming at avoiding former pro-cyclical bias, a move towards a much more conservative stance can be observed in most cases. Besides improving global economic conditions (that enabled to generate large current-account surpluses), the following elements also played a role in decreasing the economic volatility and vulnerability of the region: flexibility of exchange rates (and monetary policy anchored on inflation targeting), prioritisation of debt reduction and rationalisation, building up substantial levels of international reserves, improving the degree of banking resistance and development of local capital markets (more in detail see Wylde, 2012:198-202 or Cornia, 2014:16 and Damill-Frenkel, 2014)).

Although Ocampo (2011:138) argues, that in general (with the exception of Chile and some other Central American countries) Latin America has not learned the lesson to implement countercyclical macroeconomic policies, and the source of improved fiscal accounts was booming revenues (from favourable terms of trade) and not better policy-making (with fiscal policies generally procyclical and monetary policies being at the best moderately countercyclical.
Active and pro-poor *social policies* constitute the second important policy area, as one of the most often emphasized aspect of the new Latin American developmentalist policy model (see e.g. Riesco, 2007). These build upon new forms of social contract between state and the people, in which besides traditional actors (as sectors of the business and the middle class) new actors came to the scene: the urban and rural poor, the unemployed workers or the workers of the informal sector, indigenous groups and some new community organizations and social movements. A broadly defined social policy is building upon the pro-poor results of the low-inflation regime, and concentrates on dynamic employment generation, on reductions in the rural-urban wage gaps. The focus has been put on better access to education and the reversal of the rising skill premia as well as rising minimum wages (Gasparini et al., 2009, and Cornia, 2014). The mostly highlighted element was however social-safety nets and social assistance transfers, such as flagship CCT (conditional-cash transfer) programmes, with considerable debates on their relative effects and importance. A set of diverse other elements were also often used, like temporary employment schemes, subsidization of formal sector employment (especially for the youth), non-contributory pension programmes, etc. In part these elements could be mentioned by the new labour policy arrangements as well, showing the interconnectedness of different policy areas of the new model, and that this should be considered as a complex set of policies, a policy-mix with strong complementarities within its parts. The coverage of the social assistance programmes and the level of benefits were increased in almost all cases over time, and as a learning-by-doing process design and implementation of the programmes have been improved (Cornia, 2014:18). Most recent debates in Latin America regard however a more universal approach to social policy, to shift from the poor-targeted selective interventions, towards the provision more broad-based basic set of entitlements and risk-mitigating instruments (Ocampo, 2011:149). The political pressure from the growing (but in relative terms still rather poor) middle class in Brazil goes without question in this direction, but similar trends prevail throughout other countries of the Southern continent. The major obstacle towards moving to a more universalist social policy approach is the financial, fiscal constraint of the governments. Ocampo (ibid) even argues that a new fiscal covenant is needed, in particular the capacity to raise taxes should be improved (with emphasis on redistributive income taxes) and this constitutes to be one of the core areas in the battle to rebuild stronger states for the new phase of development in the new century.

*Labour market policies* lie also at the heart of the new policy approach, based mainly on the already mentioned *new social contract*. Increase in real minimum wages have raised incomes
in the low-wages sector (and had spillover effects even into the informal sectors). Non-contributory cash transfers to the unemployed, measures to formalize employment, strengthening of training and employment services are all part of the renewed labour policy approach. Greater emphasis was put on the institutionalisation of collective bargaining (moving away from enterprise level towards local or sectoral levels) and in more general terms the inclusion of labour force in the new socio-economic alliances was a core element of the new policy model.

Active industrial policies came back slowly to the Latin American policy agenda in the 2000s as an important but re-defined tool to promote economic development. New industrial policies differed substantially from their earlier precedents in the 1960s and 1970s, and series of packages of new industrial and innovation policies have been introduced. As largest result however, Peres (2006:81) sees this fact that proactive industrial policies have been able to operate (albeit on a small and limited scale and with rather varying results), in open economies with orthodox macroeconomic policies, despite the ‘traditional’ belief that the latter would be incompatible with the use of active industrial policies. The same author adds in a later publication (Peres, 2011) that progress in industrial policy design has outpaced improvements in implementation and evaluation through Latin America. Ocampo (2011:141) argues however, that orthodox approach to foster export-led growth in Latin America has failed in Latin America throughout the period of 1990s and the first decade of the twenty-first century, as faster export growth did not translate into faster GDP growth. He sees three ways out of this fallacy: 1. a shift towards a more active production sector policies; 2. strengthening the links with new dynamic poles of the world economy (in particular with China); and 3. a greater focus on regional and domestic markets. We have argued however elsewhere (Ricz, 2014), that for example in Brazil one can see improvements in all of the three mentioned areas.

Looking at common core elements of the new developmentalist approach emerging in Latin America since the Millennium it seems reasonable to argue that though it contains some important elements of historical periods of ISI and neoliberalism as well, still the presented core elements together and interwoven as they are, have created a new policy model differing substantially from other types of capitalism24.

---

24 For a deeper analysis and more detailed argumentation see Wylde (2012) who embedded in the theoretical framework of the new developmental regime convincingly differentiates the new Latin American model from the US-type neoliberal or European-type social market capitalism models.
Recent trends and policy changes in EA (2000-15)

East Asia has had a long history with state guidance in economy, and though East Asian countries differ significantly from each other in a large number of aspects, in the first section we have argued that there is a pattern of economic characteristics that had distinguished Northeast Asian countries (incl. Japan), and to a lesser extent Southeast Asian countries as group from the rest of the world. We have discussed the characteristics of the so called East Asian, classic-type developmental state model, and embedded it in the specific context, that made it viable. We have also shown the changes in this context that finally led to the demise of the classic paradigm of DS, explicitly marked by the Asian Financial Crisis (AFC) in 1997-99.

The AFC is an important milestone when analysing political economic changes in East Asia. The Asian crisis had devastating effects in economic, social and political terms, and though economic recovery came relatively quickly the crisis has changed the EA political economy and policy-making in important ways. In this section we will argue that these changes go beyond short term changes in macroeconomic policies, and can be captured in wider economic and social policy changes, in changes in policy-making and also in the emergence of a new social contract. Whereas the relevance of these changes goes beyond simple economic policy change and might result in a new model of East Asian development, we still leave this question open to debate. Park (2001) immediately after the AFC has called for a new paradigm in EA development, and has written about more profound changes, this was however rather based in theoretical argumentation (by then it could not have been based on analysis of the facts and policies of the last 10-15 years passed since the AFC) (see also Park – Ahn – Wang, 2004).

A few years later Woo (2007:xii) put it: “The AFC marked the end of an era of rapid development and the beginning of a new one – an era of transition, but towards what new end?”

In contrast to the Latin American case, in the case of East Asia there is still no new developmental model emerging, or at least it is not (well) documented in economic literature. We argue however in this paper that some common trends and characteristics can be seen since the AFC, and in the light of one and a half decade passed since, and the recent experiences with the Global Financial Crisis (GFC), some implications for the twenty first century’s developmental state models can be made.
The AFC meant a devastating shock in economic, social and also political terms for the whole region, though of course with wide-ranging variation across the countries. In general terms however the economic recovery was quicker, while social and political impacts lasted longer.

In terms of GDP per capita growth, the East Asian region has fared well, with quickly recovering growth rates after the GFC (with 4.1% GDP per capita growth rates on regional average between 2000-13 (WDI, 2015), though with somewhat lower rates after the crisis than before, but still outperforming most other regions of the world. Some commentators have even put the question, whether EA is heading towards a second miracle\(^{25}\). Looking at inequality trends however, we do not see that the growth-with-equity track would be back in the case of East Asia, in contrary.

*Diagram 4: Recent GDP per capita growth trends in East Asia (2000-13)*

![Diagram showing recent GDP per capita growth trends in East Asia (2000-13)](image)

*Data: World Development Indicators*

Poverty continued to decrease in the twenty first century in East Asia, however aggregate regional statistics are dominated by the Chinese numbers. Though both extreme and absolute poverty indigence are declining, the poverty gap is large, and using a poverty line of 1.51 $ a day (instead of the usual measure of 1.25 $ a day), would increase the share of people living in extreme poverty throughout whole Asia by 9.8% (ADB, 2014).

---

High difference prevail however throughout East Asia, as in the Northeast Asian countries and in some more developed Southeast Asian counterparts (as Thailand and Malaysia) poverty has to be regarded in more relative terms, according to national poverty lines, whereas in some Southern East Asian countries still significant part of the population lives under the international poverty lines of 1.25 or 2 $ a day (in Indonesia 16.3% and 43.3% respectively in 2011, in the Philippines the same numbers were 18.96% and 41.72% in 2012).

Income inequalities has been rising in regional perspective throughout East Asia in the last 15 years, and in some countries already earlier. Besides the classical case of China, inequalities did definitely increased in Indonesia (from a Gini index at around 0.3 at the Millennium to 0.38 in 2011) and in Malaysia (from higher initial levels the Gini even surpassed 0.46 in 2009) (WDI, 2015). Increases were also documented in Japan, Taiwan, while in Korea a variation of increasing and decreasing trends was observed. Wang (2011) writes about a great reversal in the mid of the 1980s regarding inequality trends for the East Asian region and documents the end of “growth with equity” model. He argues further that in this new era of “growth with inequality” an increased but at the same time revised role of the state will be required, in order to act as an ‘equality enforcer’ rather than as an ‘inequality creator’ (Wang, 2011:1)

Although we argue that there is no consensus in economic literature regarding a new East Asian developmental model, there is significant amount of analysis on the causes and effects of crisis, and also changes in the role of state in economic development have been well documented, though rather regarding given countries (such as Japan, Korea or Taiwan), and less for certain groups of countries or the whole region. In the following discussion we mainly base our arguments on Woo (2007), MacIntyre – Pempel – Ravenhill (2008), Hua – Hu (2015)²⁶, but structure their insights according to the points we have highlighted in the case of Latin America, in the previous section.

MacIntyre, Pempel and Ravenhill (2008) looking at the AFC’s impact on Asia’s political economy claim that the crisis has been a catalyst for changes. We look at the most important changes in the following areas: 1. macroeconomic policies; 2. social policies; 3. labour market policies; and 4. industrial policies.

First and foremost macroeconomic policies have been affected. After the devastating economic, political and social shock of the AFC a natural quest to reduce economic

²⁶ Insights from Pempel – Tsukenawa (2015) shall be incorporated in the very near future.
vulnerability to further, future crisis emerged, and thus reducing financial vulnerability became top economic priority in the region. It even overtook the at least half-century old commitment of the East Asian region to economic growth as top priority, that for example in the case of Korea is also called „growth-obsession” (Hua – Hu, 2015:4). Though considerable policy divergence across the region MacIntyre, Pempel and Ravenhill (2008:14) identify five common trends contributing to macroeconomic stability and reducing economic vulnerability: 1. running current account surpluses; 2. accumulation of massive foreign exchange reserves; 3. keeping short-term foreign liabilities below reserve levels; 4. greater flexibility in exchange rates and 5. strengthening of prudential regulation in financial system.

While we argue throughout this paper that the classic DS model of East Asia has undergone profound changes after the AFC, and we wrote about its decline in the previous section, this was rather a long, gradual process, with significant differences across countries. It is out of question that the old (classic) development model is much less relevant today, some continuities prevail, and the legacies of the past lead to certain path-dependencies. As one of these areas we can mention the quality of macroeconomic management. Though much debate and controversies in the interpretation of the East Asian miracle in the last century, economists tend to agree that sound macroeconomic management was a key to economic success, and we also highlighted this lesson, while comparing East Asia to Latin America. We have highlighted five new trends emerging since the AFC above, but some old trends were also sustained: domestic savings continued to be high (more than 30 % of GDP) throughout the region, inflation rates remained low and governments tended to run low budget deficits. Though we claimed that exchange rates became more flexible, these were still managed with soft pegs (in contrary to recommendations and expectations of most economists to let these float), with the main governmental aim to keep exports competitive (not least to enjoy current account surpluses).

Closely linked to reducing external vulnerability of the region, we have to point out the changing approach to regionalism within the East Asian region. The main trend as described by MacIntyre – Pempel – Ravenhill (2008:20) is closer regional integration and more institutionalized forms of regional integration. Pempel (2008, 164-165) identifies three main trends according to increased regionalism. First he speaks about increased governmental activism towards formalization and institutionalization of regional bodies, while admitting that corporations and other business actors remain the main drivers of regional processes. The second trend is a turn towards strengthened Asian regionalism, and less emphasis on pan-
Pacific relations (though this latter region remains important as export market and in form of some military alliances). Finally the quite new phenomenon, the enhanced economic (and political) role of China within the region is identified, while admitting that Japan continues to play a vital (historically determined) role. To sum up new arrangements favouring regionalism in areas such as finance, trade and institutional cooperation try to decrease external vulnerability of EA countries, but on the longer term these changes may add up on higher, less volatile economic growth record.

All in all economic growth was quickly restored in the most countries of the region (Diagram 4), while the social impacts of the crisis had longer lasting and more profound effects (even going beyond rising unemployment and inequality levels).

Thus the second area we look closer regards these social issues, and the claim is that the widespread commitment and merit of the old DS model to shared and inclusive economic growth, also dubbed “economic growth with equity model” was reasserted in the light of social consequences of the crisis and the following economic restructuring. Woo (2007:xii) writes about a so called social compact, that was peculiar to the capitalist developmentalist approach of Northeast Asia. On the one hand this social compact quasi obligated private corporations to provide lifelong employment and other social services (on national level quasi full employment), in return for financial and fiscal support from the state. On the other hand Confucian values and traditions also added to the social service front, with the emphasis on the group rather than the individual, and placing the (big) families in the core of social security and welfare provision. By the end of the 1990s this “Northeast Asian variant of a mutual aid society” (as Woo (2007:xii) calls it) was broken down. On the economic front the need to restructure the economy due to massive amount of non-performing loans, and close interlinkages between the financial and the productive sector, led often to bankruptcy of large corporations and rising unemployment. On the cultural front however higher economic development levels and the effects of the new ICT also caused changes, and led to higher individualism, which in turn led to weakening the pre-existing forms of social security.

Haggard (2008) documents changes in the social contract in East Asia, that can be traced back to the democratization of some countries in the 1980s. New democratic governments (in Korea, Taiwan, Thailand, Philippines) have expanded social insurance programs and have introduced new forms of social assistance. This was however made possible by high economic growth performance (during the decade before the AFC), and the resulting strong fiscal positions (with the exception of Philippines, where fiscal constraints limited
government capacity, but strong commitment to social policy reform was still visible). After the crisis the quick economic recovery, the more profound social problems, and as a result of the democratization effects political support was broad towards maintaining new social entitlements and the new social contract. Haggard (2008:113) comes to the strong statement, that the new social contract was compatible with the open economy model, and seemed to be robust also in the light of the crisis, and thus ongoing globalization of the economies was accompanied by the expansion of social entitlements (in the new democracies of the region). However changes in the social contract were also depending on changes in the labour market.

Before we explicitly turn towards changes in labour market, we sum up, by claiming that the new social contract and social issues shall be at the heart of the new East Asian developmental model, even if we do not see one unique direction in policies, implementation and practices within the region. We might recall the statement of MacIntyre, Pempel and Ravenhill (2008:18) that the adoption of more market-based policies went hand in hand with the creation of new state-led social programs, recent trends of substantially increasing income disparities across the East Asian region show the insufficiency of these measures. Haggard (2008:114) argues that without stronger labour movements (or labour-based political parties) the further expansion of the social contract might be constrained, and might only take place in the countries with higher income levels in the region.

Democratization in the region was generally associated with improvements in collective labour rights, however in line with economic globalization and especially after the AFC and the following reform process increasing pressure was put on individual labour rights. The natural quest in the context of pressures from international financial institutions, foreign investors and domestic firms, and in the context of privatization and the needs to restructure large inefficient enterprises was to increase the flexibility of the labour market. This did not only contain measures to make it easier to dismiss workers, but also increased the scope for temporary, part-time and forms of more flexible employment. Woo (2007:6) emphasizing the specificities of the Asian labour markets and draws attention to the fact that removing existing

27 Significant differences of drivers and outcomes can be seen not only between the above mentioned cases of the new democracies (as for example between Taiwan and Korea, or even between Thailand and the Philippines), but also other case show different features, like Japan, or the semi-authoritarian regimes of Malaysia or Singapore.

28 Often financed by World Bank loans, and sometimes turned out to be more temporary solutions, still more research regarding this issue is needed, to underline or modify the above argumentation.
barriers to laying off workers is often much easier than building new social safety nets. This latter requires not only the financial resources and public policy awareness and commitment, but, according to her even more importantly, capable state administrative structures. Thus we see once again (as was highlighted in the case of Latin America), that different elements of the reform agenda are highly interconnected, and in an ideal case reinforce each other.

To better understand the complexity of labour market reforms, the analysis of the Korean case could serve with instructive lessons. For the longer story see Woo (2007: 17-20) or Vartianen (2007: 145-179), but to put it short democratization forces, economic and social pressures following the AFC and pressures from IFIs, altogether played a role in transforming the Korean labour market towards a more corporatist regime. To overcome social protest and avoid social and political instability in the eve of the AFC, the Korean government introduced a historically unprecedented solution to hold a series of tripartite meetings involving the state, big business and labour, laying the basis for a new social contract building on inclusion rather than exclusion and repression of labour (see also Haggard, 2008).

Finally we have shown some elements of the economic policy mix, showing more or less into the same direction to promote economic growth and development in the twenty first century’s East Asia. The implementation of economic policies however is a function of existing institutional settings. In the following we highlight some core institutional areas, where changes are not as straightforward as were in the economic policy arena.

Woo (2007) takes a special Asian point of view, while analysing the need for reforming legal institutions in East Asia, and argues that one has to go beyond the simple rule of law and good governance arguments, to fully understand the merits and shortcomings of the EA model and its decline, and thus to put together the appropriate reform agenda for the twenty first century.

Upham (2007) argued that during the golden age of the classic DS model formal legal institutions played at best a back-up role to informal mechanisms in Japan, and Korea, where economic policy was discussed, formed, and implemented largely through informal mechanisms. This kind of dual legal system worked well for more than half a century, as it provided certain predictability and even transparency to the players who knew the game, but notwithstanding it was much more opaque for outsiders. So with opening up the economies

---

29 'Easy' in relative term, as presented by Woo (2007:17-20) in the case of Korea, where government efforts to labour market reforms where hindered by heavy social protest, and it was only after the AFC and with the pressure from IMF, that the government could succeed.
(financial liberalization and increases in capital flows) reforms to this “unique” legal system became inevitable. Ohnesorge (2007) also argues that in order to define the directions of legal reforms in East Asia and even more to successfully implement these, one has to take into account specific local realities based on historical and cultural legacies of the region.

The other area left out from the stylized analysis of the economic policies, constitutes to be the governance of the private sector or corporate governance issues. Gourevitch (2008) argues, that less commonalities can be observed in corporate governance reforms throughout East Asia, and regarding standard indicators of corporate governance (such as shareholder concentration and protections of minority shareholder rights) the region still tends to rank low in worldwide comparisons. This is not surprising of we take into account that in the economies of East Asia the norm was the family-owned and controlled firm, as Korean conglomerates, the chaebols, or the Chinese family enterprises in Southeast Asia, and these were basically different from the western ‘modern’ enterprises with long-standing tradition of separation between management and ownership. However with domestic political changes (democratization and changing political coalitions) as well as due to developments of the Asian equity markets some improvements have been documented regarding corporate governance issues, such as more formal protection of minority investors, and also other behavioural changes(Gourevitch, 2008:91).

To sum up we definitely leave the question open, whether there is a new developmental model in the making in East Asia in the twenty-first century. We make however a further note on recent trends regarding the evolution of developmental state approach within the East Asian region: China was typically not included in the initial discussions of the DS literature, because of several reasons. First of all being a command economy, it did not fulfil the criteria of Chalmers Johnson (1982) being a capitalist developmental state. A further, and maybe more important reason is, that economic take-off in China came later. As economic growth accelerated since the late 1980s, more and more authors include China in discussions about the East Asian Development Model. China shares some basic characteristics of the classic DS model, such as a high level of domestic savings and investments, strong focus on export-orientation, sound macroeconomic management and policies, and last but not least commitment to the developmentalist approach, strong and extended state interventions to promote economic growth and development. Some other characteristics are also in common, such as relatively homogeneous population, a high stock of human capital, or cultural settings (based on Confucian values). Still we cannot by all means speak about a growth with equity
model in the case of China, which was one of the basic merits of the old DS model in East Asia. It is however an interesting research area for the future, whether the Chinese development model of the 21st century can have some useful implications for the revised model of the developmental states30.

**Recent policy changes in Latin America and East Asia: a comparison of stylized facts**

We have shown some recent trends and policy changes in Latin America and East Asia. To sum up we highlight most striking differences and commonalities. Regarding growth records East Asia continued to outpace the Latin American region (and also most other regions of the world), whereas in social issues the trends are not so trivial. Regarding poverty reduction both regions have reached considerable results and favourable trends, though on different background. In both region the main driving force behind lower poverty levels, was high economic growth, in Latin America more systematic policy effort also played an important role31. Most striking difference between the two regions can be seen by looking at inequality trends. While in LA a secular trend of extremely high and rising inequalities was reversed since the Millennium, in East Asia, the region famous for shared and equitable growth, income inequalities have been on the rise. Explanations for these diverging trends across the two regions may be manifold, we highlight however, that the new emerging Latin American policy model seems to be stronger committed and better relying on the new social contract and on redistributive social policies, and constitutes to be based on a more coherent economic policy mix, with different policy areas reinforcing each other (and the aim of inclusive and equitable development), while in the East Asian case more controversies prevail. The central role of social policies and pro-poor growth, productive inclusion, are mostly highlighted in relation with the new DS concept as an important cornerstone (commentators sometimes even call for a new developmental welfare state concept).

Turning to commonalities first we have to mention the role of sound macroeconomic management and the commitment to reduce vulnerability to future crisis. In the light of the recent global financial and economic crisis, it seems that both regions have learnt the lessons from the series of crisis since the 1980s and the intensifying financial globalization, and have shaped their macroeconomic (and other) policies according to these. From the historical

30 See for example discussions regarding the so called „Beijing Consensus” (Moody, 2015:157-176 In: Hua-Hu, 2015)
31 More research in this regard is needed for the East Asian case.
comparison of old DS models in EA and LA one can already see a basic difference in this regard. However recent LA experience shows, that the lessons from financial vulnerabilities and recurrent financial crisis can be learnt, and macroeconomic stabilization disproportionally improves the lives of the poor (with significant effects occurring mainly on the short term). On the longer term decreased economic vulnerability and more stable (though somewhat lower than potential) economic growth that is more equitable and inclusive can lead to better development outcomes for the whole society.

There seems to be however less evidence for differentiation between short term and long term effects of monetary and fiscal conservatism. In the case of monetary policies Ocampo (2011:139) calls for a more balanced view, where the orthodoxy favouring almost exclusively inflation targeting policies (as in Latin America) will be replaced by multiple objectives: not only considering inflation, but also economic activity, financial stability and foreign exchange rates. For this latter the East Asian case of managing exchange rates to increase competitiveness in export markets can serve as an example.

We have already mentioned changes regarding the new social contract, which can be traced back on the democratization process in both regions, with maybe more profound changes (at least regarding its political entrenchment) in Latin America (but also present in many East Asian countries). Looking at the repressive and exclusionary old developmental models regarding labour force in both regions, these new developments represent significant changes and encouraging trends.

Finally we have argued that the developmentalist approach was maintained or renewed in both regions, in spite of structural adjustment and market-oriented reforms we have argued that strong continuities with the state-led development model prevailed, and though the role of state in development has taken different forms and extent, it did not disappear or diminished significantly (or to such a degree as it was expected) in neither of the regions.

**Some notes on post-GFC changes**

Since the recent global financial (and economic) crisis six-seven years have passed, which is still far short for historical perspective but some notes are worth to make, and some experiences and new trends are already emerging.

We have shown the recent data for both regions and argued that both have weathered the storm better, than more advanced countries, and maybe even better than expected. Reasons
for this are manifold, but we have argued throughout the paper, that experiences with past crises have shaped economic policies and the policy-making process, and through trial-and-error a learning-by-doing evolution has taken place in both regions, with some substantial differences however.

The general assumption by economists after the GFC is that today we are experiencing the beginning of a longer period of slower economic growth worldwide, not only in industrialized countries, but even in more dynamic parts of the developing world, see e.g. China \(^{32}\) (Ocampo, 2011:134)

There are some already clarifying directions of modifications in economic policy approaches after the GFC in emerging markets and developing countries, some of which as direct response to the crisis but others as a result of longer “slower-moving but deeper-running” processes of changes (MacIntyre-Pempel-Ravenhill, 2014:273) growing out of the high economic growth and/or the changes in the external environment, but mainly reinforced or reasserted by the GFC. We sum up these according to Birdsall (2011), but we will see that most of them can be verified by our earlier analysis of the Latin American and East Asian cases.

The first area of changes in the light of the recent financial crisis not surprisingly regards macroeconomic policies, fiscal and monetary policies. Whereas the main aim to reduce vulnerability towards external financial shocks is reinforced, on the superiority of orthodox or heterodox tools to achieve it, there seems to be less consensus. Or as Fosu (2013b:7) has put it is rather the pragmatic approach to economic reforms, and the nature of reforms and capability of countries to adapt to new situations and take advantage of market forces make the difference. Birdsall (2011:7) emphasizes the role of regulatory and prudential insurance and tendencies to build large international reserves, but also calls attention to some more heterodox measures (like taxes in short-term capital outflows, or domestic development banks’ fiscal stimuli) that are becoming more prevalent and legitimate.

As second we highlight changes regarding the approach to employment and social policies. The need for progressive social and distributional policies has been reasserted to reduce social vulnerability, poverty, inequality and increase social cohesion. Whereas in poorer countries

\(^{32}\) The other special case could be Sub-Saharan Africa, and in more general terms Africa, which we have left out in our current research, however in DS literature, in particular during its recent renaissance considerable focus on has been placed on the African region (and its growth performance) which has considerable impact on world trade and spills over to other important areas of economy, finance and development.
this still means a focus on targeted programs towards the poor, in emerging markets, with ever stronger middle class the move might be towards a more European style employment and social policies, ensuring minimal social protections for all, a more universalist approach (for the analysis of concrete Latin American trends, see Ocampo, 2011:146-151).

The third area reinforced by the crisis is the new emphasize on newly defined industrial policies. New experiments with various forms of industrial policies can be observed worldwide, and is also well-documented in literature (Fine et al, 2013, Wade, 2014). According to these the state as facilitator and coordinator is back on the agenda, however revisited and adopted to new challenges and requirements of the twenty-first century. For the Latin American case Ocampo (2011:141) argues that the direction of changes is a move back from neutrally incentives to more active production sector policies. Or as Birdsall (2011:6) has put it, there is a renaissance of looking at the early success of East Asian developmental states and their industrial policies, albeit in a more market-friendly manner.

A final note on changes in domestic policy-making turns explicitly towards the stronger role of state in development. The trends after the GFC show towards increasing assertion of strong states (Birdsall, 2011:6) even refers to the authoritarian Chinese-style top-down state system) with greater executive power and discretion in economic policy implementation. These tendencies are relatively new, and run in the opposite direction of what we have described for the first decade in the twenty-first century in both Latin America or East Asia.

Without going into the far-reaching debate on authoritarian versus democratic developmental states, we refer back to some Latin American examples, how the democratization process has led to better economic policies in terms of macroeconomic stability (low inflation) or the special focus on the poor and the social policies. Some similar experiences with new democracies in East Asia were also highlighted.

However we add to this final note an other dimension, as in line with Fosu (2013b:6-7) we highlight, that heterodox economic policies are mostly based on more active government participation (compared to more orthodox approaches), and thus put even more emphasis on the requirement of a very capable core administration and government in more general terms, and the upgrading of public service delivery.
Conclusions

Finally we aim to draw some lessons for the conceptualization of twenty first century’s developmental state. We have argued that there is a renaissance of the developmental state approach in economic literature in the recent years. The quest for revisiting the role of state in development and to construct a new concept for developmental states is based on the new challenges of the twenty-first century. Williams (2014) highlights four pivotal challenges: restructuring of the world economy, changing international and domestic political processes, ideological and epistemic interpretations of development, environmental issues. Whereas we have argued that a further challenge, that of financial globalization and the long-lasting effects of financial and economic crises should be added to this list, as basically limiting the room for manoeuvre for individual states in financial terms and in raising revenues in traditional ways and thus having substantial impacts on economic policies at the latest since the Millennium.

We have already summed up most important insights from the historical comparison of the different developmental state models and its results the Latin American and East Asian region. In this last section we try to highlight implications of recent changes in the content of economic policies. We argue however that our results are in line with others, especially with Fosu (2013a,b) and Williams (2014), and show in the same direction, regarding the revision of the role of state in development in the twenty-first century, albeit with some differences regarding some elements and accents.

According to the new paradigm of development according to Amartya Sen (1999) human development includes besides educational and health components also economic and political freedom. One key lesson of the recent Latin American (and to a lesser extent of East Asian) experiences refers to wide-ranging spillover effects of the democratization process, and thus highlighting that greater political freedom is not just a developmental objective per se, but under appropriate political institutions it might also add to the qualities of public policy-making (by putting social needs of various social sectors to de developmental agenda).

The capability-based approach of Sen (ibid) is also applied by Evans (2014 in Williams, 2014), who puts the requirement of equitable and inclusive development at the heart of the twenty-first century’s developmental state agenda. The merits of moving towards more inclusive economic growth were highlighted in the Latin American case. Fosu’s (2013a:9) argumentation goes in the same direction, while arguing that a limited form of social safety net to guarantee a minimum level of income security with limited cost implications might be useful to “create a social buy-in that is required to elicit citizens’ willingness to contribute to
the common good in support of a limited welfare state” and on the long run this could serve as disincentive for individuals and households to remain in the relatively inefficient subsistence sector of economic activities. We have however drawn attention to the most recent dilemmas regarding targeted pro-poor interventions versus more universalist approach to social policies (and the fiscal consequences of the latter).

The other central area of policy changes was put in fore by the recent financial crisis, and the good records of the Latin American and East Asian countries to weather the crisis, is the macroeconomic management and reduction of vulnerabilities to future crisis. Our results are in line with Fosu’s (2013a) implications and support the view, that financial stability, a low-inflation regime supported by conservative monetary and fiscal policies (via high taxes and balance expenditures) constitute to be the only sustainable way in a financially globalized world to support equitable and inclusive development on the long run, in spite of notwithstanding the some risks and the need to differentiate between short term and long term effects. Excessively restricting monetary policies might impede economic growth, and on the short run economic and social pain can also be associated with the introduction of conservative fiscal and monetary policies (these might in part be mitigated by social protection measures).

Historical East Asian experiences (and also some recent changes in Latin America) have highlighted the role of human capability-enhancing investments (see Evans, 2014 in Williams, 2014). The Latin American reality however shows that even within the capability-based approach infrastructure is often the bottleneck to development and the role of state in (physical, institutional and human) infrastructural investments seems to be unquestionable. Fosu (2013,a) drawing on wide-ranging experiences of more successful developing cointries sheds light on the importance of investing in economic infrastructure to complement human capital investments (and decrease incentives for exit)33. Besides often emphasized expenditures in the social sector (education and health) an appropriate balance is needed between human capital and complementary economic investments (in physical and institutional infrastructure) to sustain growth and labour absorption. We have also highlighted the role of a new social contract (built on a new partnership between government, business

---

33 The high emigration level of youths, especially with tertiary education, often educated with government subsidies leads to large public capital losses, much of which can be rooted in lack of adequate complementary investment by the private sector and poor economic (physical and institutional) infrastructure, that is relatively immobile (in contrast to relatively mobile human capital) (Fosu, 2013a).
and labour), and the central role of labour policies in both cases (as one of the most apparent departure from the classic developmental state models).

A critical dimension for a developmentalist approach to development is *financing and managing* increased state efforts that actively promote economic growth and development. To finance development strategies countries historical trends emphasize the relevance of FDI and/or use domestic saving for financing\(^\text{34}\) (whereas historical reliance on foreign aid and loans seems to be much less relevant today, at least on the medium and longer term). Caldentey and Titelman (2014) drawing on Latin American experiences however demonstrate that one has to go beyond the notion of fiscal conservatism and counter cyclical economic policy strategy, as tools to reduce the vulnerability, and for considering longer terms development outcomes the “...way counter cyclical policies are designed and implemented, including their timing and the type of instruments used…” (Caldentey – Titelman, 2014:65) are of crucial relevance.

In the context of financial liberalization this latter point highlights at least two implications: governments should be able to *increase revenues via taxation* and reduce their own consumption to generate savings for the needed infrastructural investments. On the other hand and in line with Fosu (2013b) in the final analysis on the long run less developed countries must also rely on *domestic resources for funding*, thus the development of the domestic market should be part of the developmental agenda. Both aspects highly relevant today in Latin America (but albeit in somewhat different forms also throughout East Asia) the former also highlighting the urgent need toward tax reform, while the latter seems to be in line with attempts to balance the open-economy growth model with a domestic market alternative.

We have argued that economic policies in the twenty-first century have to go beyond the simple statement for outward orientation, and for a more sustainable strategy to export-led growth has to shed light besides domestic institutional capabilities, and more gradual approach on opening up, whereas diversification of export products and markets is inevitable (also in order to reduce dependencies and vulnerabilities and stimulate economic growth) and a new ‘resurgence’ for increased regional cooperation (and South to South economic relations) as shown in the East Asian, but to some degree also in Latin American cases.

---

34 The classic East-Asian developmental states could rely on very high (in part culturally determined) level of domestic saving rates and thus partially exclude or streamline the effects of FDI. Other specificity of their historical experiences implies the role of external aid and financing (as for example the role of Japanese and US sources), in the post-cold war era and the new context of the financially globalized world economy countries must increasingly rely on FDI or/and domestic resource mobilization to finance their development process.
Finally we aim to emphasize once again that elements of the economic policy mix have to be regarded together and interrelated as they are. Especially in the case of recent Latin American experiences the central aim of inclusive development has spilled over into various economic policy areas, and reinforced each other. From these considerations, we highlight that fiscal prudence can be achieved without cutting expenditures on social issues (focus on capability-enhancing investments, such as education and health) and are convinced that this message could be useful not just for other emerging and developing countries, but also for more advanced countries (and our home country, Hungary as well).

Regarding the revision of developmental state models according to new challenges of the twenty-first century we argue that the analysis of historical and more recent Latin American and East Asian experiences can still provide important insights. We have shown that in the context of the twenty-first century’s challenges the imperatives to take into account the needs of the domestic society (the electoral base of any democratic political system) and the needs of the international investors (imperative of a globalised world economy) might show into the same direction and highlight the following core elements, that any developmentalist model has to take into account if it wishes to be successful and sustainable in economic (and fiscal), social terms and political terms: macroeconomic stability; redefined state-society relations based on deliberative and participatory mechanisms; capability-enhancing investments and poverty reduction strategies; investments in physical and human infrastructure; new strategic industrial policies, promotion of technological learning and innovation; entrepreneurial public institutions, strong and capable core administration and innovative financing for development.

Finally we conclude that state interventions are needed even in the twenty-first century to promote inclusive development in less developed countries, however this means different types and areas of interventions from the ones, known in the classic developmental state models (although some elements might overlap, this is rather the exception and not the rule). We have shown that some elements of a new model of a re-defined developmental state can already be outlined, but the new paradigm has not broken through yet in developmental state theory.
References


