

RESEARCH ARTICLE

Developmental States in the Twenty-First Century: New Wine into Old Bottles?

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Abstract

On the eve of the twenty-first century both the world economy and economics as a social science face important challenges, that call for paradigmatic changes, maybe even for new paradigms. First following the global financial and economic crisis of 2008-9 and more recently due to the COVID-19 pandemic, we can observe different types of active state interventions and growing state involvement to revive economic growth and development throughout the world. This has led to a renewed interest in the analysis of the role of the state in economic development in general, and to a renaissance of the developmental state (DS) approach and development regime (DR) theories in particular. The article aims to critically review and synthesize most recent literature on developmental states and regimes. Based on the theoretical and practical experiences of developmental states over more than a half century and taking into account the new challenges of the twenty-first century we critically engage with the related literature and aim to structure common thinking (and debates) regarding the role of state in development. While we argue that the new paradigm for DS has not broken through yet in literature, we present some cornerstones around which consensus seems to emerge.

Keywords: Developmental state • Development regime theory • Globalization • New developmentalism • Twenty-first century • Post-crisis era • Economic catching up

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Following the 2008-9 Global Financial Crisis, and even more pronounced by the spread of the COVID-19 pandemic since early 2020 we see the rise of state activism worldwide. In contrast to these renewed tendencies of state activism in the more advanced economies, new developmentalist experiments in the peripheries (in emerging and less developed countries) to promote state-led catching up started earlier, and can be dated to the first decade of the new Millennium. Accordingly, it goes without doubt that the economic and developmental role of the state has been brought back to the centre of political and academic debates. Simultaneously with this shift in the practice of economic policy-making, we can witness the renaissance of *developmental state literature* and developmental regime theory in economics. Throughout this paper we argue, that this new strand of literature is not the revival of the old or classic paradigm of developmental states (Woo-Cumings, 1999), but a new developmental state concept is emerging. Though we admit that the most recent literature on development states and regimes represents rather an eclectic group of works, and the new paradigm of the twenty-first century's developmental states has not broken through yet.

The starting point for our analysis is the argument, that by the end of the last century, with changes in the specific (and unique) context of the successful (North-)East-Asian developmental states, the fall of the classic developmental state paradigm was a systemic phenomenon and thus inevitable (Beeson, 2004; Haggard, 2019; Ricz, 2019; Williams, 2014). Thus in the twenty-first century we have to go beyond the geographical and temporal limitations of the classic paradigm, and we have to deeper embed it in modern economic theories (see Evans, 2010, 2014). We also have to leave behind the ideologically overloaded debates (based on the antithesis and disagreement of the revisionist school¹ and the neoliberals, backed by the international financial institutions) that have characterized the old developmental state approach and also its demise (Stubbs, 2009; Wade, 2018).

Meanwhile we do not aim to build a new developmental state model that could be applied or emulated without limitations, as we are convinced that development strategies are environment-specific, and are only valid in their own context in time and space (Fosu, 2013a, 2013b). At the same time based on the theoretical and practical experiences of developmental states over more than a half century and taking into account the new challenges of the twenty-first century we critically engage with the related literature and aim to structure common thinking (and debates) regarding the role of state in development. We explicitly aim to uncover some differences and commonalities of the old and new approaches, and to draw up some guiding principles for the twenty-first century's developmental state concept. We are convinced that this provides a fertile ground to actively get involved in the intensifying international debates related to developmental states in the twenty-first century.

1 In the twentieth century the adherers of Johnson and the authors of the classic DS school were called the revisionists, or the revisionist school, who have extended the original Japanese DS model and applied it to other countries first in the East-Asian region and later also outside that region.

The remainder of this paper is in three main parts. After this short introduction we present most important characteristics of the new developmental state approach structured around three main points: first we clarify the new interpretation of developmental states, then we present the new context shaped by the new challenges of the twenty-first century, and finally we draw up the new analytical structure for developmental states. The second main part of our paper is also divided into three subchapters while we present the most important points, regarding which consensus is emerging in economic literature. Thus, we analyze the requirements for twenty-first century's developmental states on the level of socio-economic alliances and political settlements; the level of institutionalization and policy making; and last but not least on the level of economic policies. The final chapter concludes.

The New Context of Developmental States Calls for a New Approach

The need for re-thinking the analytical concept for developmental states can be verified on the one hand with the fall of the classic paradigm of DS, on the other hand with new challenges emerging in the twenty-first century and presenting new circumstances (possibilities and limits) for governments to formulate and realize their main socio-economic developmental objectives.

To revise the classic DS concept two main ways are straightforward: first, relying on the synthesis of most recent theoretical results (the deductive way) and second, 'streamlining' latest experiences of states or groups of states revealed as development success and looking at their economic policy practices (the inductive approach). The theoretical starting point shall be the new capability-based paradigm of development (Sen, 1999) embedded in theories of new development economics, but also in modern growth theories as well as in new political economics and the new institutional economic school. For some more narrow-focused theoretical underpinnings see also the *new developmentalist approach* shaped by the work of Bresser-Pereira (2011; 2015; 2016)². While relating to the other way to revise the DS concept, the latest experiences of new developmentalist experiments, the most recent experiences of East-Asian countries – not only in Northeast, but also or even more so in Southeast Asian countries, and according to some analysts also the particular development paths of China and India (Hua & Hu, 2015; Raquiza, 2012) might offer some lessons as well as the experiences of the most recent Latin American developmentalist experiments (Riciz, 2017; Schneider, 2015; Wylde, 2012, 2017). The experiences of some quickly growing Sub Saharan African economies (Clapham, 2017; Biedermann, 2016; Hope, 2019; Ikpe, 2018, 2020; Routley, 2014) and their Northern counterparts (such as Egypt) have to be taken into account, whereas even the recent statist models of Turkey and

2 The term was first by the Brazilian economist Bresser-Pereira in 2003, and caught up during the last 10-15 years first by other Brazilian scholars, and later it also entered the international development discourse.

Iran, or even the non-developmental experiment of my home country, Hungary, can offer useful lessons (for the country case studies see the followings respectively Kutlay, 2020; Rózsa-Szigetvári, 2019; Kornai, 2015). We mainly rely on the first option in this paper, and the second option is only included here in the form of reviewing recent DS literature summing up recent developmentalist experiments³.

We are convinced that the approaches based on theoretical results and practical experiences go into the same direction and combining both might prove to be fertile for the revision of the DS concept. In this paper however we have a much less ambitious objective: synthesizing most recent academic literature on developmental states we aim to present a common analytical structure for developmental states in the twenty-first century and to reveal some areas, where consensus seems to emerge.

Definitional Issues

In newspaper articles, in political statements, but also in academic publications we might often find references to the term *developmental state* without precisely defining, what is meant by this term, or being used implicitly as a synonym or substitute for *active state involvement*.

The classic school of developmental state literature emerged out of the concept formulated by Chalmers Johnson (1982) in his book on Japan, and then applied and extended to other, mainly Northeast-Asian countries⁴. With the words of Meredith Woo-Cumings (1999, p. 1) the developmental state *'is a shorthand for the seamless web of political, bureaucratic and moneyed influences, that structures economic life in capitalist Northeast-Asia'*.

Developmental states have of course existed and flourished in other regions of the world and also before the seminal work of Johnson. In Latin America the development-oriented (developmentalist) approach has long and extensive historical traditions and also the term developmental state appeared before the 1980s⁵, however this interpretation differed substantially from the Northeast-Asian developmental state model. The term developmental state was also often used in the twentieth century for a few European countries (such as Ireland, Finland or even France), for some emerging countries (such as India or China, but even Brazil or South Africa could be mentioned), while most

3 Besides the above-mentioned country case studies the following volumes offer wide-ranging insights into practical experiences (Carrol-Jarvis, 2019; Nem Singh-Ovadia, 2019; Gerócs & Szanyi, 2019; Williams, 2014 and Riez-Gerócs edited volume on *The Post-crisis Developmental States: Perspectives from the Global Periphery* [forthcoming in 2021 by Palgrave Macmillan]).

4 Besides Japan, South-Korea, Taiwan, Hong Kong and Singapore are also mostly labelled as the classic DS. The main characteristics of the extended version of the classic DS model are also valid (with some limitations, of course) for the second generation of the newly industrializing countries in Southeast-Asia (such as Malaysia, Thailand, Philippines, and Indonesia).

5 See Cardoso and Faletto (1979, pp. 143-148) or Soares (1975) cited in Schneider (1999, p. 278).

recently it has a new renaissance to label some quickly-growing African countries as developmental (for example Botswana, Rwanda or Ethiopia)⁶.

In this vein one could agree with Mark Beeson (2007:120) claiming, that “*the developmental state has become a generic term to describe governments which try to ‘intervene’ actively in economic processes and direct the course of development, rather than relying on market forces.*” We could also refer to Laura Routley (2014:159), who argues that “*the concept of a developmental state therefore often works less as a model and more as a ‘buzzword’ with its own uses and effects,*” while Ben Fine (2013, p. 3) also speaks of the “*buzzword character of the DSP*” [developmental state paradigm]. We are convinced that in order to prevent the misuse and even the ‘hollowing out’ of the term developmental state, it is inevitable to re-define or revisit its meaning in the twenty-first century.

We are convinced that the defining characteristics of the classic developmental state definition according to Johnson (1982, p. 23) are still valid.⁷ Thus, the developmental state refers to a *capitalist, plan-rational model*, with a *long term commitment to the developmental-oriented approach*, and *active state interventionism* in order to achieve main socio-economic objectives. It is also tenable that for building or maintaining a developmental state some kind of *social consensus* is needed regarding the *central role of state in development*, as well as *on the content of the main socio-economic objectives*.

The classic developmental state paradigm has been focusing on the special case of the *late-comers to development*, and has put *economic transformation* and *catching up* at top of its priorities, more precisely *maximizing economic growth*. Due to the specific and unique Northeast-Asian context it was achieved in a way, that economic growth served the wellbeing of a wide social base, but this *shared character* of economic growth at least initially was mostly an unintended by-product and less the result of conscious economic policies or political intention (Jomo, 2006; World Bank, 1993). Any developmental state theory in the twenty-first century has to go beyond this old approach focusing on economic growth, and under the concept of widely defined development, the so called human-capabilities approach (Sen, 1999). Whereas besides the economic dimension the new DS models also have to focus on human (inclusive) development (the social dimension), as well as taking into account political and environmental aspects, and the spatial, gender and generational issues of development.

6 Routley (2012:11-12) provides a good overview on a state discussed more recently as developmental.

7 This claim refers merely to the validity of the definition, and not the model itself, which has though enabled the Japanese economic miracle, but at the same time it is also at the roots of the Japanese economic struggles for the last quarter century (Murphy, 2014).

The classic DS concept has analyzed the structural transformation of backward, mainly agrarian economies within the specific context of late-development, thus mainly focused on the process of industrialization. The new economic transformation dating back to the end of the twentieth century has led to a shift towards the knowledge and service sector, as being the main driving forces behind economic growth. The new, bifurcated service sector (Evans, 2014:229) consists of a well-paying business and financial subsector providing employment opportunity for a small minority of service-sector workers, and of a low paid – underestimated and underrewarded – subsector of interpersonal services. This results in basically different distributional and welfare implications, as the industrialization did in the twentieth century. Among the most visible consequences are the increasing social inequalities. Against this background today we have to go beyond the special cases of late-development and industrialization, and analyze the structural transformation of economies at different stages of development in more general terms.

This broader approach also implies, that the geographical focus, that once used to be concentrating on (North-)East-Asia, shall not be interchanged for a new Africa-focus, but the new developmental state concept should be extended also in its geographical relevance to include all emerging and developing countries aiming at pursuing a state-led catching up process (in line with the widening of the developmental focus as described above).

The immaturity of the new developmental state concept can easily be illustrated by the diversity of economic literature and their eclectic views. These often use different labels for the developmental states, emphasizing its catalyst, or enabling role, or describing it as a facilitator. Mariana Mazzucato (2013, p. 21) even goes further in her book on *entrepreneurial states*, deriving from experiences of more developed economies, mainly the United States, and argues, that a so called '*hidden developmental state*'⁸ has played an important and active role in their economic successes. In her argumentation the state (of the United States) has went well beyond Keynesian type macroeconomic interventions, or even the passive financing of research and development (R&D) activities, and has performed entrepreneurial activities in Schumpeterian vein, such as actively overtaking market risks or creating new markets. Regarding these views however we stick to the *special case approach* applied on development economics, namely the need to formulate different policies depending on development stages and levels, as the same policies that might work in an advanced country setting, might not work in less developed economies (see also Cornia, 2020).

Finally, we might conclude that the label *developmental state* is not by all means a favored or precisely defined one in the twenty-first century, we are convinced however,

8 For a longer discussion on the *hidden developmental state* see the original article of Block (2008) or the review article of Szalavetz (2015).

that re-defining the term DS and revisiting the DS concept according to past experiences and future challenges, might offer useful lessons for states with developmental aspirations in the twenty-first century.

New Challenges in the Twenty-first Century

At the latest by the end of the twentieth century changes in the external and internal context of classic, East-Asian developmental states has led to the fall of the classic paradigm of DS (Fine et al., 2013; Williams, 2014; Woo-Cumings, 1999). At the beginning of the twenty-first century all the ‘to-be-developmental states’ face new challenges, that significantly differ from circumstances and conditions given at the time of the emergence of classic developmental states by the mid of the last century. In recent development state literature four challenges are mostly highlighted, that represent a new environment for developmentalist states in the early twenty-first century (Williams, 2014, p. 8–24). After recalling and adapting these four challenges to the most recent changes (the post-crisis and post-Covid period), we add three further aspects which inevitably shape the possibilities of current governments to implement their national development projects.

The first challenge is the *new economic re-structuring*, referring to the shift from manufacturing to the knowledge and service sectors, the so-called bit-driven or new economy based on knowledge and innovation. In this new economy besides the physical capital human capabilities, the spread of information and investments expanding these new factors (like education, health and legal infrastructure) play an ever larger role. The economy is more and more driven by knowledge, innovation as well as by business and financial services, and this in a stark contrast with the twentieth century and the dominance of manufacturing (Williams, 2014, p. 9, 10). In this ‘new economic’ setting beyond physical capital accumulation expanding human capabilities and the spread of information (like investments in education, health and the legal infrastructure) play an ever-larger role. Parallel to these changes, important shift also occurred in the organization of global production. The emergence of global value chains (GVCs) also poses new challenges (constraints but maybe also new opportunities) for governments with developmentalist aspirations (Gereffi, 2014). Even though it is less feasible not to participate, still questions arise on how to access, how to connect local firms to GVCs, and how to “persuade” GVCs to contribute to the national development project, and the answers are not yet trivial. Under the new external and internal circumstances of the twenty-first century there is a need to redefine the roles and tools of the states in the context of “late-late developing” countries (Gerschenkron, 1962; Hirschman, 1968), taking into account the role of GVCs, and also by adding science, technology and innovation (STI) policies to the traditional policy areas.

The second challenge relates to *changes in political context* of the twenty-first century’s developmental states. Changes in domestic politics until the early 2000s

were thought to be moving from authoritarian regimes towards more democratic ones was going hand in hand (it was assumed) with the above mentioned spread of new information and communication technologies (Williams, 2014, pp. 12–13). By now we know that these presumptions proved to be illusionary, and the retreat of democracy (Freedom House, 2018) is the most recent dominant tendency (see also Bermeo, 2016; Kornai, 2016; Kurlantzick, 2016; Rodrik, 2011), which can be seen as a reversal of the democratization waves as foreseen by Huntington (Huntington, 1991). Without doubts, the emergence of a new bit-driven economy has its direct and indirect consequences also for the society and politics. Due to the appreciation of knowledge and human capabilities, a new “enlightenment” might be taking place (with involving many, while also leaving out other parts of the societies and leading to new tensions and inequalities). These tendencies provoke changes in social needs, norms, values and perceptions. The specific context of classic DS was determined by the late-development, the mobilization for war, the external threat of the cold war and economic nationalism (and due to all these factors the societies of the classic DS were willing to undertake some sacrifices – such as accept repressive authoritarian regimes). In contrast today any “to-be-developmental state” must create and build up a new legitimacy base according to the new circumstances of the twenty-first century. Within this new political context community priorities and the developmental agenda has to be set up based on a new alliance between the state and society, including broader parts of the society (such as the labor class, which used to be repressed – or at least co-opted by means of economic growth – in the early DS versions). According to the general expectations relying on the development as freedom approach related changes should imply the move from authoritarian regimes towards more democratic ones. This latter also implies improvements in terms of the embeddedness of the political subsystem into the society, political freedom, participation, the involvement of the civic society and the collective determination of the main priorities of the community (Acemoglu & Robinson, 2019). According to Amartya Sen (1999) a democratic political system based on representative, deliberative political participation is not just a mean for achieving widely defined development but is a goal in itself. However more recent political changes reveal a political-ideological turn globally with the rise and spread of illiberal or autocratic regimes, accompanied by populist, nationalist and patriotic tendencies (Geröcs & Szanyi, 2019; Mihályi & Szelényi, 2020). Recent rise of illiberalism has led to democratic backsliding, materializing in tendencies towards strengthened reliance on autocratic governance style, personalistic rules, attacks on checks and balances of political power and hurting independent agencies and institutions. While some authors tend to name these illiberal regimes as some kind of new developmentalist states (see e.g. Scheiring, 2020; Wilkin, 2016), we do not agree. According to our views the starting point for a new developmental state shall be the capability approach to human development, and the main lesson from the classic DS

experiences shall be the growth-with equity approach and the resulting inclusive development trajectory. Huge debates regarding the possibilities and challenges of the democratic developmental states (see e.g. Edigheji, 2010; Robinson & White, 1998; Tapscott, Halvorsen, & Cruz-Del Rosario, 2018) are not settled yet, but this question constitutes to be a relevant dimension for the current developmental states discussions.

Related, but formulated as the third challenge we highlight epistemic changes in the meaning of development and its interpretation (Williams, 2014, p. 18). The expansion of the meaning of development is undoubtedly moving away from the “economic growth-centered” thinking of the last century, towards the “development as freedom” interpretation, also called human-capabilities approach (Sen, 1999). Thus, the promotion of development cannot be equaled any more with the “technical problematic” of economic growth that merely requires economic knowledge, but a development-oriented approach has to be considered more and more as a political problematic, as social welfare is a function of different non-economic factors (besides of course economic growth), such as social justice, poverty, inequalities or social participation and perception. These changes are however rather representing the changes in development economic thinking and academic debates, than in political rhetoric, which is still skewed towards economic growth obsessions, while at the same time (at least in new populist regimes) tends to shift towards emphasizing the need to secure stability and security (and not necessarily promising material or non-material improvements such as higher income-levels or better living conditions).

The last “traditional” challenge emerging in recent literature is the ecological one: *environmental limits*, including the new challenges posed by the *climate change* and the aspects of environmental justice (Williams, 2014, p. 21). By now it is beyond any doubt, that the resource-intensive development path of the last century based predominantly on fossil-fuels cannot be maintained in the twenty-first century on a global level. This inherently leads to inevitable changes in existing consumption and production patterns and habits, while existing structures and infrastructures also have to be revised and altered. In the light of market failures and externalities the state has to play a central role in the realization of a green development path. At the same time according to Mazzucato’s (2013) argumentation environmental limits also offer the possibility for governments to revise their development strategies, and consider green technology developments as engines for economic growth, employment and innovation on the long run (and to realize an environmentally sustainable development trajectory). The Chinese experiences with green industrial policies might be insightful in this vein (see Szalavetz, forthcoming). In the light of the past experiences of developmental states besides the environmental sustainability greater attention to the spatial dimension of development, and consequently a larger focus on rural areas and the role of agrarian development could be verified.

There are many further urging pressures (either long existing, recently intensifying or newly emerging) that might significantly alter possibilities and the room for maneuver of the twenty-first century's developmental states. In the following we focus on the three most pressing challenges. First, the *financial globalization and the experiences and effects of recent financial and economic crises*. Due to these the centrality of effective resource allocation is becoming a central issue, while the financial viability of nation-based development interventions is deteriorating. In order to understand the logic of development-oriented interventions in the light of financial globalization one has to distinguish between productive (real) and speculative (financial) investments. While in the case of the former it might be a declared and accepted objective to support the generation of employment or the expansion of human capabilities, in the case of the latter state regulation might be needed not least to decrease the financial vulnerability. Fine and Pollen (2016) refer to this challenge as *financialization* ('the extraordinary growth of finance'), and highlight its wide-ranging consequences, such as the influence of finance regarding investments, value judgements, and more broadly extending over economic and social policy, and as a result constraining (or at least transforming and conditioning) the prospects for development, or rather for developmental states to emerge.

As a second issue, we mention *high and rising inequalities* and its consequences both in terms of political consequences (rise of populism and illiberalism) and regarding the increased pressures towards active social policies in the short term, while on the longer term posing potential burdens on the economic growth potential. There is emerging consensus that currently real or perceived economic inequality in several countries approaches or surpasses the highest levels of inequality ever recorded (See e.g. Mihályi & Szelényi, 2019; Milanovic, 2012; Piketty, 2014). Even though there are also some success stories from countries that managed to decrease inequalities recently – even if in some cases only temporarily, such as in major Latin American countries (Cornia, 2014; Lavinas, 2017; López-Calva & Lustig, 2010) – however these trends seem to be halted, and inequalities still remained at steadily high levels. High and/or increasing (real or perceived) levels of inequalities pose pressing challenges on governments with developmental aspirations, as social pressure towards redistribution increases and social expenditures compete for scarce state revenues (also needed to finance developmentalist interventions). Current governments have to take into consideration, on the one hand, the effects of growing inequalities both on economic performance and on political legitimacy, while on the other hand also how increasing inequalities and social tensions may affect government power and revenues (the ability to collect taxes).

Last but not least we cannot leave out the most recent effects of the *COVID-19 pandemic*, the global spread of the coronavirus and its severe social and economic consequences. Throughout the world (though to very different extent – see the International

Monetary Fund's COVID policy tracker⁹) governments have enacted heavy lockdown strategies to slowdown the spread of the virus and introduced stimulus packages to minimize the economic consequences. The role of the state has increased dramatically ranging from controlling social life to helping out some specific (strategic) sectors and providing social assistance to the most vulnerable groups. Though we consider this return of the interventionist state mostly as crisis-driven and anticyclical, it is yet too early to draw any conclusions regarding their longer-term impacts. However, it is almost commonplace to claim, that every crisis offers an opportunity, and the COVID-19 might have a longer lasting impact on the spreading use of IT-based solutions, resulting in the wider spread of distance working, learning (and to some extent even in medical or other services). All these changes might change the social and political setup (while the composition of winners and losers both in terms of social strata and economic sectors might differ from country to country), leading also to changes in the social and developmental agendas of states with developmentalist aspirations.

Finally, we sum up by arguing that in the eve of the third decade of the 21st century, we are confronted with an ever-changing global context providing new circumstances for statist experiments. Even in the post-2000 period substantial changes have taken place, which would require to differentiate between the period before and after the GFC, or probably to tackle the post 2014/16 (or even post-COVID) period separately.

To provide one example, as long as the “new normal” in the world economy in the early 2000s (the so called short Golden decade) has meant relatively high economic growth rates in emerging economies mainly driven by the commodity boom (the rising demand for and increasing prices of primary products), which boosted export performance and incoming FDI. In the more recent 5-6 years in contrast the „post-new normal” has meant sharply declining commodity prices – stabilizing at relatively low levels –, accompanied by the slowdown of the Chinese economy and one of the lowest interest rates ever recorded. All these represent a totally new external context for all actors in the world economy, including the less developed and emerging economies.

A New Analytical Structure for Developmental States in the Twenty-first Century

In economic historical scale we can date the most recent generation in developmental state experiments back to the Millennium, however following the global financial crisis in 2008-9 we can observe a so-called renaissance of the developmental state literature. The most recent works on DS tend to build on the intellectual traditions of the classic DS literature, however also deviate from it in several ways (such as in its geographical focus, or in combining the institutional and economic policy approach). It is out of the scope of this paper to provide an exhausting analysis of the recent DS literature (for this see Fine et al., 2013; Haggard, 2019; Routley, 2014; Wade, 2014;

9 <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19>

Williams 2014), instead based upon the recent works, we aim to draw up a new analytical framework, that can structure the thinking on developmental states and related academic debates in the twenty-first century. For identifying main levels of this new structure we rely on the *development regime (DR) theory* elaborated originally by Pempel (1998; 1999), and then applied by Wylde (2012) on Latin America, and in a somewhat modified version by Booth (2015a; 2015b) on current African developmental experiments. The new developmental regime approach can be structured around three levels as indicated in the following table.

Table 1
Analytical Levels of the New Developmental Regime Concept

Pempel [1998; 1999]	Booth [2015a; 2015b]
1. socio-economic alliances	1. political settlements
2. political, economic institutions	2. process of policy making
3. profile of public policies	3. content of relevant public policies

Source. Own construction based on Pempel (1998; 1999) and Booth (2015a; 2015b)

At the highest level of analysis lie the *socio-economic alliances* that represent the main legitimacy base for any developmental regime, and emerge as a result of the interactions between the main state institutions, the society and economic sectors. Socio-economic alliances are most often structured around some main commonly agreed basic principles (such as the development-oriented approach and the consensus regarding the central role of state in development), that also influence the public policy profile and vice versa. At the same time a DR can also be based on a narrowly or more widely defined legitimacy base, such as the voting power of the working class, or the power of the police, or the confidence of the capitalist class, or any different combination of these (Pempel, 1999, p. 156).

Booth (2015a, p. 33) speaks of *political settlements* (or often also referred to as elite bargain or consensus), a tacit agreement among the most powerful members of the society, the so-called national elites, often having competing interests. Political settlements are influenced beside formal institutions by non-institutional factors, such as the distribution of political power among main groups of the national elite, and the informal procedures of their conflict-resolution, negotiations and compromise-searching and building. The original interpretation of political settlements is however even wider, and goes back to Khan (1995; 2010), who has analyzed the distribution and balance of power between social groups and classes, so the original concept went beyond the competition between the elite groups, and took into consideration also the bargaining process between the elite and non-elite parts of the society, as well as the within groups' rivalry.

The next level of the analytical structure consists of the *political and economic institutions* that are – according to the new institutional school and Douglass North (1991) – those formal and informal rules originating from the society and influencing

the interactions of the society and politics (Pempel, 1998, p. 30). Booth (2015a) in contrast highlights the *quality of the policy-making process*, as he argues that formal and informal rules have not to be regarded in their own, but looking at their results and the “hows” of the policy-making process. According to Booth (2015b) those political processes have to be analyzed, that lead to the focusing on urging problems and the resulting policy choices. The institutionalization of development-oriented policies is of key significance for a developmental regime to survive on the medium term (and thus overarching political cycles).

On the third level of the tripod structure is the *content* (development bias) of relevant *economic policies* that by definitions have to provide certain benefits for the supporters of the regime. The development-oriented approach appears in the emphasis and bias of public policies, and also in their interrelations. At the same time the resulting economic policy mix sustains, strengthens or shapes dominant socio-economic power relations as well as the complexity of political and economic institutions (Pempel, 1998, p. 21).

The presented three levels of the analytical structure of new DS are strongly interrelated and their institutionalization is not only vital for the continuity of the regime, but also because this embodies the development-oriented approach in their every-day interactions. We also argue that the new developmentalist approach can be paralleled with the argumentation of the new political economic and institutional analysis, claiming that the main driving force behind long term socio-economic development is the mutually complementary system of appropriate formal and informal institutions and supporting policies. The widely defined formal and informal institutions, social order and habits shape (formal or tacit) political agreements that determine the possibilities of countries, shape the quality of the policy-making process, and contribute to the resulting public policy mix.

Finally, the term developmental *regime* is here used to explicitly distinguish today’s development-oriented approach on the one hand from that of the classic developmental states with a very long-term time horizon (which were evaluated and labelled as DS *ex post*, in the perspective of 20-30, not rarely 50 years). On the other hand, the term developmental regime is also verified with the current aim to go beyond the very short-term perspective of strong (charismatic or hard-handed) leaders, development-oriented governments not overarching political cycles. Thus, the developmental regime theory aims to serve as a concept applicable on the medium term, in a time perspective of 5-15 years. In our paper however we will use the terms developmental *state* and developmental *regime* interchangeably, and always note whether we refer to the classic paradigm of DS or the new approach of DR.

Towards a New Developmental State Concept

Main elements of the new DS concept of the twenty-first century are mostly compared to the classic DS paradigm that serves as base of reference to reveal most important continuities and changes while drawing up the main cornerstones of the new DS concept. The starting point remains the new paradigm in development economics, the development as freedom approach and the most recent structural change of the economy (the knowledge economy gaining weight) resulting that expanding human choices and capabilities becomes primary goal and mean of development.

Accordingly, new developmental states have to prioritize socially (sustainable) equitable and inclusive development. Successful “to-be-developmental states” have to dispose of a well formulated and articulated developmental vision that according to Mazzucato (2013) goes beyond the commitment to development-oriented approach and consists of given (potentially even sectoral) priorities. This developmental agenda is however in an ideal case determined with the inclusion and consensus of diverse social and economic actors (interest groups), so as to enable social support and mobilization for its implementation.

Political Settlements and Socio-economic Alliances

In Khan’s (2010) interpretation the main characteristic of development-oriented political settlements is that it decreases the political pressure on the acting governments to patronize certain interest groups and to apply a short-term view (for a more detailed theoretical explanation see Booth [2015b, p. 34], for recent tendencies of economic patriotism see Mihályi and Szanyi [2019]). One of the main specificities of developmental states is thus, that by building up balanced socio-economic alliances, these can lessen the role and share of discretionally distributed rents for buying the support, loyalty of certain elite or interest groups and at the same time make it possible for governments to apply a long-term development-oriented approach and implement their long term developmental vision.¹⁰

Pempel (1999, p. 158) argues that all (post-)modern developmental regimes have to consist of the following key characteristics if it wishes to actively and successfully promote economic and social development: 1. it has to support the creation of a socio-economic coalition that is stronger (in terms of disposing or owning more politically relevant resources) than any other coalition of the opposition; 2. it has to be able to set main priorities in politics and thus put forward a national development agenda; 3. it has to be able to articulate a legitimate ideology that implicitly presents the interest

¹⁰ With Olson’s words (1993; 2000) this means that political settlements and alliances are needed in a way that supports the transformation from roving bandits focusing on short term profit maximizing towards stationary bandits taking into account longer term aspects. In the classic DS literature Evans (1989) emphasized the institutionalized relations to the economic elite and the meritocratic bureaucracy, as these are central to prevent the state from becoming predatory.

of its supporters as the nation's common interest;4. it must be able to reward its supporters with sufficient benefits, in order to secure the sustainability of their support and thus of the regime itself.

Mazzucato (2013) even goes further when she argues that only a developmental (entrepreneurial) state having a clear and well-determined (and well-articulated) developmental vision, can be an equal partner to the private sector, and thus only such a self-confident state can avoid being captured by certain interest groups. While Mazzucato writes about more advanced countries, it is still an open question how this applies to the peripheral countries, where state capabilities and capacities are limited (Weiss & Thurbon, 2020).

In the new DS approach the main difference compared to the classic paradigm lies in the inclusion of wider sectors of the society (such as new relations with the labor class, that used to be repressed by the old DS). It explicitly aims to build new networks of state and society that are based on social participation, deliberation and consensus and at the same time cover wide parts of the society (a so called new – inclusive – social contract). Wylde (2012, p. 81) highlights that this new DR approach differs significantly from the classic DS theories, as these latter ones were mainly focusing on the relations between the state and the industrial capitalist class (see for example Evans' (1995) embedded autonomy theory). For building up a new legitimacy base for the twenty-first century's developmental regimes much wider segments of the society must be included. This means a much more complicated task for the new development-oriented governments (compared to their old parties), however most groups of the society share the common interest of expanding human choices and capabilities, the only task is to raise the public awareness on these issues and build up support for related investment decisions (Evans, 2014, p. 234).

The Process of Policy Making

In most recent developmental state literature consensus seems to emerge that the only lesson to draw from successful development-oriented experiments regarding the process of policy making is the primacy of *pragmatic, problem-driven and iterative approach*.

By pragmatism we mean here, that successful East-Asian countries did not aim to implement any grand(iose) plan, but political leaders and technocrats of the bureaucracy searched for the best adequate answers for most pressing problems, while relying on the trial and error principle and going through a learning-by-doing process (Amsden, 1989; Doner, Ritchie, & Schneider, 2005; Johnson, 1982; Wade, 1990).

Building on experiences of developing and emerging countries Andrews et al. (2013) highlight this problem-driven and iterative learning process as the key factor lying behind their good policy choices and adequate institutional architecture. In this vein they emphasize that the common characteristic regarding the process of policy making for “to-be-developmental states” is the problem-driven iterative adaptation (PDIA) process. Thus, in the area of policy making the one-size-fits-all approach is not applicable, and while learning from other’s development successes and failures, one has to search for own solutions in the light of the given (and perceived) pressing problems and unique context.

Similar consequences are formulated by Fosu (2013b, p. 7) building on the experiences of 18 developing countries, when he and his co-authors argue that both orthodox and heterodox policies might be successful depending on the specific circumstances. Accordingly, the main difference between successful and less successful countries can be drawn back to the application of pragmatic approach to economic reforms, the nature of reforms and the capability of countries to take advantage of market forces. At the same time there lies a main difference while choosing between orthodox or heterodox policies, the latter one namely builds on a much broader set of active state interventions, and thus requires a much more capable government with a much higher quality public bureaucracy (see for example the classic cases of East-Asian developmental states).

In the capability approach to development the only way to determine social and economic development objectives is the democratic reconciliation process. As among the human capabilities one of the most important is the capability to making choices, the process of participation is not only a “mean”, but also an “end” of development in itself (Sen, 1999, p. 291). At the same time according to the argumentation of Rodrik (2000, p. 19) participatory political institutions have to be regarded as intermediary institutions that help to elicit and aggregate local knowledge and thus result in an institutional learning process through which it might become more effective to build and operate better institutions of other types as well (see also Evans, 2014, p. 234).

Development-oriented Bias of Public Policies

Even though development strategies are environment-specific, and are valid within time and space constraints, thus as a rule these cannot be emulated (without adaptation) under different circumstances, still we argue in line with Fosu (2013a; 2013b) that on the level of economic policies there are sufficient commonalities across countries that are successful in one or other dimension of development regarding some components of success to articulate some guiding principles for other, less successful, countries that share some similar characteristics. Looking also at a wider range of the academic literature (related to development economics or the middle-income trap, see Doner-

Schneider, 2016) there seems to emerge a certain package of economic policies that can be considered as a general compass if applied flexible enough, adapted to the local conditions and circumstances.

Social Policies and Upgrading Human Capabilities

Both the capability approach to development and the most recent restructuring of the economy result in the appreciation of the *role of human capabilities*, as these become the main driving forces behind development in the twenty-first century. Accordingly, investments in upgrading human resources and investments in legal (and physical) infrastructure providing access to information and knowledge gain central importance in development policies and strategies.

Investments in expanding human capabilities tend to remain below the socially optimal level due to the market logic (due to the difference between social and private returns, higher risk and longer return period). With Evans' (2014, p. 230) words: *Public investment is the only plausible route to optimal levels of investment in human capabilities*. Thus we cite his argumentation as one of the most important *raison d'être* of the *twenty-first century's developmental state*.

The provision of services aiming at expanding human capabilities (such as education and health) are traditionally considered as central tasks of any (not development-oriented) state, according to the new approach however the effective delivery of capability-expanding services and investments has to be carried out aggressively (by strong public institutions), and shall be placed at the top of the growth (development) strategy (Evans, 2014; Mazzucato, 2013), while the public awareness on its immediate distributional and welfare effects has to be raised significantly (Evans, 2014, p. 231).

Socially the only sustainable development path in the twenty-first century is the accomplishment of an equitable, inclusive and long-term development agenda, not least to effectively mobilize the majority of the society in favor of the development objectives and to build up a legitimacy base for the development-oriented approach. At the same time according to the wide definition of social policies and the productive inclusion approach (or as Mkandawire [2007]) calls it the transformative social policies) special emphasis should be based on economic incentives that facilitate the poor households to leave the self-sufficiency sector and to be able to productively get involved in the market-based economic sector.¹¹

11 See for example the works of Banerjee and Duflo (2011) on the economic lives of the poor or the most recent magnum opus of Ravallion (2016) with the title the economics of poverty. While the new development economics textbook written by Cornia (2020) presents also this new approach to pro-poor and pro-growth strategies.

Infrastructural Investments and Industrial Policies

In the case of developing countries besides the need for human capital development, other infrastructural bottlenecks also often pose important constraints to development. At the same time private actors can often capture the returns of public investment, and the best example for this is exactly the case of the relatively mobile human capital.¹² To avoid this risk a solution might be to improve the complementary business environment (via increased public investments) which in turn might increase the derived demand for human capital. According to this logic Fosu (2013b) sheds light on the importance of the balance between human and other, more traditional (such as physical, economic and legal) infrastructural investments in order to improve business environment and thus to provide incentives for the better equipped to stay. An appropriate balance¹³ of different (human, economic, institutional and physical) infrastructural investments might not just decrease the exit-incentives for human capital, but often also acts as magnet to attract or maintain foreign direct investment (FDI), and in an ideal case might lead to the diversification of economic activities and technological development.

In the case of the twentieth century developmental states (at least in their classic interpretation) industrial policy played a central role. In the most recent developmentalist approach industrial policy has come back to the development agenda, however in the light of the reviewed literature¹⁴ it is easy to see that this renaissance of industrial policy goes hand in hand with the emergence of a wider defined science, technological and innovation (STI) policy. At the same time, it is worth to note that in most cases the classic DS have not only financed investments of location and equipment (physical infrastructure), but they also facilitated the access of local companies to information, knowledge and technologies, and the creation of networks, while also encouraged the companies to move towards economic activities that create new knowledge (thus to gradually move up the value chain).¹⁵

Regarding their industrial structure developing countries in today's technology induced global economy cannot flourish without a knowledge-based development strategy, though certainly different focal points are needed in the case of a predominantly

12 To illustrate this one only has to refer to the classic work of Hirschman (1970) on the "exit options" of human capital.

13 See for example Kimura's (2013) new interpretation of the Japanese development success. He argues that though social infrastructural expenditures did play an important role, their share remained below 30% of the total infrastructural expenditure, and economic infrastructural investments played comparatively a larger role.

14 See eg. Fine et al. (2013), Mazzucato (2013), Szalavetz (2015), Wade (2014) and the special issue on the Re-birth of Industrial Policies in the Journal of Industry, Competition and Trade edited by Aiginger and Rodrik (2020).

15 Evans (2014, p. 232) mentions China as a typical example where the state resisted to overprotect the monopolized ideas of the (mainly northern and more developed) corporations and thus "supported" the access to productive ideas of its citizens and companies.

agrarian backward economy, as in the case of an industrialized middle-income country. An important consequence of the new technologies and the most recent economic structural change is that today certain stages of industrial modernization can be leapfrogged.¹⁶ At the same time according to Wade (2014, p. 781) price changes on the market facilitate gradual, step-by-step development, and thus these might impede in the case of innovations and economic diversification larger changes. To make these changes possible active state interventions are needed, and this is the second argument in favour of the *raison d'être of the twenty-first century's developmental state*.

This “old-new”¹⁷ industrial policy role of governments is still subject to heavy academic debates in economics. Authors of the modern DS literature mostly argue for a pro-active, entrepreneurial state and mostly oppose the conventional mainstream view, which has a much more sector-neutral stand, and stands for the improvement of the general business environment and institutional infrastructure to attract productive private capital and to decrease the risk of out-migration of the (state-financed) human capital. In contrast to these mainstream views the “industrialists” argue that in the times of knowledge economy the state has to undertake active industrial policy interventions to promote job creation and risky innovative activities that are not performed by the private sector (Aiginger & Rodrik, 2020; Mazzucato, 2013; Wade, 2014). In their logic the state has to go beyond the (long term, committed “patient”) financing of basic and applied research (activities that are even admitted and highlighted by mainstream economists).

Financing Development

Financing development used to be a neuralgic point in classic developmental state literature. As long as in the case of the classic Northeast-Asian DS a very specific and unique context (financial development aid from the US and Japan, traditionally high domestic saving rates, relatively closed economic systems, and repressed domestic financial markets) contributed to the financial viability of a national development model, the financial difficulties (not least signaled by the debt crisis of the 1980s) of the developmentalist experiments of the Latin American counterparts in the last century provide the antithesis.

Taking into account the current stage of *financial globalization* and most recent experiences of global financial (and economic) crises, we can state the DS in the twenty-first century has a much narrower room for maneuver to finance their (much broader) economic growth (development) agenda, as did their classic antecedents in

16 Thus, in this regard the classic stages approach of Balassa (1981) is outdated.

17 Mazzucato (2013, p. 21) argues that these are not new industrial policy interventions, but have happened already back in time, and describes how the state of the US has played a central role in developing new technologies, supporting new industries, but did this in a *hidden* way. Similarly, Szalavetz (2015) writes, that industrial policies after the 2008-9 crisis are not new, but old industrial policy practices have been revived.

the middle of the last century. In our financially globalized world economy securing macroeconomic stability becomes central, as a solid macroeconomic position might build up good business confidence and thus encourage investors and attract FDI. Though in the short run and only temporarily today's developing countries also might rely on external sources (besides FDI, foreign aid and credit) during the implementation of their development strategies, on the longer run a more balanced development budget is needed, and the role of domestic resources cannot be overrated. Incentives for domestic savings, rationalization of government expenditures, the system of national taxes as well as the government's abilities to collect those taxes become central issues to development.

Outward Orientation

By the twenty-first century it became clearly evident that *outward oriented development strategies* are superior to any other nationalistic and delinking economic strategies. Experiences of the classic (Northeast-Asian) developmental states have also proved the benefits of an outward-oriented development strategy for long term economic growth and development. In the classic cases export-orientation has implicitly presumed that bureaucratic guidelines have been in line with the international market forces (Amsden, 1989; Johnson, 1982; Wade, 1990). Thus, taking into account and relying on international market incentives was at the heart of the classic DS model.

In the twenty-first century however, we have to go beyond the articulation of the outward oriented economic strategy and in order to achieve export-driven economic growth the role of domestic institutions, and their upgrading is inevitable. With Fosu's (2013a, p. 11) words outward orientation has to go hand in hand with increasing competition in the domestic market and with *building domestic institutional capabilities* (improving macroeconomic stability and strengthening institutional and human infrastructures). In light of the most recent global financial and economic crises economic diversification (not only in terms of export products but also in export markets) is not only crucial for long term economic growth, but plays an important role for securing economic stability (or with other words for decreasing economic vulnerability). Outward orientation (and economic diversification) plays a complementary role to (and does not substitute for) the development of the domestic market. Most recent experiences of successful large emerging markets (such as China) underline the need for this complementary approach, while some less successful cases (such as Brazil) provide a cautionary tale.

Public Sector Reform

Social changes of the twentieth century, globalization and the following changes in domestic politics have led to the appreciation of the role of the *capabilities and*

capacities of political institutions to effectively define developmental goals. This not only presumes a new type, bottom up relationship between the state and society, but also highlights the role of spreading, collecting, and processing information, and also appreciates the capabilities and capacities of the *public sector* to fulfil with these new tasks (Evans, 2014, p. 222). The meritocratic, well-educated, competent, well-paid and from political power relatively insulated (but still embedded) bureaucracy was a central element of the classic paradigm of DS. In the new DS approach however not only technocratic qualities are needed, but also other, more political qualities are inevitable on the one hand to collect, screen and process information in the knowledge economy and society, and on the other hand also to define collective objectives on a participatory and consultative manner and to reorganize the relations with the business and civil sector.

At the same time Carroll and Jarvis (2017) plausibly argue, that in the current economic dynamics paved by the globalized world economy and late capitalist production gains for certain interest groups (such as the most competitive fractions of domestic and transnational capital) by far outweigh the rewards for less fortunate actors (the less competitive fractions of capital and labor), and this poses important challenges regarding the classic (idealized) relations of state and capital as known from the classic developmental state models – called embedded autonomy by Evans (1995). The above-mentioned authors thus call for disembedding the autonomy of public bureaucracies (and in wider terms developmental institutions) to reconfigure and reconstitute developmental states in the twenty-first century (see also Chu, 2019).

Finally, we wish to emphasize once again, that all these mentioned elements have to be regarded as a complex, as a policy mix, and just by picking one or the other will not lead to an appropriate result. To be clear we can state for example regarding the last mentioned factor, capable and coherent bureaucracy is necessary but not sufficient for building successful developmental states in the twenty-first century. In this vein we sum up by arguing that a special economic policy mix can be outlined for constructing a new developmentalist agenda in the twenty-first century, and this at least contains investments into the expansion of human capabilities, the widely defined transformative social policies (incl. investments into education and health services and labor market reforms), and public sector reforms as well as stable macroeconomic management and industrial (including STI) policies, but also extends to trade and tax issues.

Concluding Remarks

The paper has proposed a new analytical structure to investigate new developmental state experiments of the twenty-first century. While accepting that economic policies are at the heart of any developmentalist project (as these basically determine the

relations of state and society, state and the market, and last but not least the relation of the state with the rest of the world), we have also highlighted that economic policies come to work through the given economic and political institutions, which are in turn determined by the political power structure and the resulting political settlements and socio-economic alliances. Accordingly, developmental states in the twenty-first century should be analyzed in a tripod structure, as this comprehensive approach might contribute to the extension of the relevance of the new DS concept (both regarding its content, timing and geographical scope).

To sum up, we highlight the main characteristics of the new DS approach compared to the classic paradigm along the above explained dichotomies¹⁸, and argue in line with Pempel (1999) and Wylde (2012) that there is a need to go beyond the tripod alliance of national governments, the domestic and the international capital, that has characterized the analysis of classic developmental states.

Regarding the *state and the market dichotomy*, the developmentalist approach assuming the active and positive role of the state in development represents the main continuity between the old and new DS approach. This is manifested for example in the significance of macroeconomic stability and stable investment environment, the market- and competition-friendly approach, as well as the more contentious issue of active (and selective) industrial policies. One of the main historical lesson of classic developmental state experiences is, that the power of the state to discipline big businesses was strong (at least initially), and in exchange for generous state support, international competitiveness was expected as “each regime has operated with an eye toward world market” (Pempel 1999, p. 173). Thus, state interventions have reinforced market principles, at least in their international dimensions.

The relation between the *state and society* has been undoubtedly and fundamentally changed: while the old, classic DS have achieved their economic success along the repression and political exclusion of wide segments (the majority) of their societies, in the case of twenty-first century’s DS the state-society relations should be based on more equitable, inclusive and participatory processes. The new approach builds upon the inclusion of the needs and interests of diverse social groups into domestic politics and prefers policy responsiveness and a balanced approach to these very diverse social needs. The formation of new socio-economic alliances is however shaped by the political institutional architecture, the distribution of political power and the bargain mechanisms. These differ however not only from the classic solutions of the old DS of the last century, but most recent developmentalist experiments show also wide-ranging possibilities and diverse patterns (Kurlantzick, 2016).

18 Such as relations between the state and the society; the state and the market; the state and the rest of the world.

Last but not least regarding the relations between the *state and the rest of the world* in the era of advanced economic (and financial) globalization, outward orientation (export diversification both in products and markets) has to be placed on a new footing (reforms of domestic institutions), and the effectiveness of resource allocation has to occupy a central place in any development-oriented model. As long as in the golden age of DS during the mid of the last century nationalistic and nation-based development strategies were viable and most successful East-Asian developmental states were connected to the world economy mainly through the trade of goods (and their export-oriented economic strategies), today outward oriented strategies are much more complex. Taking into account international processes and changes in the twenty-first century is inevitable as these shapes those (changing) development opportunities and constraints that determine the political (and economic) room for maneuver for modern states with developmentalist aspirations.

We have presented that the new DS approach reflecting the new challenges of the twenty-first century should be fundamentally a *market-friendly approach*¹⁹, in which however the state has an active (but compared to the classic theories) re-defined and revisited role in promoting widely defined development. At the same time ‘to-be-developmental states’ have to build upon the developmental experiences (of both the more and less advanced countries) of the last century (Fosu, 2013a, 2013b), while going beyond their late development context. One has to break away with the geographical focus on East Asia (Booth, 2015a, 2015b), but at the same time to remain relevant for the special cases of the catching up economies of the global South. In short for a new DS approach both the territorial and the thematic focus of the original DS paradigm has to be widened.

While presenting some elements of the new DS approach we have argued that on the one hand on the levels of public policies and the policy-making process some kind of convergence can be captured looking at the developments successes (at least regarding some components or dimensions of development) in the past or currently. On the other hand on the level of political (and economic) institutional settings diversity prevails and seems to flourish even in the twenty-first century.

The presented new DS approach is however much less a practical reality, and much more an opportunity, too often overlooked or misinterpreted by current governments. This new approach to state-led developmentalism not only presumes technical capacities and proficiency (as was the case by the old DS), but also presumes the methods to define normative and political objectives, and thus the proactive promotion of development in the twenty-first century becomes more than a ‘simple’ technical problem of economic growth, it becomes a *central issue in domestic politics*.

19 We can also call it “developmental capitalism” with the words of Bresser Pereira (2016).

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