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DEVELOPMENTAL STATES IN EAST ASIA: A COMPARISON OF THE JAPANESE AND CHINESE EXPERIENCES*

Mark Beeson

In the aftermath of the East Asian crisis and Japan's prolonged economic downturn, many observers considered that East Asia's distinctive model of state-led development had become redundant and irrelevant. And yet not only have aspects of this model persisted in Japan despite attempts to reform it, but China is actively embracing elements of neo-mercantilism and state interventionism that owe much to the Japanese exemplar. Even more strikingly, China's success and the influence of the "Beijing consensus" are encouraging other countries to follow suit. This article explores the trajectory of East Asian forms of developmentalism and suggests that reports of their death may prove premature.

Key words: Economic development in Asia, East Asian politics, China, Japan

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Introduction

The economies of East Asia have attracted the attention of scholars and policy makers for decades. Rightly so, although some observers may have become blasé about, if not bored with, the story of the “Asian miracle.” The rise of Japan and more recently China remain remarkable, unparalleled—largely optimism-inducing events of enormous long-run, geopolitical significance. But it is not just the fact of Japan’s and China’s unprecedented economic expansion that has been noteworthy, it is also the manner in which it has been achieved. What has really set the most successful East Asian economies apart, and what has given them a wider significance in debates about economic development and public policy, has been the role of government. The “developmental state” pioneered by Japan, which was emulated with varying degrees of faithfulness and efficacy elsewhere in the region, became synonymous with East Asia’s rapid economic expansion and emblematic of the region’s distinctive approach to economic management.¹

The precise impact of the developmental state in actually accelerating economic growth or in “deepening” the extent of subsequent industrialization in either Japan or elsewhere remains uncertain, contentious, and indicative of our imperfect understanding of such processes.² However, even among those observers who are prepared to acknowledge that a powerful state apparatus may have played an important role in overseeing and directing the course of Japan’s post-war economic renaissance, there is a widely held view that in an era of growing cross-border economic

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1. Alice H. Amsden, *The Rise of “The Rest”: Challenges to the West from Late-Industrializing Economies* (Oxford: Oxford University Press, 2001). It should be noted that there is also an extensive literature that considers the developmental experiences of South Korea, Taiwan, Singapore, and even Southeast Asia, but this lies beyond the scope of this article. For an overview, see Mark Beeson, *Regionalism, Globalization and East Asia: Politics, Security and Economic Development* (Basingstoke: Palgrave, 2007).
 2. Charles Kenny and David Williams, “What Do We Know About Economic Growth? Or, Why Don’t We Know Very Much?” *World Development*, vol. 29, No. 1 (2001), pp. 1-22.

integration, such a role for the state is anachronistic at best, inimical to further development at worst.³ Japan's comparatively anemic economic performance throughout the 1990s and into the new century seemed to confirm the wisdom of such views: Not only was Japan performing badly—especially when measured by its own lofty former standards—but it seemed that Japanese policy makers were incapable of coming up with ways to address the malaise. Worse still, the entire Japanese political and bureaucratic system seemed to be contributing to the problem and came in for extensive criticism as a consequence.⁴

In such circumstances, some observers think it unlikely that the developmental state might persist in Japan, let alone still be emulated elsewhere.⁵ And yet that is precisely what seems to have happened: Not only does the legacy of Japan's "interventionist" state live on and continue—for better or worse—to shape public policy in that country,⁶ but others have sought to replicate aspects of the "Japanese model" elsewhere.⁷ By far the most important of these potential acolytes is China, which has attempted to reproduce some elements of the Japanese exemplar to accelerate and manage its own remarkable rise.⁸ China conse-

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3. Richard Katz, *Japan: The System That Soured* (Armonk, N.Y.: M. E. Sharpe, 1998); Edward J. Lincoln, *Arthritic Japan: The Slow Pace of Economic Reform in Japan* (Washington, D.C.: Brookings Institute Press, 2001).
 4. T. J. Pempel, *Regime Shift: Comparative Dynamics of the Japanese Political Economy* (Ithaca, N.Y.: Cornell University Press, 1999).
 5. Andrew MacIntyre and Barry Naughton, "The Decline of a Japan-Led Model of East Asian Economy," in T. J. Pempel, ed., *Remapping East Asia: The Construction of a Region* (Ithaca, N.Y.: Cornell University Press, 2005).
 6. Mark Beeson, "Japan's Reluctant Reformers and the Legacy of the Developmental State," in Anthony Cheung and Ian Scott, eds., *Governance and Public Sector Reform in Post-Crisis Asia: Paradigm Shift or Business as Usual?* (London: Curzon Press, 2003); Steven K. Vogel, *Japan Remodeled: How Government and Industry Are Reforming Japanese Capitalism* (Ithaca, N.Y.: Cornell University Press, 2006).
 7. Edith Terry, *How Asia Got Rich: Japan, China, and the Asian Miracle* (Armonk, N.Y.: M. E. Sharpe, 2002).
 8. Seung-Wook Baek, "Does China Follow 'the East Asian Development Model'?" *Journal of Contemporary Asia*, vol. 35, No. 4 (2005), pp. 485-98; David Kerr, "Has China Abandoned Self-Reliance?" *Review of International Political Economy*, vol. 14, No. 1 (2007), pp. 77-104.

quently presents an important case study of the durability and continuing attractiveness of something approximating a developmental state in the contemporary era, especially when the neoliberal, Anglo-American alternative looks so discredited, and when some are suggesting that East Asian forms of capitalism look increasingly attractive.⁹

Given the significance of Japan and China as developmental exemplars and as pivotal economic, political, and strategic actors in East Asia and the wider international system, it is surprising how few attempts have been made to compare their respective historical experiences.¹⁰ Doing so, however, provides important insights into the dynamics of development in East Asia and the importance of specific historical conditions. The principal conclusion that emerges from what follows is that while contingent international strategic and economic conditions may structurally constrain policy choices and developmental paths, agency matters and political elites may retain a surprising degree of autonomy if they care to try and exercise it.

In short, there are complex dialectical processes at work in East Asia that will continue to shape political and economic structures in the region, and ensure not only that it will continue to look noticeably different from Anglo-American forms of capitalism, but that something approximating the developmental state is likely to remain part of it. The first part of the discussion provides a brief conceptual introduction to the developmental state and the persistence of difference in East Asia. I suggest that whatever we may think about the utility or feasibility of developmental states in the current era, they are likely to persist as a consequence of path dependency, institutional “stickiness,” and the interlocking patterns of political and economic power that are such a ubiquitous and distinctive part of development in East Asia.¹¹

9. Elliott Larry, “Asian Model Should Have More Fans,” *The Guardian* (London), September 8, 2008.

10. For a rare exception, see Saadia M. Pekkanen and Kellee S. Tsai, eds., *Japan and China in the World Political Economy* (London: Routledge, 2005).

11. Mark Beeson, “The More Things Change...? Path Dependency and Convergence in East Asia,” in Beeson, ed., *Reconfiguring East Asia: Regional*

Conceptualizing Developmental States

State Capacity

The developmental state became a widely used and understood concept as a consequence of Chalmers Johnson's seminal analysis of Japan's post-war economic reconstruction.¹² In Johnson's original formulation the developmental state had a number of features—principal among which were competent state agencies and carefully calibrated industrial policies—that allowed it to play a decisive role in directing the course of Japan's economic resurrection. The key quality that made the state in Japan developmental was that it planned the development process rather than relied on market forces to determine the optimal allocation of resources. Unlike “market rational” states, which were concerned with simply establishing the rules of the economic game, the “plan rational” state sought to formulate and pursue “substantive social and economic goals.” In Japan's case, as I explain in more detail below, there is no doubt that such goals were often achieved, thanks to a combination of domestic capacity and favorable external circumstances.¹³ The unprecedented success of Japan's post-war developmental project gave it—for a while, at least—a talismanic status for other would-be developers, and a special place in debates about and analysis of the rapidly expanding field of comparative political economy.

The nature of contingent circumstances determines both the quality and impact of national public policy. Differing “state capacities” are at the core of idealized depictions of the developmental state. Because Japan appears to be losing them and China

Institutions and Organisations After the Crisis (London: RoutledgeCurzon Press, 2002), pp. 246-56; Edward T. Gomez, *Political Business in East Asia* (London: Routledge, 2002); Joe Studwell, *Asian Godfathers: Money and Power in Hong Kong and Southeast Asia* (New York: Atlantic Monthly Press, 2007).

12. Chalmers Johnson, *MITI and the Japanese Miracle: The Growth of Industry Policy 1925-1975* (Stanford, Calif.: Stanford University Press, 1982).

13. William K. Tabb, *The Postwar Japanese System: Cultural Economy and Economic Transformation* (New York: Oxford University Press, 1995).

has never fully developed them, it is worth spelling out what they are supposed to be. At one level state capacity is easily defined: simply a state's ability to design and implement policy.¹⁴ However, this begs a series of further questions about the precise attributes that allow some broadly similar states to do this more or less effectively while others find it more difficult. Again, this seems superficially straightforward and a function of the degree of "stateness" or "strength" that different states may have. It was the apparent absence of such qualities that Migdal thought explained disappointing developmental outcomes in Africa, for example.¹⁵ By contrast, it was precisely the possession of state strength, or more particularly an ability to "penetrate" and mobilize the society in which the state was embedded, which some observers claimed was the key to the rise of East Asia.¹⁶

The challenge has always been in achieving the right degree of what Peter Evans famously described as "embedded autonomy"¹⁷—in other words, bureaucratic agencies that were not only capable and coherent, but also were sufficiently close to society and economic actors to implement policy and "guide" development. The danger has always been that such agencies would become too close, "captured," and the servants of particularistic interests. It was precisely this possibility that was described as "crony capitalism," and considered by critics as part of the explanation for the East Asian financial crisis.¹⁸

14. Charles Polidano, "Measuring Public Sector Capacity," *World Development*, vol. 28, No. 5 (May, 2000), pp. 805-22.

15. Joel S. Migdal, *Strong States and Weak Societies: State-Society Relations and State Capabilities in the Third World* (Princeton, N.J.: Princeton University Press, 1988).

16. Linda Weiss and John M. Hobson, *States and Economic Development: A Comparative Historical Analysis* (Cambridge: Polity Press, 1995). For a more detailed discussion of the evolution of state "infrastructural power," or the ability to reach down into society and extract resources and implement policy, see Michael Mann, *The Sources of Social Power: The Rise of Classes and Nation States, 1760-1914* (Cambridge: Cambridge University Press, 1993).

17. Peter Evans, *Embedded Autonomy: States and Industrial Transformation* (Princeton, N.J.: Princeton University Press, 1995).

18. The literature on the East Asian crisis and the possible role of crony

The Developmental State

One of the advantages of comparative analyses of the sort that follows is that it illustrates the way that some of these factors are actually realized or approximated in practice. It is worth emphasizing a few general issues at the outset, though. First, the idea of the developmental state deployed here stands for a general policy orientation on the part of the state, rather than a specific set of initiatives or bureaucratic practices. The key point is that such an activist orientation is fundamentally at odds with the idealized small-state, market-centered, neoliberal model associated with the Anglo-American economies; it consequently remains a useful point of departure when thinking about broad brush distinctions between East Asia and elsewhere. Adopting a new policy paradigm inevitably creates winners and losers, something that helps to explain the continuing resistance to neoliberal reform in East Asia.¹⁹ Second, the particular way that such an orientation will reveal itself will vary as a consequence of specific national histories and may endure even when the original “need” for such an approach has apparently passed. As Stephan Haggard points out:

Asia proves that a variety of institutional arrangements can contribute to high growth. Understanding the diversity of institutional arrangements, however, requires an analytic strategy that differs somewhat from focusing on the functions that institutions might perform, and calls on us to dig beneath institutional arrangements to reveal the political relationships that create and support them.²⁰

capitalism is vast. Useful discussions include Joseph E. Stiglitz, *Globalization and Its Discontents* (New York: Norton, 2002); and Richard Robison, Mark Beeson, Kanishka Jayasuriya, and Hyuk-Rae Kim, eds., *Politics and Markets in the Wake of the Asian Crisis* (London: Routledge, 2000).

19. Mark Beeson and Iyanatul Islam, “Neoliberalism and East Asia: Resisting the Washington Consensus,” *Journal of Development Studies*, vol. 41, No. 2 (February, 2005), pp. 197-219.
20. Stephan Haggard, “Institutions and Growth in East Asia,” *Studies in Comparative International Development*, vol. 38, No. 4 (December, 2004), p. 74.

This is a point that has also been emphasized by Adrian Leftwich, who reminds us that development “must always be understood as an inescapably political process in which the purposive interaction of people, power and resources, in diverse cultural and historical contexts, shapes the pattern and the outcomes at any given point.”²¹ Both the Japanese and Chinese cases reflect this point but also suggest that, despite very different national histories, state capacities, and modes of integration into the global economy, there are sufficient commonalities in the overall patterns of economic governance in Japan and China to allow us to label them both as being in the developmental camp. There are, however, also important and enduring differences. Paradoxically, both the differences and similarities can be explained in large part by domestic politics, and the way they have been shaped by and have responded to a complex array of economic and geopolitical forces.²²

The very different reactions of Chinese and Japanese elites during the nineteenth century in particular provide a compelling reminder that state policy makes a decisive difference in determining long-run developmental outcomes.²³ From being the center of an East Asian political order that had endured for centuries and which plainly engendered a degree of hubris and insularity, China found itself unable to respond to the economic and political expansion of Europe. By contrast, the response of Japan to Western, or more especially, American intrusion could hardly have been more different. True, Japan’s elites were initially just as insular and unhappy about the prospect of adjusting to external pressure as China’s were, but the forced “opening” of Japan by the United States in the middle of the nineteenth

21. Adrian Leftwich, “Politics in Command: Development Studies and the Rediscovery of Social Science,” *New Political Economy*, vol. 10, No. 4 (December, 2005), p. 575.

22. Richard F. Doner, Bryan K. Ritchie, and Dan Slater, “Systemic Vulnerability and the Origins of Developmental States: Northeast and Southeast Asia in Comparative Perspective,” *International Organization*, vol. 59, No. 2 (Spring, 2005), pp. 327-61.

23. Frances V. Moulder, *Japan, China and the Modern World Economy* (Cambridge: Cambridge University Press, 1977).

century triggered a process of profound social transformation.²⁴ The Meiji Restoration marked the beginning of a process that would see Japan completely overhaul its structures of governance, and institutionalize a powerful, centralized state at the heart of its long-run rise to prominence as an industrial and military power.²⁵ It is also important to recognize that the political histories and cultures of both Japan and China have made the very idea of a powerful, interventionist state much less problematic than it has in the Anglo-American economies.²⁶

The durability of Japan's political and economic institutions in the face of American reformist pressures is attributable to the fact that such pressures dissipated with the onset of the cold war and the need to stabilize capitalist allies of any sort—even those that practiced the sort of centralized, neo-mercantilist interventionism that was an ideological anathema to many U.S. policy makers. Put bluntly, the imperatives of cold war rivalry and the need to consolidate Japan as a successful bulwark against possible Soviet expansion and as the centerpiece of a regional economic revival meant that the United States was forced to tolerate a largely unreconstructed Japanese developmental state.²⁷ The geopolitical context of the cold war also proved both a powerful external spur to development through aid and investment packages,²⁸ and a surprisingly permissive ideological context within which to pursue state-led development strategies.²⁹ At least this was the case for U.S. allies.

For countries like China that were on the “wrong” side of the ideological fence, the developmental forecast was a good

24. Walter LaFeber, *The Clash: U.S.-Japanese Relations Throughout History* (New York: W. W. Norton, 1997).

25. W. G. Beasley, *The Rise of Modern Japan: Political, Economic, and Social Change Since 1950* (London: Weidenfeld and Nicholson, 1990).

26. I am indebted to Adrian Leftwich for this important point.

27. Michael Schaller, “Securing the Great Crescent: Occupied Japan and the Origins of Containment in Southeast Asia,” *Journal of American History*, vol. 69, No. 2 (September, 1982), pp. 392-414.

28. Richard Stubbs, *Rethinking Asia's Economic Miracle* (Basingstoke: Palgrave, 2005).

29. Beeson, *Regionalism, Globalization and East Asia*.

deal gloomier. Indeed, it is easy to forget that China's relatively isolated and intimidated "socialist developmental state" achieved substantial industrialization and modernization from a very low base and in remarkably unpropitious circumstances.³⁰ Moreover, as Alvin So perceptively points out, "the present developmental miracle of China actually owes much to the historical heritage of the Maoist era. Despite many shortcomings, the Maoist legacy has provided China with a strong Leninist party-state, [and] a concentration of power in the communist party."³¹

Paradoxically enough, therefore, the cold war period, and the exigencies of development and even state survival in China's case, have at least partly enabled China's current state-directed integration into the global economy. But it is doing so in very different circumstances from those that confronted Japan, and without some of the advantages that Japan possessed. The next section spells out how Japan managed this process, what eventually went wrong, and why aspects of the developmental state persist.

Japan: Still Developmental After All These Years?

The current conventional wisdom is that whatever the advantages Japan's developmental state may once have enjoyed, it is now associated with stasis at best, long-term decline at worst. Nevertheless, elements of the developmental state persist as a result of path dependency, institutional inertia, and because some actors continue to support them. In order to understand why, it is useful to remind ourselves of what the Japanese devel-

30. Gordon White, "Developmental States and Socialist Industrialisation in the Third World," *Journal of Development Studies*, vol. 21, No. 1 (October, 1984), pp. 97-120.

31. Alvin Y. So, "Guest Editor's Introduction," *Chinese Economy*, vol. 35, No. 3 (May-June, 2002), p. 6. For a general discussion of the comparative significance of post-communist transition, see Andrew G. Walder, "The Decline of Communist Power-Elements of a Theory of Institutional Change," *Theory and Society*, vol. 23, No. 2 (April, 1994), pp. 297-323.

opmental state looked like in its heyday and why it has proved so resistant to change.

Japan's Success Story

The story of the Japanese miracle has been frequently told, so I shall simply highlight some of its key features here. Most importantly, perhaps, Japan's resurgence occurred in very different circumstances from those confronting China. Two external conditions were especially favorable as far as Japan was concerned. First, the Japanese were actively supported rather than "contained" by the now hegemonic presence of the United States. The willingness to tolerate Japan's neo-mercantilist developmental strategies was a crucial component of the permissive environment in which Japan prospered. This was especially important given a second factor that favored Japan. The U.S. promotion of a broadly "liberal" world order in the aftermath of World War II would eventually culminate in the greater degree of international economic integration that we now associate with "globalization."³² For the first few decades of this process, however, Japan would enjoy the best of both worlds: It was able to take advantage of a rapidly expanding international economy and relatively unfettered access to important markets in Europe and North America, without having to open up its own markets and, crucially, while maintaining control of the domestic financial system.³³

Japanese bureaucrats had some particular advantages in pursuing their vision of industrial rebirth. First, the idea of a powerful, interventionist state enjoyed a degree of legitimacy that it did not in the Anglo-American economies, where very different traditions of economic and political thought prevailed.³⁴ More-

32. Robert Latham, *The Liberal Moment: Modernity, Security, and the Making of Postwar International Order* (New York: Columbia University Press, 1997).

33. Kent E. Calder, *Strategic Capitalism: Private Business and Public Purpose in Japanese Industrial Finance* (Princeton, N.J.: Princeton University Press, 1993).

34. Beeson, *Regionalism, Globalization and East Asia*.

over, the bureaucrats not only enjoyed a good deal of prestige, they also had real power: The nature of Japan's political system, in which the conventional political class is famously ineffective and preoccupied with raising money to fight elections, meant that the bureaucrats were generally allowed to get on with running the economy.³⁵ When the developmental state was at the height of its powers, state officials were able to exploit the sorts of "embedded autonomy" that Evans considered vital to effective policy implementation.³⁶ Close connections with Japan's powerful *keiretsu* business groups allowed industrial policies to be coordinated via an "old boy network" of ex-public servants who ended their careers in the board rooms of leading Japanese corporations.³⁷

Such relationships were fundamental components of the old order. The very different way in which they are now viewed is emblematic of the real material changes that have overtaken Japan and of the ideological prism through which they have been refracted. But before considering these changes it is important to briefly note that the "Japanese model" had other important components that help explain its undoubted success. The *keiretsu* networks, for example, enjoyed significant competitive advantages,³⁸ partly because they were embedded in a wider array of institutionalized social relationships that together helped Japan to "catch-up" with the rest of the industrialized world;

35. Karel van Wolferen, *The Enigma of Japanese Power: People and Politics in a Stateless Nation* (London: Papermac, 1989).

36. Evans, *Embedded Autonomy*.

37. Ulricke Schaede, "The 'Old Boy' Network and Government-Business Relationships in Japan," *Journal of Japanese Studies*, vol. 21, No. 2 (Summer, 1995), pp. 293-317.

38. What Michael Gerlach calls Japan's alliance capital benefited from stable patterns of cross-shareholding and preferential trading relations with other *keiretsu* members and access to "patient" capital for their "main banks." There is, of course, currently a debate over whether such relationships are either any longer beneficial or sustainable in the face of greater competition and external pressure, but they undoubtedly underpinned the expansion of Japanese capital domestically and overseas. See Michael L. Gerlach, *Alliance Capitalism: The Social Organization of Japanese Business* (Berkeley, Calif.: University of California Press, 1992).

they also gave Japan's distinctive patterns of social accommodation a good deal of stability and resilience. Not only did its industrial relations system feature "lifetime employment"³⁹ and a more collective commitment to corporate goals;⁴⁰ Japan's economic and social institutions were also widely thought to give it a competitive advantage over other economies.⁴¹

Things Fall Apart

Japan's growth record since the beginning of the 1990s has caused a major rethinking of the entire Japanese experience and about the role of the developmental state within it. While this is understandable enough, perhaps we also need to think about the wider geopolitical context in which the Japanese model appeared to founder. Of central importance in this context was the winding down of the cold war and an increased willingness on the part of the United States to pressure Japan into opening up its domestic economy. Precisely the same sorts of pressures are building up around China since it has supplanted Japan as the principal source of U.S. trade deficits. They are no more likely to address the underlying problems than they were in Japan's case. Nevertheless, they do serve as a reminder of the dynamics, importance, and possible unintended consequences that flow from specific geopolitical contexts.

Many of Japan's current problems were either caused by, or manifest in, the "bubble economy" that emerged in the late 1980s. The causes and consequences of the bubble economy have already been extensively analyzed,⁴² so it is sufficient to

39. In reality, lifetime employment only ever applied to about one third of the workforce, and much of the labor force enjoyed much less security and was often fairly ruthlessly squeezed by big business.

40. Masahiko Aoki, *Information, Incentives, and Bargaining in the Japanese Economy* (Cambridge: Cambridge University Press, 1988).

41. Ronald Dore, *Flexible Rigidities: Industrial Policy and Structural Adjustment in the Japanese Economy 1970-80* (Stanford, Calif.: Stanford University Press, 1986).

42. Katz, *Japan*; Brian Reading, *Japan: The Coming Collapse* (London: Orion, 1992).

simply make a few general points here. First—and something that is generally neglected in most analyses—Japan’s strategic dependence on the United States and the non-negotiable nature of the security relationship meant that it was potentially vulnerable to shifts in the overarching geopolitical context.⁴³ The growing preoccupation of the United States with its own national economic position during the 1980s was making it increasingly unwilling to bear the costs associated with benign hegemony,⁴⁴ and more demanding of allies as their strategic importance declined. When the Americans demanded that Japan cooperate in a process of managed currency realignment, Japanese policy makers had little choice but to oblige.

The so-called Plaza Accord negotiated in 1985 may have had the desired short-term impact of reducing the value of the dollar against the yen, but it set in motion a series of unforeseen and often unwelcome consequences that continue to reverberate.⁴⁵ As far as Japan was concerned, the Accord had two principal effects. First, as a consequence of a loosening of domestic monetary policy to compensate for the appreciation of the yen, speculative bubbles developed in the real estate and stock markets. The yen appreciation and the increased cost of doing business in Japan also led to a second effect: the off-shore migration of Japan’s most competitive, export-oriented companies and a greater reliance on (and need to protect) the “inefficient” domestic

43. Christopher W. Hughes and Akiko Fukushima, “U.S.-Japan Security Relations: Toward Bilateralism Plus?” in E. S. Krauss and T. J. Pempel, eds., *Beyond Bilateralism: U.S.-Japan Relations in the New Asia-Pacific* (Stanford, Calif.: Stanford University Press, 2004), pp. 55-86.

44. Jagdish Bhagwati and Hugh T. Patrick, eds., *Aggressive Unilateralism: America’s Trade Policy and the World Trading System* (New York: Harvester Wheatsheaf, 1990). For many observers in the United States, American hegemony was seen as benign, necessary, and central to the provision of collective public goods, without which an “open” international order could not function. For an overview of competing perspectives, see Mark Beeson, “American Ascendancy: Conceptualising Contemporary Hegemony,” in Mark Beeson, ed., *Bush and Asia: America’s Evolving Relations with East Asia* (London: Routledge, 2006), pp. 3-23.

45. R. Taggart Murphy, *The Weight of the Yen* (New York: W. W. Norton, 1997).

sector.⁴⁶ In the longer term, Japan's underlying political dynamics and economic structures, which had become increasingly reliant on trade surpluses to underwrite a distinct domestic accommodation, appeared incapable of delivering continuing high growth in the face of increased international competition. This created pressure for reform from inside, and especially outside, Japan.⁴⁷

Yet, while it is true that the liberalization of finance has begun to loosen ties between the financial and industrial sectors in Japan and undermined the policy tools available to agencies like the Ministry of Finance (MoF),⁴⁸ the reform process has been anything but a "big bang." Not only has the MoF fought to resist change—as have other key bureaucracies⁴⁹—but it has actually sought to expand its power by managing the very reforms that were supposed to curb its influence.⁵⁰ What is especially noteworthy about Japan is that financial regulation in particular has been based on "informal relational ties linking government regulators and financial institutions and [a] reliance on discretionary rather than rules-based procedures."⁵¹ Consequently, transforming Japan's policy networks and the political rationality that pervaded the developmental state will require more than simply rewriting the regulatory framework.

Given that the integration and evolution of financial sector

46. Katz, *Japan*.

47. Pempel, *Regime Shift*; Leonard J. Schoppa, *Bargaining with Japan: What American Pressure Can and Cannot Do* (New York: Columbia University Press, 1997).

48. Kent E. Calder, "Assault on the Bankers' Kingdom: Politics, Markets, and the Liberalization of Japanese Industrial Finance," in Michael Loriaux, Meredith Wu-Cummings, Kent E. Calder, Sylvia Maxfield, and Sofia A. Pérez, *Capital Ungoverned: Liberalizing Finance in Interventionist States* (Ithaca, N.Y.: Cornell University Press, 1997), pp. 17-56.

49. Aurelia George Mulgan, *Japan's Interventionist State: The Role of the MAFF* (London: RoutledgeCurzon, 2005).

50. Elizabeth Norville, "The 'Illiberal' Roots of Japanese Financial Regulatory Reform," in Lonny E. Carlile and Mark C. Tilton, eds., *Is Japan Really Changing its Ways? Regulatory Reform and the Japanese Economy* (Washington, D.C.: Brookings Institute, 1998), pp. 111-41.

51. Jennifer A. Amyx, *Japan's Financial Crisis: Institutional Rigidity and Reluctant Change* (Princeton, N.J.: Princeton University Press, 2004), p. 29.

activity has arguably gone further than any other aspect of “globalization” and consequently might be expected to have a major impact on domestic regulatory structures, the limited extent of financial-sector reform in Japan is especially revealing. It becomes easier to understand why reform initiatives have had a modest impact elsewhere, too. As Edward Lincoln points out,⁵² a big chunk of Japan’s population has a powerful stake in the old regime and little incentive to seek or lobby for change. As a result, the problem Japan confronts is that although the constellations of political power and social accommodation that underpinned the old model may still be largely in place, the policy tools and thus the effectiveness of the developmental state have been significantly eroded.

While it is clear that Japan’s developmental state played a pivotal role in shaping its post-war recovery, it is equally apparent that it has become increasingly dysfunctional. Even in its heyday the developmental state didn’t entirely manage to avoid capture by particularistic interests, as the notorious “construction state” and the astounding waste of public money with which it was associated attests.⁵³ The weakness and idiosyncrasies of the Japanese political system suggest that there is still little appetite or political capacity to promote major reform.⁵⁴ As a result, Japan finds itself in something of a governmental limbo. As Steven Vogel puts it, “Japan’s error may not have been sticking with a model that was outmoded but abandoning a model that worked without converting to a new one.”⁵⁵ Yet despite current problems with the “Japanese model,” it continues to provide something of an inspiration and a useful comparative benchmark for other East Asian states, including China.

52. Lincoln, *Arthritic Japan*.

53. Gavan McCormack, *The Emptiness of Japanese Affluence* (St. Leonards, Australia: Allen and Unwin, 1996).

54. Gerald L. Curtis, *The Logic of Japanese Politics: Leaders, Institutions, and the Limits of Change* (New York: Columbia University Press, 1999).

55. Vogel, *Japan Remodelled*, p. 34. Also see Bai Gao, *Japan’s Economic Dilemma: The Institutional Origins of Prosperity and Stagnation* (Cambridge: Cambridge University Press, 2001).

China: Not Developmental Enough?

The central issue in what follows is whether, despite—or perhaps because of—the profound economic and political changes that have swept through China over the last thirty years or so, it can be thought of as a developmental state in broadly the same way as Japan. Despite some significant differences, I shall suggest in what follows that it can, and it may even become more so in time. At the very least, a comparison with the Japanese experience highlights important elements of the general East Asian success story that may have enduring significance for the East Asian region and beyond.

Two general issues are worth highlighting at the outset. First, like Japan, the People's Republic of China's (PRC) developmental project has been profoundly influenced by the wider geopolitical context in which it was embedded. In China's case, of course, this has—until relatively recently, at least—been a major disadvantage: China found itself politically and economically marginalized in an increasingly integrated international political-economy dominated by the United States.⁵⁶ In such circumstances, it is hardly surprising that China's leaders initially “leaned toward” the Soviet Union, its notional ideological ally. The second point which flows from this is that, although China's political and economic regime is very different from Japan's, the PRC government has from its inception also been a developmental state, albeit one that was initially socialist and Maoist.⁵⁷ Indeed, it could hardly have been otherwise: States can't get much more “interventionist” and directive than they do under central planning.

But the limits of China's self-reliance and the disadvantages of isolation from global economic forces became increasingly apparent during the 1950s and 1960s. This is not to say that significant development did not occur during the Mao era—it did⁵⁸—

56. John K. Fairbank, *The United States and China* (Cambridge, Mass.: Harvard University Press, 1983).

57. Gordon White, *Riding the Tiger: The Politics of Economic Reform in Post-Mao China* (Stanford, Calif.: Stanford University Press, 1993).

58. Even under Maoist central planning, China's growth was much higher

but it was dwarfed by the rapid economic growth that was occurring elsewhere in the region, most gallingly in Taiwan. Even when Deng Xiaoping made the pragmatic decision to begin “opening” China and integrating with the global economy, it was not obvious whether the capitalist road and the journey from plan to market would prove successful. Equally importantly, the implications of this transition for the Chinese Communist Party (CCP)—which, despite significant changes, remains the central political force in Chinese politics—were far from clear.⁵⁹ Although there are powerful forces in Japan that have also resisted wholesale economic liberalization, in the PRC policy change has an ideological significance that potentially transcends the concerns of simple vested interests. The ability of the ruling elite to reconcile potentially competing political and economic imperatives has placed a strain on already limited state capacities.

China’s Paradoxical Developmental State

Given China’s unprecedented recent growth spurt, we might be forgiven for thinking that the PRC government must be doing something right. And yet many China specialists argue that China’s development is either “dysfunctional,”⁶⁰ or caution that “[r]eifying the PRC as a developmental state would reflect only the center’s official aspirations, not the empirical reality within the party-state’s own institutions.”⁶¹ How do we reconcile this apparent contradiction? Plainly, at one level the Chinese econo-

than that of India’s, the only country with which it could really be compared in terms of demography and developmental challenges. See Mark Selden, *The Political Economy of Chinese Development* (Armonk, N.Y.: M. E. Sharpe, 1993).

59. Tony Saich, *Governance and Politics of China*, 2nd ed. (Basingstoke: Palgrave, 2004).

60. Shaun Breslin, “China: Developmental State or Dysfunctional Development?” *Third World Quarterly*, vol. 17, No. 4 (December, 1996), p. 689.

61. Kellee S. Tsai and Sarah Cook, “Developmental Dilemmas in China: Socialist Transition and Late Liberalization,” in Saadia M. Pekkanen and Kellee S. Tsai, eds., *Japan and China in the World Political Economy* (London: Routledge, 2005), p 61.

my must finally have been in the right place at the right time, but this still begs the question of how much credit the PRC government deserves for directing or managing this process. At the very least, Deng's decision to "open" the Chinese economy was a political initiative that merits comparison with Japan's opening a century earlier. As we have seen, in Japan's case there is a substantial consensus that whatever problems the Japanese economy may presently have, historical patterns of state intervention and direction were decisive and beneficial in the high growth period. In China's case, the lack of a similar state capacity and doubts about the state's ability to direct the course of development have led to more equivocal interpretations of the developmental process. Indeed, it has been argued that it is a lack of state capacity and the concomitant inability of government to direct or compel compliance with its initiatives that have actually made market-led development more attractive.⁶²

A number of factors seem to have stopped the state in China from playing as extensive and effective a role as it did in Japan. Most obviously, of course, the fact that China was geographically and demographically massive, "socialist," impoverished, and lacking in the sort of developmental track record that led Japan to colonize China rather than vice versa, were clearly long-term handicaps. But the nature of the political relationships and economic structures that developed in the PRC meant that the course of development was shaped by contingent forces that continue to constrain policy options even in the post-Mao reform era. At the center of China's comparatively modest levels of state capacity is what Lieberthal called "fragmented authoritarianism,"⁶³ or functionally differentiated clusters of responsibility that have made decision making contested and far less coherent

62. Thomas G. Moore, *China in the World Market: Chinese Industry and International Sources of Reform in the Post-Mao Era* (Cambridge: Cambridge University Press, 2002), p. 279.

63. Kenneth G. Lieberthal, "Introduction: The 'Fragmented Authoritarianism' Model and its Limitations," in Lieberthal and David M. Lampton, eds., *Bureaucracy, Politics, and Decision Making in Post-Mao China* (Berkeley, Calif.: University of California Press, 1992), pp. 1-30.

than in Japan, where its bureaucrats were less constrained by rival centers of political, ideological or even military power.⁶⁴

The ability of the central government to exercise its authority and guide development appears to have been further compromised by a process of decentralization. However, like much else in China's developmental history, there is a good deal of debate about the impact and even the reality of the decentralization process. On the one hand, some argue that decentralization had little to do with China's remarkable recent growth, claiming that the state remains highly centralized and authoritarian, and that the key reforms that underpinned recent development were in place by the 1970s and 1980s—well before decentralization took hold.⁶⁵ On the other hand, what has been described as “federalism Chinese style” is seen as having “placed considerable limits on the discretion of the central government.”⁶⁶ A more nuanced middle ground stresses the way institutions have been reconfigured in a continuing interaction between the center and the provinces, a process that constrains but does not determine. Consequently, “local actors have exercised agency in manipulating formal institutions to their advantage.”⁶⁷

The dialectic between center and provinces continues to unfold, with no definitive outcome.⁶⁸ What is becoming appar-

64. Although the People's Liberation Army (PLA) is less domestically influential than it once was, even now the PLA is part of what Susan Shirk describes as a “control cartel” of party leaders and security agencies that exercises a constraining influence over China's political elite. See Susan L. Shirk, *China: Fragile Superpower* (Oxford: Oxford University Press, 2007), p. 42.

65. Hongbin Cai and Daniel Treisman, “Did Government Decentralization Cause China's Economic Miracle?” *World Politics*, vol. 58, No. 4 (July, 2006), pp. 505-35.

66. Gabriella Montinola, Yingyi Qian, and Barry R. Weingast, “Federalism, Chinese Style: The Political Basis for Economic Success in China,” *World Politics*, vol. 48, No. 1 (October, 1995), p. 50.

67. Kellee S. Tsai, “Adaptive Informal Institutions and Endogenous Institutional Change in China,” *World Politics*, vol. 59, No. 1 (October 2006), p. 129.

68. Jude Howell, “Reflections on the Chinese State,” *Development and Change*, vol. 37, No. 2 (2006), pp. 273-97; Andrew C. Mertha, “China's ‘Soft’

ent, however, are the distinctive problems and features of the Chinese system that distinguish it from Japan's. Although it is important to recognize that corruption and "money politics" have been endemic in Japan for decades,⁶⁹ during the height of the developmental state, at least, the bureaucracy was generally uncompromised and corruption posed little direct threat to the developmental project.⁷⁰ In China, by contrast, corruption has become pervasive, a source of popular unrest, and potentially corrosive of state legitimacy.⁷¹ Paradoxically enough, however, corruption has also been central to the acceptance and successful integration of capitalist social relations.⁷² The expansion and transformation of the economy and its associated incentive structures have not only made capitalism more attractive, they have also fundamentally reconfigured the position of individual cadres. The "informal privatization" processes that have seen former party officials become capitalist entrepreneurs has not only blurred ontological and class boundaries,⁷³ it has also had an impact on the state and its role.

Two aspects of this process are especially noteworthy. First, the Chinese state has deviated from the sort of "autonomous"

Centralization: Shifting Tiao/Kuai Authority Relations," *China Quarterly*, vol. 184 (2005), pp. 791-810.

69. Curtis, *The Logic of Japanese Politics*.

70. Indeed, the relationship between growth and corruption is not clear, but it is possible that corrupt relationships and rent-seeking activity may actually be positively correlated with economic development in some circumstances. See Paul D. Hutchcroft, "The Politics of Privilege: Assessing the Impact of Rents, Corruption, and Clientelism on Third World Development," *Political Studies*, vol. 45, No. 3 (1997), pp. 639-58.

71. It should be noted, however, that as in Japan during its high growth period, the state in China continues to enjoy high levels of legitimacy and approval, its authoritarian government notwithstanding. See Bruce Gilley, "Legitimacy and Institutional Change: The Case of China," *Comparative Political Studies*, vol. 41, No. 3 (2008), pp. 259-84.

72. Yan Sun, "Reform, State, and Corruption: Is Corruption Less Destructive in China than in Russia?" *Comparative Politics*, vol. 32, No. 1 (October, 1999), pp. 1-20.

73. X. L. Ding, "Informal Privatization Through Internationalization: The Rise of Nomenklatura Capitalism in China's Offshore Businesses," *British Journal of Political Science*, vol. 30 (2000), pp. 121-46.

leadership role played in Japan, partly as a consequence of some party members' enduring "suspicion" of the private sector,⁷⁴ and partly because of the entrepreneurial, profit-seeking role of elements of the state bureaucracy.⁷⁵ Put differently, where elements of the state are engaged with the new private sector they are frequently corrupted and self-serving; where they are not, they lack the channels of communication and authority to actually implement policy effectively. These potential problems are exacerbated by a second distinctive feature of the embrace of capitalism: the contradictory place of capitalists themselves.⁷⁶ The key point to make about China's expanding capitalist class is that it is not a threat to the extant ruling elite. On the contrary, in what some have described as China's corporatist political-economy, there is a growing coincidence of interests between the CCP and private capital.⁷⁷ Consequently, there is little immediate prospect of an expanding bourgeoisie playing the sort of historical role it did in Europe.⁷⁸

But China's distinct political accommodation has some telling differences and similarities with Japan's. Japan was also taken to be corporatist in its developmental heyday,⁷⁹ and the

74. Howell, "Reflections on the Chinese State," p. 288.

75. Xiaobo Lu, "Booty Socialism, Bureau-Preneurs, and the State in Transition: Organizational Corruption in China," *Comparative Politics*, vol. 32, No. 3 (April, 2000), pp. 273-43.

76. The key manifestation of the new order was the admission of capitalists into the CCP and the declining role of ideology. See Richard McGregor, "Power not Socialism is Today's Chinese Ideology," *Financial Times* (London), July 25, 2006, online at www.ft.com/cms/s/0/e2a7539a-1c02-11db-a555-0000779e2340.html?nlick_check=1.

77. Bruce J. Dickson, "Integrating Wealth and Power in China: The Communist Party's Embrace of the Private Sector," *China Quarterly*, vol. 192 (2007), pp. 827-54; Kellee S. Tsai, *Capitalism Without Democracy: The Private Sector in Contemporary China* (Ithaca, N.Y.: Cornell University Press, 2007).

78. Dietrich Rueschemeyer, Evelyn H. Stephens, and John D. Stephens, *Capitalist Development and Democracy* (Cambridge: Polity Press, 1992).

79. T. J. Pempel and Keiichi Tsunekawa, "Corporatism Without Labour? The Japanese Anomaly," in Philippe C. Schmitter and Gerhard Lembruch, eds., *Trends Toward Corporatist Intermediation* (Beverly Hills, Calif.: Sage, 1979), pp. 231-70.

relationship between its political and economic actors remains surprisingly impervious to “global” reformist pressures to this day. What is perhaps most noteworthy about China, however, is that unlike Japan, its ruling elites have been able to utilize foreign direct investment (FDI) to actually reinforce their political authority and control. As Mary Gallagher points out: “While foreign investment may indirectly improve the environment for future democratization, through the promotion of the rule of law, transparency, and the freer flow of information, in the short term its presence has afforded the regime more time and more political space to pursue economic reform without political liberalization.”⁸⁰ The point to emphasize is that, even though China has been much more economically open and reliant on FDI than Japan was, its political elites have managed to exert a degree of control over its possible political impact, at least—its inferior state capacity notwithstanding. The question is what impact such practices have had on the quality of the developmental process and whether they will remain effective in the future.

Developmental Outcomes

Given the structure of the Chinese economy and the political constraints it generates, it is remarkable how effectively the contradictory dynamics of developmentalism have actually been managed. China’s governing elite is, after all, caught between the need to prop up unprofitable and uncompetitive state-owned enterprises (SOEs)—the former stalwarts of the centrally-planned economy—and an export-oriented economy that is increasingly dominated by the private sector and/or foreign multinational corporations.⁸¹ In sharp contrast to Japan, the emergence of a

80. Mary E. Gallagher, “‘Reform and Openness’: Why China’s Economic Reforms Have Delayed Democracy,” *World Politics*, vol. 54, No. 3 (April, 2002), p. 368.

81. Shahid Yusuf, Kaoru Nabeshima, and Dwight H. Perkins, *Under New Ownership: Privatizing China’s State-Owned Enterprises* (Washington, D.C.: World Bank, 2006).

competitive export sector in China has relied heavily on foreign investment, and the resultant economic activity consequently is not easily controlled or necessarily beneficial as far as long-term development and industrial deepening are concerned. For example, 60 percent of exports to the United States are from foreign firms.⁸² More generally, the amount of value added in the production of such exports within China is “extraordinarily low,” with imported components accounting for 80 percent of the value of the final product.⁸³

As a result, one of the most common criticisms of China’s developmental project has been about the quality and depth of the industrialization process, making comparisons with Southeast Asia’s “ersatz capitalism” not inappropriate. As with the debate about decentralization, the evidence about China’s development is mixed and often contradictory, despite the unambiguous and dramatic expansion of the Chinese economy overall. Part of the ambivalence flows from the fact that China, like Japan, has developed a “dual economy.”⁸⁴ In China’s case, this “dual track” was an intentional part of the shift from plan to market,⁸⁵ and it has manifested itself most obviously in the continuing prominence of the uncompetitive SOEs. Despite the rapid decline in the absolute number of SOEs and of their share in overall economic activity, the general state attitude toward the SOEs and privatization was enunciated by former Prime Minister Zhu Rongji and his strategy to *zhuada fangxiao* (“grasp the big, let go the small”).⁸⁶ The intention was to maintain con-

82. Neil C. Hughes, “A Trade War With China?” *Foreign Affairs*, vol. 84, No. 4 (July-August, 2005), p. 94.

83. Shaun Breslin, “Power and Production: Rethinking China’s Global Economic Role,” *Review of International Studies*, vol. 31, No. 4 (2005), p. 743 (figure updated by Breslin).

84. Shaun Breslin, *China and the Global Economy* (Basingstoke: Palgrave, 2007); Jenn-hwan Wang, “China’s Dualist Model on Technological Catching Up: A Comparative Perspective,” *Pacific Review*, vol. 19, No. 3 (September, 2006), pp. 385-403.

85. Naughton, *The Chinese Economy*.

86. Cited in Sameena Ahmad, “Behind the Mask: A Survey of Business in China,” *The Economist*, March 20, 2004, p. 3.

trol of the “commanding heights” of the economy while allowing small-scale enterprises to flourish in an increasingly market-driven economic environment.

But whatever the merits of a Japanese-style attitude to industrial development and national security may have been, China’s political elites confronted a very different international context. Not only had greater transborder economic integration become the norm in the intervening decades, the international regulatory architecture had become more influential and intrusive as well. Nowhere was this more apparent than in China’s accession to the World Trade Organization (WTO). China agreed to entry terms that “far surpass[ed] those made by founding members.”⁸⁷ As a consequence, some of the potential advantages of “late” development and the catch-up strategies that were available to Japan were effectively foreclosed. As Kerr puts it, “the TRIPS and TRIMS constraints of WTO membership, and the sensitivity of other economies to China’s developmental rise, mean that technological ‘free-riding’ is much harder for China than previous late industrializers.”⁸⁸ Equally importantly, the very structure and underlying logic of international production has undergone profound changes that highlight the tensions between China’s economic goals and political imperatives.

One of the more significant recent developments in the organization of international economic activity has been the modularization of manufacturing processes and the creation of new transnational networks of production.⁸⁹ Late industrializers like China must attempt to integrate themselves within such networks, which are generally dominated by established foreign multinationals with embedded ownership and organizational advantages.⁹⁰ The

87. Nicholas R. Lardy, *Integrating China into the Global Economy* (Washington, D.C.: Brookings Institute, 2002), p. 104.

88. David Kerr, “Has China Abandoned Self-Reliance?” *Review of International Political Economy*, vol. 14, No. 1 (February, 2007), p. 79.

89. Timothy J. Sturgeon, “Modular Production Networks: A New American Model of Industrial Organization,” *Industrial and Corporate Change*, vol. 11, No. 3 (June, 2002), pp. 451-96.

90. Jeffrey Henderson, Peter Dicken, Martin Hess, Neil Coe, and Henry

dilemma for Chinese policy makers is that modular production networks open up great opportunities for “China” to be incorporated into rapidly expanding, hyper-competitive corporate structures; but such processes may be difficult to control and occur on unfavorable terms. As Steinfeld points out, “networked modular production may create opportunities for the few players that can actually innovate, but for the vast majority who cannot—whether for reasons of inadequate resources, knowledge, or supporting institutions—the terms of competition have become brutal.”⁹¹ The result as far as China is concerned has generally been that the industrialization process has remained rather shallow, technology transfer has been limited, and the tendency toward dualism has persisted because “the highly internationalized and competitive sector has not significantly helped the modernization of the rest of the economy.”⁹²

The failure of industrial upgrading and technology transfer is invariably attributed to either a general lack of state capacity,⁹³ or more specifically to the impact of decentralization and the consequent “lack of production networks and organic linkages among domestic firms or between foreign and local enterprises.”⁹⁴ And yet, while there are obvious difficulties facing China’s policy makers in actually achieving the degree of control or direction over industrial development that they might wish, the state in China remains developmental in orientation and ambition. One of the hallmarks of Japan’s “mercantile realism,” or its integrated developmental, strategic, and foreign policies, was a lively awareness of the importance of technologi-

Wai-Chung Yeung, “Global Production Networks and the Analysis of Economic Development,” *Review of International Political Economy*, vol. 9, No. 3 (August, 2002), pp. 436-64.

91. Edward S. Steinfeld, “China’s Shallow Integration: Networked Production and the New Challenges for Late Industrialization,” *World Development*, vol. 32, No. 11 (November, 2004), p. 1974.

92. Françoise Lemoine and Deniz Unal-Kesenci, “Assembly Trade and Technology Transfer: The Case of China,” *World Development*, vol. 32, No. 5 (May, 2004), p. 831.

93. Tsai and Cook, “Developmental Dilemmas in China.”

94. Wang, “China’s Dualist Model,” p. 387.

cal mastery in underpinning national economic and military security.⁹⁵ In China, too, there is a similar determination, if not capacity, to adopt a “comprehensive” approach to technological upgrading, security, and development.⁹⁶

Whatever the merits of this approach to industrial development, the significant point to emphasize here is that it persists despite the best efforts of organizations like the WTO and a more inclement ideational climate internationally. Indeed, even in the area of finance—the sector of economic activity that is widely considered to have become most “global” and resistant to national proclivities—China’s domestic structures and practices remain surprisingly distinct and impervious to reform. Despite widespread criticism and alarm about the health of China’s banking system, especially the extent of non-performing loans, Chinese banks continue to lend primarily to SOEs.⁹⁷ The reasons are not hard to discern and are a powerful reminder of both the importance of domestic politics and the resultant stickiness of institutions. As Victor Shih puts it:

continuing gross inefficiency in the financial sector can best be understood by examining the political and careerist incentives of those who decided the policies . . . Their concern for political survival produced a bundle of policies that maximized their financial control, bolstered their administrative accomplishments, and mini-

95. Eric Heginbotham and Richard J. Samuels, “Mercantile Realism and Japanese Foreign Policy,” *International Security*, vol. 22, No. 4 (Spring, 1998), pp. 171-203.

96. Adam Segal, “Chinese Technonationalism: Autonomy and Security in the World Economy,” in Saadia M. Pekkanen and Kellee S. Tsai, eds., *Japan and China in the World Political Economy* (London: Routledge, 2005), pp. 205-22. Definitions of security are famously more “comprehensive” than they are elsewhere, something which explains the frequent desire to link conventional strategic goals with a wider array of economic policies and political goals. See Muthiah Alagappa, “Asian Practice of Security: Key Features and Explanations,” in Alagappa, ed., *Asian Security Practice: Material and Ideational Influences* (Stanford, Calif.: Stanford University Press, 1998), pp. 611-76.

97. Edward S. Steinfeld, “Market Visions: The Interplay of Ideas and Institutions in Chinese Financial Restructuring,” *Political Studies*, vol. 52, No. 4 (December, 2004), p. 646.

mized policy risks.⁹⁸

In other words, the nature of policy, the role of the state, and the durability of institutionalized relationships that have apparently passed their use-by dates can be largely explained by the continuing influence of contingent political forces. While this may not tell us anything about the type of state this will produce or the policies it will pursue, it does suggest that differences persist even in the most fungible sectors of formerly discrete national economies.

Can Difference Persist?

Even if it is accepted that in the absence of major crises or shocks, institutional inertia or stickiness is likely to impart a degree of path dependency to policy frameworks and the underlying constellations of power that inform them. Yet we might still expect that a more generalized process of policy convergence might occur as particular ideas become more influential.⁹⁹ There is, after all, an extensive public policy literature that points to the possibilities of policy learning and transfer,¹⁰⁰ as well as more critical studies that emphasize the hegemonic role of transnational class forces in encouraging, if not compelling, change along neoliberal lines.¹⁰¹ And yet, the reality is that, as the varieties of

98. Victor Shih, "Reform Equilibrium, Chinese Style: Political Incentives and Reform Stagnation in Chinese Financial Policies," *Comparative Political Studies*, vol. 40, No. 10 (2007), p. 1257.

99. Beth A. Simmons and Zachary Elkins, "The Globalization of Liberalization: Policy Diffusion in the International Political Economy," *American Political Science Review*, vol. 98, No. 1 (2004), pp. 171-89.

100. Mark Evans and Jonathan Davies, "Understanding Policy Transfer: A Multi-Level, Multi-Disciplinary Perspective," *Public Administration*, vol. 77, No. 2 (Summer, 1999), pp. 361-85; David P. Dolowitz and David Marsh, "Learning from Abroad: The Role of Policy Transfer in Contemporary Policy-Making," *Governance: An International Journal of Policy and Administration*, vol. 13, No. 1 (January, 2000), pp. 5-24.

101. Paul Cammack, "The Governance of Global Capitalism: A New Materialist Perspective," *Historical Materialism*, vol. 11, No. 2 (2003), pp. 37-59; David Harvey, "Neoliberalism as Creative Destruction," *ANNALS*

capitalism literature reminds us, national diversity persists at an underlying structural level, and the policy initiatives associated with neoliberalism have been actively resisted in East Asia.¹⁰² There are a number of reasons to believe that resistance to Anglo-American forms of capitalism may actually intensify.

China's rise is widely predicted to have a major impact on the distribution of power and influence in the international system.¹⁰³ Again, views differ about the possible impacts of China's economic development, but to state them briefly they may be divided between those that expect China's rise to lead to inevitable hegemonic competition and conflict,¹⁰⁴ and those that believe that China's political and economic elites are being socialized into cooperative behavior as a consequence of their increasingly active and sophisticated participation in international institutions.¹⁰⁵ Either way, there is widespread agreement that China's rise matters enormously, and that it has the potential to influence the system of which it is a part. The difference between the most recent ascents of China and Japan is, therefore, striking and merits emphasis.

Japan's initial attempt at carving regional hegemony ended disastrously and culminated in its defeat and occupation by the United States.¹⁰⁶ The most striking feature of Japan's subsequent

of the American Academy of Political and Social Science, vol. 610 (2007), pp. 22-44; William I. Robinson, *A Theory of Global Capitalism: Production, Class, and State in a Transnational World* (Baltimore, Md.: John Hopkins University Press, 2004).

102. Beeson and Islam, "Neo-Liberalism and East Asia."

103. See Mark Beeson, "Hegemonic Transition in East Asia? The Dynamics of Chinese and American Power," *Review of International Studies*, vol. 35, No. 1 (2009), pp. 95-112.

104. John J. Mearsheimer, *The Tragedy of Great Power Politics* (New York: W. W. Norton, 2001); Steve Chan, *China, the U.S., and the Power-Transition Theory* (London: Routledge, 2008).

105. Alastair I. Johnston, "Is China a Status Quo Power?" *International Security*, vol. 27, No. 4 (Spring, 2003), pp. 5-56; David C. Kang, *China Rising: Peace, Power, and Order in East Asia* (New York: Columbia University Press, 2007).

106. For a more detailed discussion of this period and of the different historical roles played by Japan and China in East Asia, see Mark Beeson,

foreign policy has been its “reactive,” passive, and ineffectual nature: Strategic subordination to the United States has meant that Japan has been unable to play the sort of international political role that we might have expected from a country of its material capabilities.¹⁰⁷ Although China, by contrast, displays no such inhibitions, as Goldstein observes, there is “scant evidence that China is likely to abandon its current, relatively conservative approach and instead adopt a grand strategy that would seek to overturn, rather than adjust to or attempt to reform, the international order it faces.”¹⁰⁸ But while Chinese policy makers may be relatively content with the broad geopolitical parameters within which they operate, this does not mean they will not attempt to shape them to their advantage.

In the dialectical interplay of material and ideational factors that constitutes the international system and approximates “global governance,” two developments are especially noteworthy and likely to encourage the persistence of difference in East Asia. First, China’s increasingly sophisticated diplomacy is reinforcing its growing material presence and helping to establish a “Beijing consensus” as an alternative to the more familiar, frequently unloved Washington variety.¹⁰⁹ China’s own stellar developmental record might be expected to lend the Beijing consensus intrinsic appeal, but its “pragmatic” approach to public policy and tolerance of authoritarianism make it even more attractive to countries where development is stalled or failing. The second factor that may give China a surprising degree of ideational influence is the array of problems affecting its princi-

“Geopolitics and the Making of Regions: The Fall and Rise of East Asia,” *Political Studies* (forthcoming).

107. Richard J. Samuels, *Securing Japan: Tokyo’s Grand Strategy and the Future of East Asia* (Ithaca, N.Y.: Cornell University Press, 2007).

108. Avery Goldstein, *Rising to the Challenge: China’s Grand Strategy and International Security* (Stanford, Calif.: Stanford University Press, 2005), p. 211.

109. Joshua C. Ramo, *The Beijing Consensus* (London: The Foreign Policy Centre, 2004); Joshua Kurlantzick, *Charm Offensive: How China’s Soft Power Is Transforming the World* (New Haven, Conn.: Yale University Press, 2007).

pal rival: The rapid decline in the status and strength of the U.S. economy is not simply undermining the material foundations of American power, it is also changing the way the United States is perceived.¹¹⁰

For decades America's undoubted military primacy was underpinned by economic strength. Indeed, the conventional wisdom in East Asia, and a major constraint on the foreign policy of Japan in particular, was the assumption that East Asian development was dependent on continuing access to North American markets. While there is still something in this, the recent turmoil in the American economy has seen a rapid change in its ideational status and an even more tangible shift in its material position. The fact that America's largest bank had to go cap in hand to China's new sovereign wealth funds for emergency funding highlights the rapid shift that has occurred in the international balance of economic power.¹¹¹ For some American commentators the emergence of Chinese-style "state capitalism" means "the reality may be that the era of free markets unleashed by Margaret Thatcher and reinforced by Ronald Reagan in the 1980s is fading away. In place of deregulation and privatization are government efforts to reassert control over their economies and to use this to enhance their global influence. It is an ill wind that blows."¹¹²

Whether one agrees with the view that the resurgence of East Asian forms of state-dominated capitalism is any worse

110. William Pesek, "U.S. Financial Clout Loses Sway," *International Herald Tribune*, April 4, 2007, online at www.iht.com/articles/2007/04/04/business/Sxpesek.php; Julian Borger, "Sun Sets on U.S. Power: Report Predicts End of Dominance," *The Guardian*, November 20, 2008.

111. Thorold Barker, "On Wall Street: Sovereign Wealth Funds to Drive Hard Bargain," *Financial Times*, November 16, 2007, online at www.ft.com/cms/s/0/2535fffe-947a-11dc-9aaf-0000779fd2ac.html; Larry Summers, "Sovereign Funds Shake the Logic of Capitalism," *Financial Times*, July 30, 2007, online at www.ft.com/cms/s/0/8c9dea94-3e30-11dc-8f6a-0000779fd2ac.html.

112. Jeffrey Garten, "The Unsettling Zeitgeist of State Capitalism," *Financial Times*, January 14, 2008, online at www.ft.com/cms/s/0/f0f2a32e-c2d6-11dc-b617-0000779fd2ac.html.

than a neoliberal model that is wracked by crisis and distinguished by grotesque, unsustainable-looking levels of inequality is a moot point.¹¹³ What matters here is that the declining reputation and performance of neoliberal, Anglo-American capitalism means that it is unlikely to win new admirers in an East Asian region that has profited from rather different developmental models. On the contrary, even prominent champions of neoliberalism are now concerned that the balance of ideational influence may be shifting.¹¹⁴ In such circumstances, it is not simply possible that East Asia's distinct political economies with their tradition of state interventionism and suspicion of neoliberalism may actually persist. It is entirely possible that they will actually look increasingly attractive compared to their damaged and somewhat discredited Western rivals.

Conclusion

At the broadest level, it might seem redundant even to ask whether states in East Asia remain developmentally oriented or whether the state continues to influence economic activity: All states are involved in providing the regulatory and social context in which economic activity of any sort can occur—an especially important consideration in capitalist economies.¹¹⁵ Despite an association with corruption and more recently inefficiency, aspects of the developmental state pioneered by Japan and emulated to varying degrees elsewhere remain—for better or worse—institutionally embedded in the East Asian region. Consequently, if we understand East Asian developmentalism as being about an overall orientation to public policy and the role of the state, rather than about a specific set of policy prescriptions or bureaucratic agen-

113. Will Hutton, "This Reckless Greed of the Few Harms the Future of the Many," *The Observer*, January 27, 2008, p. 35.

114. Martin Wolf, "Why the Credit Squeeze is a Turning Point for the World," *Financial Times*, December 11, 2007, online at www.ft.com/cms/s/0/90126fca-a810-11dc-9485-0000779fd2ac.html.

115. Bob Jessop, *The Future of the Capitalist State* (Cambridge: Polity, 2003).

cies, it is clear that East Asia's distinctive forms of political and economic organization persist despite significant structural and agential reformist pressures.

It is also evident that, for all China's profound developmental challenges and unpromising socialist heritage, interventionist public policies have played an important role in underpinning its remarkable recent economic development—despite inferior state capacity and a less permissive external environment. While there is much in common with Japan's high growth phase in terms of overall policy orientation and developmental intention, "socialist" China must negotiate ideological constraints that Japan did not. As Dani Rodrik points out, while state intervention has clearly contributed to the speed and direction of industrialization in China, the "appropriate criterion of success for industrial policy is not that 'only winners should be picked' (an impossible task) but that 'losers should be let go.'"¹¹⁶ Given the SOE's powerful political connections and their continuing importance in the labor market, this will be no easy task.

The danger for China is that it may succumb to the same kinds of problems that overtook Japan—in short, institutional inertia and an inability to overcome powerful vested interests that are resistant to change. Like Japan, China may end up with the worst of both worlds: an old model that is no longer as effective, legitimate, or relevant as it once was, and a new model that is insufficiently developed or embedded to sustain future development. An additional problem for China is that some of the adverse impacts of a more Western-style, market-based model are becoming painfully clear in China's increased levels of inequality and unemployment,¹¹⁷ at precisely the same moment that the Anglo-American model itself appears to be less stable and sustainable.

However, the intention here has not been to provide an

116. Dani Rodrik, "What's So Special About China's Exports?" *China & World Economy*, vol. 14, No. 5 (September-October, 2006), p. 17.

117. Dali L. Yang, "Economic Transformation and Its Political Discontents in China: Authoritarianism, Unequal Growth, and the Dilemmas of Political Development," *Annual Review of Political Science*, vol. 9 (June, 2006), pp. 143-64.

assessment of the relative merits of East Asian developmentalism compared to alternatives elsewhere, although there does seem to be very persuasive evidentiary base which suggests that the East Asian model has been central to the region's overall rise and may yet provide something of a template for other would-be industrializing nations. Rather, the preceding discussion has sought to demonstrate why the developmental state was such a powerful force in East Asia, how it became so deeply institutionalized, and why it continues to exert an influence as a consequence—even if that influence is taken to be malign, self-serving, inappropriate, anachronistic, or inefficient.

But while we may no longer wish to praise the developmental state quite as unreservedly as we once did, it is too soon to bury it either. Even if enduring elements of Japan's developmental state may have blocked what some take to be necessary reforms, and even if China's developmental state risks becoming predatory and less sympathetic to democratic reform,¹¹⁸ we cannot wish it away. Indeed, it is less and less obvious why we would necessarily want to do so given the recent underwhelming performance of the Anglo-American alternative. In the continuing saga of competing capitalisms, there may yet be life in East Asian developmentalism.

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118. Minxin Pei, *China's Trapped Transition: The Limits of Developmental Autocracy* (Cambridge, Mass.: Harvard University Press, 2006).

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