

# 1 *Disembedding Autonomy*

## Asia after the Developmental State

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The ‘developmental state’ has been a core theoretical rubric through which the story of Asia’s ‘miracle economies’ has been told (Amsden, 2001; Evans, 1995; Haggard, 1990; Johnson, 1982, 1987, 1995; Kohli, 2004; Wade, 1990; White and Gray, 1988; Woo, 1991). Rapid economic transformation in Japan, South Korea, Taiwan, Singapore and more recently China has largely been explained in terms of their institutional endowments: centralised economic planning; elite technocracies; strong state involvement in seeding capital formation; and the use of industrial policy to allocate state credit and protection, and nurture fledgling industries. By co-opting the commanding heights of the economy and key strategic sectors (banking, telecommunications, energy, transport and infrastructure), development could be obtained through attracting capital out of ‘rent seeking, commerce, and “agriculture” . . . and into manufacturing, the heart of modern economic growth’ (Amsden, 2001: 2). The rise of Asia and the rapidity of economic transformation has thus been cast overwhelmingly in institutional terms: on the plan-rational modalities of public administration, the corporatist bargains struck by the state in co-opting capital and labour, and in the mechanisms of innovation and technological advance in up-skilling industrial capacity and thus national competitiveness. As Amsden put it, the ‘greater such assets, the easier the shift from primary product production to industrial production (and later to the supply of modern services)’ (2001: 3).

Chalmers Johnson’s (1982, 1995) celebrated account of Japan’s remarkable economic transformation centred on these institutional endowments and paved the way for similar statist–institutional studies of South Korea by Wade (1990), Amsden (1989) and Woo (1991), and of North East Asia by Haggard (1990), Deyo (1987), Cummings (1984), Kwon (1994) and Evans (1995) – among others. But what for a generation of scholars provided a sturdy theoretical mantle on which to explain successful economic transition in Asia, looks today

increasingly problematic. If anything, there is a disjuncture between images of Japan, Korea or Taiwan ‘Inc.’ as anything other than historical images of an era now past. Statist literatures that invoke notions of bureaucratic centralisation, administrative hierarchies and ‘command-and-control’ governance systems dominated by coalitions of powerful political elites, large-scale domestic capital (*chaebol* and *zaibatsu/keiretsu* capital networks in South Korea and Japan, for example), or networks of elite families look increasingly simplistic in contexts where power has become more diffuse, markets deeper, circuits of capital more complex and the nexus between national and international economics blurred.<sup>1</sup>

While it is premature to proclaim the final breath of developmental states in Asia, clearly they are being transformed along with the environments in which they operate (Boyd and Ngo, 2005a; Carroll, 2010; Carroll and Jarvis, 2015; Lim, 2010; Pirie, 2012, 2013; Robison, Rodan and Hewison, 2005; Stubbs, 2009; Suh and Kwon, 2014). Two examples highlight this transformation.

In China, reforms commenced in the 1990s produced seemingly contradictory outcomes. On the one hand, the reforms actively supported market development by effectively privatising (officially ‘shareholder transformation’) smaller, inefficient state-owned enterprises (SOEs), while on the other hand, larger and more efficient SOEs were merged and consolidated within key strategic sectors, creating conglomerates with sufficient size to compete internationally and supported through large injections of state capital – a policy captured by the slogan ‘grasp the big, let go of the small’ (Breslin, 2012: 33). As Breslin notes, after their introduction in 1996 these reforms structurally transformed the Chinese economy, with some 80 per cent of SOEs privatised over a two-year period and ‘with virtually all of them gone by 2002’. Between 1995 and 2001 ‘there was a 40 percent reduction of workers in the state sector (46 million workers losing their jobs)... a 60 percent

<sup>1</sup> Indeed, even in China it is evident that the role of the state and of state-led development is being transformed as the sheer size of market activities and the success of state-owned enterprises alter state–market relations. Shaun Breslin, for example, goes so far as to suggest that the moniker of ‘state-led development’, applied to the political economy of China’s development, fails to capture the degree of policy experimentation and pragmatism, if not federalism, where ‘devolved state-led experimentation’ is perhaps more appropriate to understand the Chinese economic development vis-à-vis the role of the state (see Breslin 2011: 1329–31).

reduction in workers in collectively owned urban enterprises (18.6 million) [and] ... a further 34 million state sector workers registered as “laid off” (Breslin, 2012: 33; Kuo, 1994). State control of the economy was both loosened and centralised in so far as SOEs in strategic areas (telecommunications, energy, banking, resources and transport) were consolidated and grown, while the overall structure of the economy became increasingly dominated by marketisation and cut loose from the state. By the year 2000, for example, the non-state sector accounted for 63 per cent of the economy, delivered 80 per cent of its growth and was the dominant source of new employment creation (Breslin, 2012: 34; see also Lin, 2008; So and Chu, 2012; Xiao, 1988; Yang, 2004).

The rapid expansion of market-based activity has profoundly altered the relationship between the Chinese state and the economy – one that continues to evolve. Macroeconomic and tax reform policies announced in the thirteenth five-year plan released in March 2016, for example, indicate a greater reliance upon markets, committing China ‘to continue moving towards a free-floating renminbi and to further reduce capital controls by 2020’ (Zoellick, 2016). At the same time, the Chinese state remains a strategic and powerful economic entity, blurring public–private distinctions through state majority ownership of many publicly listed (privatised) entities, through continued ownership of many of the largest economic entities in the economy (SOEs), and through complex and often opaque networks that link market entities to the state through personal connections or *guanxi* (Breslin, 2014: 1003).

In Japan, too, the originator of Johnson’s (1982) ‘developmental state’ moniker, similar dynamics are apparent. The fabled centrepiece of the Japanese miracle in terms of the circulation of Japanese capital between historically frugal citizens who bank their savings, the government, and the Bank of Japan has been Japan Post (Pempel, 1999: 149–50). Outside China, Japan Post is the largest bank in the world with deposits of US\$1.77 trillion, and a key source of savings which are typically recirculated to support Japanese government debt and the purchase of government bonds. With a retail network of 24,000 post offices, Japan Post dwarfs all the country’s bank branch outlets combined, is 40 per cent bigger than the largest chain of convenience stores, is the largest writer of life insurance policies, and boasts the country’s most interconnected, seamless logistics system (Lewis, 2015). Yet despite its vaunted position in Japan Inc. and its role as a key

financial intermediary underpinning the country's economic development, Prime Minister Shinzo Abe commenced a mass privatisation process in late 2015. The first IPO in November, one of the biggest in the world, split Japan Post into several financial tranches and logistics businesses, each of which will be listed on the Japan Stock Exchange in a plan anticipated to raise US\$30 billion for the government. In doing so, some 400,000 state employees will be impacted, with rationalisation and jobs losses anticipated (Lewis, 2015).

The privatisation of the Japan Post Group is a watershed moment in Japan's political economy and consolidates a two-decades-long series of reforms commenced in the wake of the popping of the asset price bubble economy (1991). The networked (*keiretsu*) financial structure that dominated Japan's post-war economic development – built on groups of enterprises interlinked by cross-holdings of corporate stocks and what Takahashi (2012) describes as a 'system of disciplined risk sharing' – has been increasingly displaced. Rather, the 'Big Bang' financial reforms introduced in 1996 have seen increasing levels of financial-sector liberalisation (interest rates, capital controls), a relaxation in cross-ownership rules for banks and security houses, and deepening financialisation with the introduction of a NASDAQ-style stock market (2000), coupled with liberalisation of the rules governing temporary workers' employment contracts, corporate law reform and the adoption of international financial reporting standards. Each of these reforms has been market-oriented, seeking to reduce rigidities associated with the lifetime employment system, facilitate mergers and acquisitions to manage non-competitive enterprises, and encourage foreign investment by reducing barriers to entry (Fields, 2012: 51–3; Kitagawa and Kurosawa, 1994; Takahashi, 2012: 216). While the state remains an important component in the fabric of the Japanese economy, its role in mediating bargains among economic actors and its ability to co-ordinate industrial activity through the use of state-directed credit or by 'picking winners' has been substantially transformed.

This chapter, and this volume more broadly, are an attempt to understand the nature of this transformation, evolving state–market configurations, the deepening realities of a contradictory world market and the class-based political conflict of contemporary development in Asia. It arises out of a deepening sense of theoretical flux around core analytical concepts, frameworks and explanatory models, a growing unease that statist approaches no longer retain analytical salience, but also

that pure market-based narratives simplify the historically important role played by the developmental state in Asia and the long shadow it continues to cast. In asking ‘What ever happened to the East Asian developmental state’, for example, Stubbs captures this sense of creeping analytical indeterminacy; that historically it was important but is increasingly less significant. As a broad theoretical rubric the developmental state concept continues to have currency, he notes, albeit in contexts where its ‘existence and value’ are now hotly contested (Stubbs, 2009).

In this chapter we explore these debates and questions of the continuing relevance of the developmental state concept. We do so, however, with three objectives in mind. First, to contribute to theorising Asia’s contemporary development, emerging state–economy configurations and the relationship of Asian states to the global capitalist system. Importantly, we seek to locate an analysis of Asia’s economic transformation amid the changing social relations that support specific regimes of accumulation, the deepening stratification of intra-state material interests, and the disembedding of specific sectional interests from national regimes of accumulation amid the rise of global markets. Our approach is neo-Gramscian in orientation and draws upon critical political-economy approaches, particularly recent literatures addressing global value chains (GVCs) and global production chains (GPCs) in order to highlight the disruption to traditional industrial policy and state developmental agendas (Cox, 1983, 1987; Gereffi, 2009, 2011, 2014; Gereffi, Humphrey and Sturgeon, 2005; Harvey, 1990; Jameson, 1991; Jessop, 1982; Polanyi, 1957; Yeung, 2014).

Second, we revisit the literature of the developmental state, and the state and development more broadly, in order to contextualise it amid three influential and often overlapping intellectual currents that emerged over the last three and a half decades or so. The first of these currents we term ‘heterodoxy’, in which the developmental state concept first became a theoretical means of contesting neoclassical accounts of Asian developmentalism (state versus market) but subsequently morphed into a series of analyses and policy prescriptions that connected with evolving neoliberal positions – i.e. post-Washington consensus (PWC)-style governance practices and market-oriented policy prescriptions (market plus state)(Fine, 2013: 8); statism, in which the developmental state concept was swept along by broader social-science trends associated with ‘bringing the state back in’ as a central

analytical rubric in political science and sociology; and the institutionalist turn (both old, new and historical institutionalism) in which the developmental state concept was transposed into various applied social sciences from public administration, public policy, organisational studies and management to sociological perspectives focused on the interplay between institutions, social mobilisation and economic outcomes.

The result, we argue, has been a broadly reductionist and instrumentalist conceptualisation of the developmental state – as a specific bundle of institutions and institutional endowments, policy designs, tools and instruments, decontextualised from the underlying social relations of class and the distribution of power, production and wealth on which they are based. Our analysis thus rejects what we characterise as institutional fundamentalism, which in some variants of the literature became a dominant means of defining the developmental state and explaining successful industrial outcomes: institutional capacity, meritocratic and elite bureaucracy, central (technocratic) planning, and the subjugation of the market to the state. We argue this fundamentally mischaracterises the historical relationships between state, capital and labour and the social orders supporting the emergence of developmental states – and indeed particular institutions more broadly.

Third, we argue that institutional fundamentalism creates false methodological dichotomies or what Pradella and Marois term ‘methodological nationalism’ (Pradella, 2014; Pradella and Marois, 2014: 8). That is, much of the developmental state literature, and the responses to it, deploy idealised theoretical types such as ‘state’, ‘market’ and ‘society’ which are constituted as if separate entities and juxtaposed as theoretical dualisms (state versus market, national versus international, state versus society). A critical weakness in much of the developmental state literature thus takes the state–market dichotomy as given, effectively reducing development to a series of technocratic issues – optimal resource allocation, optimal state–capital relations, the calibration of incentives, and the management of risk to capital in order to find the right mix of state interventionism/support necessary to kick-start and sustain industrialisation (Sato, 2013: 34). This not only positions the developmental state within narrow policy spaces associated with market–industrial supporting activities, but more fundamentally mischaracterises the developmental state as autonomous from social classes and situated exclusively in national contexts. The result is a kind of ‘dehistoricised, decontextualised’ developmental state model that

reifies institutional types, policy tools and instruments in ways that can seemingly be adopted and applied in other national contexts to produce similar developmental outcomes (Pradella, 2014: 189; Pradella and Marois, 2014: 8). By failing to situate the developmental state and industrialisation historically within broader structural processes associated with the international division of labour and spread of capitalist relations of production, development is reduced to relatively simplistic public policy prescriptions and institutional forms. In turn, questions about the continuing salience of the developmental state model, the impact on state capacities and the utility of industry policy amid the rise of globalisation are frequently misread as the rise of markets at the expense or decline (or what some term the ‘roll-back’) of the state. By moving beyond methodological nationalism, however, we argue that state capacities have simply been repositioned, repurposed and redeployed in instrumental ways to support marketisation and reflect the transforming interests of specific classes and capital – interests which are increasingly aligned with international regimes of accumulation (Brenner, Peck and Theodore, 2010b; Cahill, 2012; Jessop, 2005; Konings, 2012; Song, 2013).

### The Developmental State in Historical Context

The wide ubiquity of the developmental state concept, indeed its metamorphosis into a prescriptive developmental policy, stands in stark contrast to its relatively modest beginnings. It commenced life as a shorthand method for capturing the broad and complex sociopolitical processes which had successfully transitioned Japan into a leading industrial nation (Johnson, 1982). As Woo-Cummings argues, Johnson’s work was not ‘an analytic’ thesis in search of causality but rather a ‘historical account in search of meaning’ (Woo-Cummings, 1999: 2).<sup>2</sup> The developmental state concept was thus designed to capture what Johnson argued was a qualitatively different set of historically contingent socio-economic relations and state–society configurations which had emerged in Japan and among other East Asian societies compared with Anglo-American state–society systems (Johnson, 1999: 32–3).

<sup>2</sup> Wade (1990: 26) argues similarly that Johnson’s thesis is ‘not much of a theory. Its specification of intuitional arrangements is descriptive rather than comparative–analytic, so what the developmental state is contrasted with is not clear’.

Johnson's approach was historicist, indeed of the Weberian type in terms of his conceptualisation of the state, but with Johnson situating this perspective amid a 'revolutionary nationalism' and the 'exigencies and requirements of national survival and mobilization' which had played out historically so violently in North East Asia (Woo-Cumings, 1999: 2). It was this 'scaffolding', Woo-Cumings suggests, which informed Johnson's understanding of Japan – 'the importance of war in establishing institutions of social mobilization (the Communist Party in China, MITI in Japan) and the role of ideology in revolutionary social transformation' (Johnson, 1962, 1995: 45; Woo-Cumings, 1999: 7).<sup>3</sup> Johnson addresses this directly in *MITI and the Japanese Miracle* (1982), noting that the priority given to economic development reflected Japan's 'situational imperatives', which, since the Shōwa era, had been a cascading series of crises, vulnerabilities, militaristic calamities and external threats. When coupled with the dilemmas of late industrialisation, resource scarcity, a large population and a history of poverty, he notes, the economic priorities of the state were both reinforced and legitimised among the populace, a national consensus forged, with 'a large majority of the population' mobilised in support of economic goals. Nurturing the economy was thus a 'major priority of the Japanese state because any other course of action implied dependency, poverty, and the possible breakdown of the social system' (Johnson, 1982: 306–7). As Johnson later characterised it, Japan was 'an economy mobilized for war but never demobilized during peacetime' (Johnson, 1999: 41).

Much of the analysis in *MITI and the Japanese Miracle* thus concentrates on explicating these broad tenets, particularly the development of the Japanese bureaucracy, its meritocratic elite forms (Chapter 2) and the emergence of, and consolidation of authority within, MITI and related state institutions that planned and managed national economic goals (Chapters 5 and 6). His analysis is thus overtly institutionalist and neo-Weberian, depicting the state in instrumental terms and concentrated within elite institutions where an informal separation of power and authority operate. As Johnson argues, 'Japan has long displayed a marked separation in its political system between reigning and

<sup>3</sup> Strangely, Woo-Cumings does not make these same observations of South Korea and Taiwan, where war and imperialism were equally important in social mobilization.



ruling, between the powers of the legislative branch and the executive branch, between the majority party and the mandarin state . . . between authority and power' (Johnson, 1982: 35). This is not by design but the result of historical happenstance, occupation, and the play of politics in which the power of the bureaucracy was consolidated (Johnson, 1982: 43). For Johnson, this created modern Japan's unique political system, where the decision making of the Japanese state operates through cascading levels of '*omote* (in plain view) and *ura* (inner, hidden from sight)' (Johnson, 1982: 36, 1995), a fact which enables the bureaucracy to predominate in economic planning but absent formal (or constitutional) instruments of authority – 'the concrete hegemony of a covert elite working within a formal system of legality and popular sovereignty' (Johnson, 1995: 48).

The bureaucratic apparatus of the state is thus uniformly characterised as 'plan rational and developmental', driven by 'situational imperatives' which necessitate pragmatism over ideology. For Johnson, the Japanese state has 'no ideological commitment to state ownership of the economy', but rather its 'main criterion was the rational one of effectiveness in meeting the goals of development' (Johnson, 1982: 23; Chapter 1). When coupled with Johnson's analysis of industrial policy (Chapter 3) – specifically the origins of the Important Industries Control Law and its maturation into formal instruments of government control (licensing and approvals authority) and the broader practices of 'administrative guidance' (principally through industry-specific development laws involving financing, taxes and protective measures enacted by the Japanese state) (Chapter 4) – the image of a preponderant, bureaucratic, top-down, plan-rational development state crowds out the more granular historical details of political contestation, bureaucratic in-fighting or administrative resistance to reform and technocratic leadership.<sup>4</sup> Indeed, in the concluding pages to *MITI and the Japanese Miracle*, while Johnson acknowledges that 'bureaucratic regimes generate two types of conflict: struggles within the bureaucracy, and struggles between the bureaucracy and the central political authorities', he proceeds to highlight how the Japanese devised 'several innovative practices' which largely helped manage

<sup>4</sup> In contrast to Johnson's image of a far-sighted, plan-rational bureaucracy engaged in detailed, systematic economic planning, see the work of Okimoto (1989) and Samuels (1987).

such struggles, in a sense causing Japan to veer from normal political-bureaucratic power struggles and operate in a more plan-rational mode that, while not above politics, was able to control politics (Johnson, 1982: 320–1).<sup>5</sup>

National political competition for Johnson is also sublimated by these same ‘situational imperatives’ and broad cross-national agreement about national priorities and economic goals. This also reflects what Johnson describes as Japan’s unique ‘non-adversarial political culture’ (Johnson, 1995: 8). Political and social conflict is thus depicted as a process of negotiation, compromise and agreement. The ‘puppet Diet working through the LDP [Liberal Democratic Party] majority’, Johnson argues, serves as a ‘mediator between state and society, forcing the state to accommodate those interests that cannot be ignored...and, on occasion, requiring the state to change course’ (Johnson, 1982: 50–1). This is not consensus politics, he insists, but borrowing Kawanaka’s concept “‘interlocking decision-making,” which acknowledges the symbiotic relationships among the bureaucracy, LDP, and the business community’. And while Johnson acknowledges that a politics of this nature is contingent and difficult to sustain, for him it defines the fabric of Japanese social relations that distinguish it from Anglo-American sociopolitical systems (Johnson, 1982: 51, 312).

### The State, Markets and Statism

The impact of *MITI and the Japanese Miracle* was far-reaching, in part because of the timing of its publication, which intersected with a series of important debates at the core of several social sciences disciplines. In development studies and development economics, for example, the ‘market turn’ in North America and the United Kingdom, in response to stagflation and the apparent exhaustion of post-war demand-side Keynesian economics, began a series of intense debates about state interventionism, market distortion and growth outcomes in developing economies. Import-substitution industrialisation (ISI) strategies, in

<sup>5</sup> Elsewhere, Johnson characterises Japan as distinctive, arguing that ‘Japan, quite differently, has a non-adversarial political culture, and a state that for more than a century attracted the best, most highly educated talent available in the society’ (Johnson, 1995: 8).