A New Chinese Model of Economic Development or the Renewal of the Asian Developmental State Model?

Csaba Moldicz

This paper investigates the question whether the contemporary Chinese economic policy has renewed policies of the former Asian developmental state model (once typical in Japan, South Korea and Taiwan) or the Chinese economy model has only borrowed a few elements of the developmental states and offers a new economic development model to the world. It also raises the question: what are the main similarities and differences between the characteristics of Chinese economy and the basic elements of the original developmental state model? In order to find appropriate answers to this question, the paper first needs to describe the main findings of the literature of the developmental state. In this paper, these basic features of the original developmental state model will be compared to the contemporary Chinese characteristics of economic planning and development, thus the paper puts a strong emphasis on the institutional elements of the Chinese economic policy. It must be underlined, that in this paper, the original features of the developmental state serve as basis for our comparison, and the author is aware of the fact, that due to the increasing internationalization of economies, the original model cannot be simply emulated.

1. The Question of the Economic Model

Finding 'all-size fits' recipe to the economic problems of developing countries is similar to squaring a circle, and maybe the biggest challenge to economists. Over the last decades, one of the few countries that has managed to break out of the vicious cycle of poverty, has been China. For many decades, after the Communist party took over Mainland China, and the Kuomintang fled to Taiwan, economic disaster, growing poverty and famine characterized the development of the Chinese economy. China's economic experiments began right after 1979, and after the collapse of the Soviet Union and Eastern European communist regimes, China managed to jump-start its sluggish economy. However, the price to pay was abandoning plans to reform 'real socialism'. In the 1990s, China set off on a path leading towards liberalization and the opening up of the economy, while building a huge domestic market. Due to these reforms and successes, China is the second largest economy in the world, and it has grown into a middle-income country.

The Chinese success and example is extraordinary, but not only because of the pace and sustainability of economic growth, but also because of the size of the experiment. Burleigh draws our attention to this problem: "Hopes of the CCP evolving into Singapore's authoritarian People's Action Party—as Deng Xiaoping and Lee Kuan Yew mused—ignore the problems of scaling up what works in a tightly controlled city-state of 5 million people to a complex society of 1.4 billion people in thirty-three provinces (some much bigger than the biggest European states) in a vast country" (2017, p.198). At the same time, the term model must be interpreted cautiously, it suffices to refer to Deng's often cited sentence, "groped for the stepping stones as crossed the river" to see that Chinese leaders have always been aware of the constraints on the implication of other countries' best practices. As Vogel puts it: "But Deng realized he could not simply import an entire system from abroad, for no alien system could fit the unique needs of China—which had a rich cultural heritage but was also huge, diverse, and poor. He realized what some free-market economists did not, that one could not solve problems simply by opening markets; one had to build institutions gradually".

Burleigh's emphasis is only put on the size, and, indeed, scale of the economic experiment matters, however, sceptic voices do not realize the potential offered by new technologies that can help the Chinese Communist party to build a controlled and a well-functioning economy and society. Notwithstanding, the strong rule of law can be highlighted as different from the Singaporean one, as its theoretical and practical application must be weaker in a society ruled by one party. It must be emphasized that there is a lot of feedback in the contemporary Chinese political system unlike in the former Soviet political system, but ultimately, the Chinese Communist Party can overwrite the basic rules as often as it wants. The other crucial difference is that a large part of officials are not recruited based on merits as in developmental states, but many are still chosen from the party nomenclature. However, before solving this dilemma, we first must understand the model provided by the state developmental state, and we must revisit the literature as well.

2. Characteristics of the Developmental State and Its Application in the Case of China

Focusing rather on microeconomics, classic economists of the 18th and 19th century did not concentrated on macroeconomic issues, economic development questions and the state's role in the economy. Neoclassical economists of the 20th century, however, emphasized 'one size fits all' solutions to problems of both advanced and developing countries, not distinguishing between the needs of developing countries and those of advanced countries.

The Great Depression of the 1930s can be viewed as a turning point in economics since John Maynard Keynes and the Neo-Keynesian economists highlighted the importance of state policies in general, and in times of economic crises in particular. However, only after WWII did economists start to address economic development issues by searching for the reasons for backwardness, and policies to jump-start the economic growth of the poorest nations. Thus, after 1945, development economics became one of the emerging subfields in the study of economics. Since then, its main goal has been to define the basic preconditions of rapid economic development, offering pragmatic answers to problems of underdevelopment. These schools of thought—popular in the 1950s and 1960s, in the era of decolonization—differed widely from each other in their origins, methodology and conclusions.

In the 1980s and 1990s, mainstream thinking was dominated by neoliberalism, which offered one-sided and one-size fits all solutions. One of the most popular recipes was the Washington Consensus, which stemmed from 1989 and dominated the 1990s and the period up to 2008-2009. This paradigm that lost much of its popularity after the Great Recession, rested on two main pillars: more competition and smaller state (Ostry – Loungani – Furceri, 2016, pp. 38-41), whereas the opening up of the economy often led to externally financed economic growth in many countries. This sort of growth was fueled in good times by foreign direct investments and in troubled times by foreign credits creating financial bubbles. The prescription provided by the Washington Consensus also included privatization, open trade policies and deregulation. After the crisis, this approach has fallen from its pedestal. One of the main consequences has been the end of the foreign finance reliant growth model, as in Iceland and the Eastern European countries. Moreover, another element which has changed the economic policies of the post-Great Recession period, is the renaissance of industrial policies, bolstering the notion that competent bureaucrats are able to manage state involvement in productive sectors.

No surprise, attention has turned to the economic development policies of China, which has been successful over the last decades. However, China's experiences may influence other countries, though clearly they are unrepeatable by any other nation. Moreover, the outcome of the Chinese experiment is more obscure than ever. The 'developmental states' of the Far East deliver more relevant lessons to other developing or middle-income countries.

The developmental state paradigm is not the only attempt to frame and interpret the Chinese model. The concept of the 'Beijing Consensus'– a clear hint at the Washington Consensus—was coined by Ramo, who stressed three crucial elements of the Chinese success: the value of innovation, the rejection of GDP per capita approach and self-determination (Ramo, 2004, pp. 11-12).[1] Although the term was frequently used for a shorter period, it failed to reflect many other characteristics of the Chinese economic development and contrast Chinese experiences with the example of Japan and the Four Tigers (South-Korea, Taiwan, Singapore and Hong Kong).

First the paper examines how the original characteristics of developmental states can be utilized in the context of contemporary China, and this compilation of distinguishing features (see below) is based on the consensus of the literature.

Chalmers Johnson was the first conceptualizing the term 'developmental state'. He emphasized the competent and far-sighted bureaucracy as the defining feature of the Japanese economic miracle. The purpose in making a distinction between capitalist and socialist economies, was to draw attention to differences, not to similarities in these economic systems. As he put it: "One of my purposes in introducing the "capitalist developmental state" into a history of modern Japanese industrial policy, was to go beyond the contrast between the American and Soviet economies" (Johnson, 1999, p. 32).

1 The dilemma in the Washington/Beijing consensus, or developmental states, is whether a convergence or divergence of economic institutions is to be observed. While different national needs require diverse policies, pointing to divergence in the models, economic globalization confronts these countries with the same problems, forcing them to use similar approaches leading to convergence. Wan points out that there are essential differences in the literature with regard to the convergence/divergence question: "Modernization theorists argue that developing nations should converge with developed nations if they want to achieve development. Neoclassical economists also believe that national economies will eventually converge as a result of market forces or harmonization through political negotiations. An opposing school sees a persistent divergence among nations" (Wan, 2007, p. 22). Rostow's five stages growth model can still be viewed as a neoclassical approach to economic development, since he develops a theory of uniform pattern economic development (Rostow, 1960). Gerschenkron goes one step further in his 'Economic Backwardness in Historical Perspective' emphasizing the role of the state. The more backward the country is, the more interventionist an approach is needed from the state in channeling the capital to newborn industries. He clearly opposes the idea of uniform development, but he still believes in convergence (Gerschenkron, 1964). Wan's reference to the 'opposing school' includes very diverse schools of developmental economics, which, in contrast to the neoclassical free-market counterrevolution, do not take convergence for granted. Moreover, one of these schools, the international dependence school, advises a delinking strategy to developing countries based on the assumption that the coexistence of poor and rich countries is being dominated by such unequal power relationships that it makes it impossible for poor countries to catch up with the most developed ones (e.g. W. Arthur Lewis, Hollis B. Chenery, Gynnar Myrdal, Celso Furtado, Raul Prebish etc.).

Later, the concept of 'developmental state' became popular, and major contributions were made by Alice Amsden (Asia's Next Giant), Robert Wade (Governing the Market), and others. However, the emphasis was shifted in some cases, some analysts highlighted infrastructure investment, and several policy tools (saving and credit giving schemes, foreign investments, export zones, government interventions to spread technology etc.), history, culture. Only Hong Kong adopted a free market approach among the Asian Tigers. In South Korea and Taiwan, where governments were not democratic, economic performance was needed to legitimize the political regimes. One of the often-recurring arguments is that a strong state is needed to mobilize resources for public goods, since only a strong state is able to convince people and firms about the necessity of painful political adjustments. At the same time, politicians must be credible in the strategy to convince the private sector.

Macroeconomic and political stability are crucial, let us say, they are preconditions of economic success. In each of the cases, the import-substituting policy was part of the history, however short-lived. Another common element in the economic development of these countries was the importance of agriculture, which was not heavily-taxed and agricultural workers were not impoverished. A strong social infrastructure of family, local communities supported by the culture, as well as a modern physical infrastructure financed by governments and donors are to be found in Japan, South Korea and Taiwan. In each case, the 'benevolent' external supporter—the United States, pursuing its own political and economic interests—is also there to aid the countries and advise the elites of these societies.

When it comes to the peculiarities of the industrialization process; the structure of firms, the way how domestic firms are linked to the world economy and the role domestic firms have in the supply chains tends to differ, but they do not matter, when it comes to success. In our understanding, these are the most important elements of the developmental state concept:

- economic development planning with far-sighted bureaucracy,
- huge reservoirs of cheap labor,
- foreign influence on economic policies,
- the link between long-term economic success and democratic institutions,
- and export-orientation.

In the 1990s, globalization and the opening up of national markets made the debate on the developmental state paradigm less heated, and Japan's economic struggles and the ongoing internationalization of economic activities seemed to make the model obsolete and unattractive. However, China's economic success, along with its interventionist approach to economy reignited the debate on the developmental state.

2.1. Economic Development Planning and Far-Sighted Bureaucracy

Planning and efficient bureaucracy are key elements in ensuring a long-term vision of the economic policy. In Japan, the MITI (Ministry of International Trade and Industry) guided the firms in the targeted industries, which were supposed to be the future growth engines of the economy. In the initial phase, they subsidized firms and supported their export-drive. In South Korea, an Economic Planning Board was established in 1961, aiming at formulating and implementing long-term economic plans. Banks under the government of Park Chung Hee assumed a role of guidance and effective control of South Korean firms, while the key means of control were access to credit and capital. Today, the Ministry of Strategy and Finance is responsible for economic planning. In Taiwan, the predecessor of the Council for Economic Planning and Development was established in 1948 and was emerged with Research, Development and Evaluation Commission to form the National Development Council. In Singapore, the so-called Singaporean Economic Development Board formulates strategies that are supposed to enhance the competitiveness of the economy. The board functions under the Ministry of Trade and Industry, and even today around one third of the country's GDP is in the purview of the board that promotes investment and developed industry in the manufacturing and internationally tradeable services sectors.

In China, although economic planning has been practiced since 1953, its nature changed after the economic reforms started in 1978 (Chow, 2011, p. 1). After several institutional metamorphoses, today the National Development and Reforms Commission must "formulate and implement strategies of national economic and social development, annual plans, medium and long-term development plans; to coordinate economic and social development; to carry out research and analysis of domestic and international economic situation; to put forward targets and policies concerning the development of the national economy, the regulation of the overall price level and the optimization of major economic structures, and to make recommendations on the employment of various economic instruments and policies; to submit the plan for national economic and social development to the National People's Congress on behalf of the State Council" (NDRC, 2017). As it can be seen, the functions of the NDRC are comprehensive from the formulation to the implementation of the five-year plans. Although we cannot see the term planning in the name of the NDRC, the Commission continues to prepare these plans, and the National People's Congress has to approve the plans, which vividly shows the importance of planning. Indicators of the economic development are formulated in target numbers. The 12th Five-Year Plan contains 24 target numbers, which the 13th Five-Year Plan evaluates, which is not difficult since the targets are formulated in numbers.

Table 1

Fulfillment of the Main Targets of the13th Five-Year Plan in 2015

	Target	Fulfillment
Economic development		
1. GDP growth (trillions of yuan)	7%*	7.8%*
2. Value added of the service sector (as of GDP)	47%	50.5%
3. Permanent urban residents	51.5%	56.1%
Science, technology, and education		
4. 9-year compulsory education completion rate	93%	93%
5. Senior secondary education gross enrollment rate	87%	87%
6. Research and development expenditure rate (as of GDP)	2.2%	2.1%
7. Patents per 10.000 people	3.3	6.3
Resources and environment		
8. Arable land (millions of hectares)	121.2	124.3
9. Water use reduction per unit of industrial value added (%)	30%*	35%*
10. Agricultural irrigation efficiency	0.53	0.532
11. Non-fossil energy (% of primary energy consumption	11.4%	12%
12. Energy consumption reduction per unit of GDP	16%*	18.2%*
13. CO2 emissions reduction per unit of GDP (%)	17%	20%
14. Aggregate major pollutant emissions reduction (%)		
Chemical oxygen demand	8%*	12.9%*
Sulfur dioxide	8%*	18%*
Ammonia nitrogen	10%*	13%*
Nitrogen oxide	10%*	18.6%*
15. Forest growth		
Forest coverage (%)	21.66%	21.66%
Forest growing stock (billions of m3)	14.3	15.1
Living standards		
16. Urban disposable income per capita (yuan)	>7%	7.7%
17. Rural net income per capita (yuan)	>7%	9.6%
18. Registered urban unemployment rate (%)	<5	4.05%
19. New urban employment (millions of people	45*	64.3*
20. Urban participants in the basic pension plan (millions of people)	357	377
21. Basic state health insurance coverage (%)	3*	>3*
22. Government subsidized urban housing (millions of units	36*	40.13*
23. Total population (billions of people)	<1.390	1.375
24. Average life expectancy (years)	74.5	76.34

Source: The 13th Five-Year Plan for Economic and Social Development of the People's Republic of China (2016–2020) pp. 8-9.
Note: figures with asterisk show 5-year average.

Looking at this table, it is clear, that the Chinese planning bureaucracy was careful of choosing measurable targets and indicators by which it was easy to reach the goals. To our understanding, the more powerful the state is, and the more direct access the state gains to influence economic processes, the easier it is to reach these goals. Therefore, the share of state-owned enterprises (SOEs) is measured in several aspects. Unfortunately, the latest data we have access to are from 2011. Based on the China Statistical Yearbook 2012, the number of SOEs shrank from 39.2 percent in 1998 to 5.2 percent in 2011. However, during the same time, the gross industrial output only fell to 26.2 percent (1998: 49.2 percent), while the share of total industrial assets dropped to 41.7 percent (1998: 68.8 percent). This shows that the concentration process has been going on over these years, and the productivity has been rising among these enterprises. It is worth noticing sectors like textiles, rubber, general machinery, where SOEs no longer are dominant forces. These branches are usually labor-intensive and contestable sectors.

In international competition, complaints of other countries address the question of the preferential treatment of SOEs in form of licenses, contracts and bank-financing. Karpov maintains: “The second dimension is a very specific “market-oriented” price reform, which Chinese experts usually call “double-track”, meaning the parallel existence of “plan” and “market” pricing in the national economy. In fact, instead of “double-tracking”, what emerged from this gradual reform was rather a “multiple-track” price setting. ...Each “track” is, in fact, a sum of conditions on which different units-players of the system participate in the domestic “market”. This sum of conditions for a certain unit is achieved through non-transparent bargaining between this unit and the related level of party-state authorities or between mutually depending units under control and patronage of the related party-state organs. By such bargain economic players in the given setting define the scale of quotas of raw materials and processed produce to be procured or sold on “plan” and “non-plan” prices” (Karpov, 2018, p. 193).

The report of the U.S.—China Economic and Security Review Commission corroborates Karpov’s general assessment when analyzing data from the Chinese economic stimulus packages in 2008-2009. The percentage of state-owned enterprises in loans (SOEs) rose from 35 percent (2008) to 45 percent (2009) (China-United States Exchange Foundation, 2012, p. 11). At the same time, even later declining ratios over-represent their diminishing share in the economy.

Besides economic planning, there is an often-overlooked element, which is essential in the implementation of plans. Far-sighted and independent bureaucracy is the key in the implementation part. In the 1950s, 1960s and 1970s, the selection of bureaucrats was rarely based on merit. Even enrolling in academic programmes was deeply influenced by party-loyalty. Only at the end of 1970s, requirements to enter university were raised. As Vogel (2011) observes in relation to the upper education system: "The system Deng introduced in 1977 has continued ever since, creating a cascade of positive results for China. As in Japan, South Korea, Taiwan, and Singapore, Chinese university entrance examinations raised the quality of both university applicants and recruits entering the workforce."

To sum up, traditions of economic planning are stronger in China than in other advanced Asian countries, thus despite the declining shares of SOEs, the Chinese economy heavily intervenes in economic processes, and the main tools of interventions remain the SOEs. If the government really would privatize and move these firms to market reforms, it would mean abandoning control over the economy. Western observers often maintain that the Chinese Communist Party does not want to reform this sector wholeheartedly, but the experiences of the four Asian Tigers, in particular, those of Japan and South Korea demonstrate that close controls of the economy might be maintained over banking loans and other economic policy tools as well. At the same time, it must be underlined, that the independence of bureaucrats is more restricted currently, mainly based on the Communist Party's direct influence.

2.2. Huge Reservoirs of Cheap Labor

In the initial stages of development, both Japan and the four Asian Tigers had undergone a period, when emphasis on cheap, hardworking labor provided international competitiveness and significant external revenues to the economy. Based on net exports and current account surpluses, financial stability and reliance on internal financing of the economy could be ensured. Export products came from sectors, where capital ratio was low, skilled workers were less in demand. The export-orientation was maintained later, however, it was complemented by the export of high technology products and growing domestic consumption. In the mature stage of economic development, the currency exchange rate became a crucial element, since in each case, these advanced Asian countries were attacked for maintaining artificially low exchange rates. Nevertheless, later Japan, South Korea and Taiwan switched to freely floating exchange rates and let their currencies appreciate. By focusing on high added value segments of production and services, these countries were able to avoid the so-called 'middle-income country trap', which refers to the problem of countries that kickstarted their economic growth by relying on cheap labor. The successes of this strategy made the continuation of the very strategy impossible, since rising incomes made cheap labor not cheap anymore.

It can be argued that China has already reached the so-called Lewis-turning point. This point is reached, when a country runs out of surplus rural labor, and labor shortages (at least on this wage level) can be observed until a rise in agricultural and unskilled wages generates labor surplus again. Between 2008 and 2016, the Chinese average wages doubled. In 2008, the average yearly wage was 29.229 RMB, the same figure was 65.569 RMB in 2016.[2] The rise in incomes adversely affects the competitiveness and new competitive advantages must be found. That is the point, where the Four Asian Tigers managed the breakthrough and the Eastern European countries failed to transform their economy and stuck in a limbo where they are not cheap anymore, and not advanced yet.

However, it is apparent that wage costs have significantly soared in China over the last decade, though urban population share certainly has not reached the level typical for advanced countries. This ratio in China was only 58 percent in 2017, which is a very low figure compared to Japan (94 percent), Germany (76 percent), United Kingdom (83 percent), United States (82 percent) and South Korea (83 percent). In other words, it is more than possible that there is plenty of surplus rural labor capable to migrate and work on low wages in the decade to come. The menace threatening this model might not come from surplus shortages, but the ever-growing inequality within the society. Until that point, similarities between China's economic development and Japan's, the Four Asian Tigers' path were clear and striking. However, Japan and the other advanced economies implemented policies aimed at improving wealth distribution in the society. For example, a special characteristic of Taiwan's development was—regardless of huge foreign capital inflows and high growth rates—that the income inequality decreased permanently: the Taiwan Gini index was 0.56 in 1953, 0.32-33 in 1963 and 1968, and decreased to 0.29 in 1973 (Barrett–Whyte, 1982, p. 1069). Bourguignon – Fournier – Gurgand (2001) state that this tendency of low income inequality lasted until the mid-1990s and the globalizing world economy reversed this trend. But still, we compare Gini indexes of Japan (2008: 0.33), South Korea (2012: 0.32), and other advanced countries' indicators (Germany 2011: 0.30; United Kingdom 2014: 0.34; United States 2013: 0.41) to China's Gini index, the difference is significant (China 2015: 0.44).[3]

2 Data are from www.tradingeconomics.com
3 Data are from World Bank's database. In each case, the latest available data was given.

A growing gap between the haves and have nots is an inherent feature of the Chinese economic development path, standing in sharp contrast to the Asian developmental states. It is not absolute given that this situation cannot be changed. In the Asian developmental states, the rural land reforms implemented the land to the tiller principle, which contributed to a relatively equal distribution between the urban and rural population. The success of the land reform after WWII was another shared element with South Korea and Japan. In each case, the reform was considered as an initial condition, which significantly contributed to later industrial successes. As Ranis contends, "A second, related and substantial initial advantage, shared in the region only by South Korea, was that of a three-step land reform, implemented between 1949 and 1953" (Ranis, 2007, p. 37). In the case of Taiwan, it provided savings, the necessary initial step, in order to build up a broad industrial base. At the same time, the land reform meant a shift in the structure of agricultural products as well; the new products required more labor, but they could be sold in international markets.

In Japan, Takada stresses the salience of the agricultural reform as well. According to Takada, America's reform efforts targeted the break-up of the zaibatsu system, the speed up of the land reform and the democratization of the labor market. The land reform meant that "landlords were forced to sell their holdings of land. These lands were bought up by the government for redistribution to tenant farmers" (Takada, 1999, p. 8).

In China, the land reform was initiated in 2014, aiming to grant farmers more rights to benefit from collective land in villages. The reform did not allow for the famers to purchase the collectively owned land, but they could gain a share in the collective assets. The pilot programme, which started with 129 counties was extended to include 300 counties in 2017. According to plans, the reform will be implemented by the end of 2021.

2.3. Foreign Influence on Economic Policies

The first advances in infrastructure in Japan, South Korea and Taiwan are easily traceable to the same kind of foreign influence, and their general positive impact can be viewed as essential element of their economic development. Although Singapore was colonized by the British, it is obvious that the country's rapid economic development cannot be linked to positive British influences on the economy. The free trade approach, which stands in contrast with Japan, South Korea and Taiwan, particularly in the first decades of the afterwar-period, is rather a necessity than choice of the economic policy planners in Singapore.

As for Taiwan, Ranis (2007), Booth (2007), and Thorbecke – Wan (2007) also highlight the overall positive effects of Japanese colonization between 1895 and 1945. Ranis put it this way: "Taiwan's colonial heritage undoubtedly made an important contribution to subsequent economic growth. The Japanese colonial administration—if for its own selfish reasons, such as its need for sugar and rice—expended substantial resources and attention on Taiwan's rural sector, in the form of road, drainage, irrigation and power construction projects. It also improved the rural institutional infrastructure through promotion of agricultural research, creation of experimental stations and, most importantly, the establishment of farmers' associations" (Ranis, 2007, p. 37). When it comes to the effects of Japanese colonization, Taiwan stands out, since colonization rarely generated positive effects in other colonized countries. Referring to an unpublished paper by Matsuzaki, Fukuyama states that the success of state-building in this case depended mostly on the autonomy of the agents on the ground (Fukuyama, 2015, pp. 313-322). That was a good start for economic development, however, the benefits were clearly restricted to improvements in the island's infrastructure. The Americans had a similarly strong influence on the Taiwanese economic policy through economic aid and assistance in the 1950s and 1960s. Japan's economic reforms were forced or led by the Americans after the WWII. Takada summarizes the power relations leading to America-influenced economic institutions as follows: "The Occupation of Japan took the form of indirect rule due to the existence of the Japanese government, but the reform policies set forth by the Allied Powers was more of a direct rule to Japan. General Douglas MacArthur as the Supreme Commander for the Allied Powers (SCAP) led the Occupation and the first step MacArthur took before implementing the reform policies were to establish economic demilitarization and to ensure that all production of military materials had stopped and closed down" (Takada, 1999, pp. 6-7). The three initial reforms: the breakup of zaibatsu, the land reform and the democratization of the labor market enabling the formation of trade unions, were followed by the so-called Dodge-plan, which had three reform elements: the creation of balanced budget, the suspension of new loans and the abolition of subsidies. The Dodge-plan was aimed at curtailing inflation.

The South Korean land reform also shows the importance of foreign influence. Kang emphasized political motivations behind the American push: "The U.S. State Department recommended land reform in South Korea in 1947 to show a strong commitment to keep ROK safe from the Soviet influence. Land reform was one of the necessary safeguards that needed to be placed before leaving, in association with financial assistance and supervision through the World Bank. The United States forced the Rhee government to implement land reform that the National Assembly had passed in 1949" (Kang, 2011, p. 134). It was very clear to the Americans that strong state and robust economic growth complement each other, and the economic aid was substantial in the Korean case as well. In average, around 200 million USD was granted to South Korea, which reached 70 percent of the state's revenues in 1958. In other words, American aid was the only available financial source for South Korea in the 1950s.

As for China, it is clear that the humiliating treaties with the colonizing European powers, and the separated economic and political development of Hong Kong until 1997 deeply influenced Chinese decision-makers in the afterwar-period, Mao Zedong's and Deng Xiaoping's decisions in particular, which aimed to create a political and economic environment in which none of the external powers (including the Soviet Union) could influence the way the Chinese have been organizing their economy. Vogel maintains in his book (Vogel, 2011) that Singapore served as model for Deng, however, it soon became clear to him that only a few elements could be borrowed from the model countries.

China's remarkable economic progress has shaped and altered the attitude of Chinese leaders to the question of economic (political) model profoundly because Deng Xiaoping's 'keep a low profile' advice has been replaced by a more assertive approach claiming the superiority of the Chinese model over Western systems (Bardan, 2017). However, this step leads us to the next feature of developmental states, namely, democratic institutions.

2.4. The Link between Long-Term Economic Success and Democratic Institutions

Although there are still many different approaches to economic development problems, there has been a growing consensus among development economists over the last decades that the nature of economic and political institutions is crucial in explaining success or failure, as they are key elements in creating and maintaining a favorable environment for businesses and innovations, as long they are able to include broad layers of society. See these three examples of typical approaches:

- Acemoglu – Robinson argue that the way institutions within society are organized is decisive in the outcome, in the productivity of the economy and the well-being of citizens (Acemoglu – Robinson, 2012).

- This very old argument was first used by Lipset (1959), who connected economic success with democratic pluralism, thus provoking debate.

- A modern version of this argument is to be found in Ferguson, who summarizes all these crucial elements of success under six headings: competition, science, property rights, medicine, the consumer society, and the work ethic (Ferguson, 2011, p. 12). These “killer apps” not only characterize Western European countries, but Taiwan as well. However, these explanations put more emphasis on similarities existing between Western and Asian success stories, while the ‘developmental state’ paradigm underlines discrepancies between Western and Asian free market models.

However, the paper argues for the exclusion of this element from the basic features of the developmental states. Why? Because among the Four Tigers, Hong Kong and Singapore not only differ from South Korea or Taiwan in terms of size, but also in terms of their position on democratic values. In addition to Taiwan and South Korea, Japan no doubt has inclusive democratic institutions, while Hong Kong’s special status and Singapore have been featured as partly free countries in the latest Freedom House Report (2018).

Another aspect at this stage is that all three; Japan, South Korea and Taiwan were already embarking on a path leading to economic success, when they were not democratic countries yet. Ley and Fukuyama are keen to point out that democracy is not a necessary element of the catch-up process. They argue that the success of a political order can be measured by different indicators. However, theoretically, there are five important elements which matter in the long run:

- the rule of law;
- rapid economic growth;
- democratic institutions;
- a competent and efficient state bureaucracy; and
- a vibrant, strong civil society.

Levy and Fukuyama (2001, p. 3) compiled this list of components that are crucial to implementing a successful development strategy. There is a broad consensus on the essential elements of a successful political order, however, there is disagreement over whether the sequencing among these elements matters or not. While Mansfield and Snyder are cautious about democratization without having an efficient (impartial), relatively competent state-mechanism[4], Carothers and Berman doubt whether get-

4 “Based on these findings, we argued that it is dangerous to push states to democratize before the necessary preconditions are in place and that prudent democracy-promotion efforts should pay special attention to fostering those preconditions” (Mansfield – Synfeld, 2010, p. 159).

ting the sequence just right (first state-building before holding democratic elections) is necessary to reduce the risk of violence during the transition (Carothers, 2007, pp. 17-27; Berman, 2007, pp. 14-47).

Along with Fukuyama, they argue that, aside from the East-Asian examples, it is difficult—almost impossible—to break the self-reinforcing cycle between autocratic political institutions and extractive economic institutions exploiting most of the population. Fukuyama put it thus: "The problem, as Carothers points out, is that the number of cases where one can find genuine development-minded autocrats is extremely small. Carothers is also right that outside powers greatly overestimate their influence if they think that they can somehow determine the sequencing of reforms. I would simply add that virtually all the real cases of this kind of sequencing have occurred in East Asia, where Japan, South Korea, Taiwan, and Thailand (at least until the September 2006 military coup in Bangkok), which countries have made democratic transitions. Moreover, the authoritarian governments in China and Singapore have built impressive economic growth records. It is no accident that these cases are grouped in East Asia. Many countries in that region had long traditions of strong states with merit-based bureaucracies well before they began modernizing. Confucianism is in part a doctrine about the state, and it prescribes clear rules for bureaucratic authority and recruitment that have provided a cultural foundation for the region's so-called developmental states" (Fukuyama, 2007, p. 10). One feels tempted to accept Fukuyama's argument linking Confucianism to the developmental state, however, one might also raise the following questions:

- Why did not the developmental states emerge much earlier, since Confucianism was there well before the 1950s and 1960s?

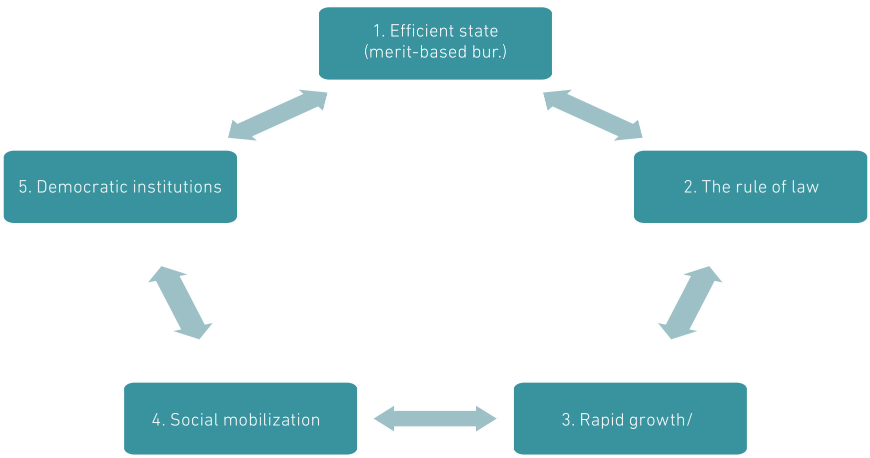
- How can one explain the case of Vietnam, where though Confucianism is practiced, the developmental state was not formed?

- How can one explain Japan's developmental state, where though Confucianism is being practiced, the main religions are Shinto and Buddhism?

Clearly the idea goes back to Max Weber, who explained the economic success of England and the Netherlands with Protestantism and its work ethic. However, we face the same problem with this argument, since it does not explain the very late emergence of the developmental state.

Based on the idea of sequencing, the crucial question that remains is: what are the possible scenarios countries may face in their development? Fukuyama delineates three basic models[5], from which the Prussian/German or Japanese sequencing is the most akin to the Chinese development path, at least until now. He maintains that in the German/Japanese model, the first step was to build an efficient state (step 1), which required bureaucrats, who could rely on rules, and thus the implementation of a system based on the rule of law followed (step 2). The two elements prepared the stage for an economic take-off (step 3) around the end of 19th century. This might explain why in this example the state has had a much larger role in economic development than in England. In the decades of the economic boom, a new social class—that of the workers—emerged (step 4), demanding more participation in the political system (step 5). As we know, it was only after WWII that liberal democratic institutions could be stabilized in Germany and Japan.

Diagram 1.
The German/Japanese Path

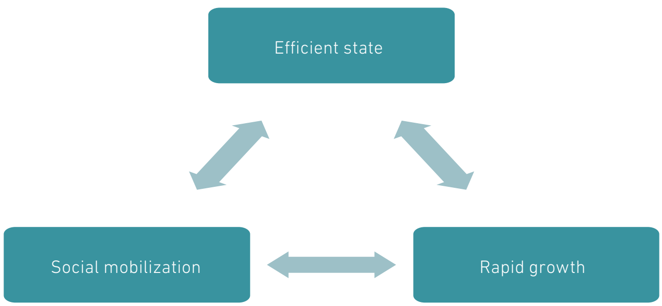


Source: own diagram based on Fukuyama 2014

5 Besides the German, he finds the models in the US and Greece/Italy. He maintains that the American society took a different path from the German, since the first element was rule of law (step 1), which along with the early democratization of the country (step 2) laid the foundation for fast economic growth (step 3). The economic growth created strong social mobilization (step 4), which supported state-building (step 4). As we can see, state-building, which was the first stage in Prussia, came last in the United States. At the same time, Fukuyama demonstrates that, in the cases of Greece and Italy, social mobilization and democratization preceded state-building and economic growth. This sequencing is detrimental to stability, if the rule of law is not implemented properly (Fukuyama, 2014, pp. 198-216).

In the Chinese model, the formation of more or less efficient state/bureaucracy is the first element (step 1) followed by robust economic growth (step 2), and the emerging middle-classes (step 3). However, the rule of law and the democratic procedures based on consultation are weak if only measured in Western terms. There is a clear modernization process, since the Chinese model is more democratic than it had ever been. It tries to function more democratically, albeit only selectively: on local level, and within the Communist Party itself. Goralczyk refers to Zheng Yongnian's works in Chinese, who maintains that China is in a phase of strengthening its society. And as in the case of Taiwan and South Korea, after this phase, he argues, the country will be ready to conclude the democratization process (Goralczyk, 2017, p. 45). However, there is the example of Singapore, where in addition to the former element, the rule of law is firmly implemented, and there are also democratic institutions, albeit not resembling the Westminster model of democracy. The question, which cannot be answered at this stage, is whether the Chinese elite can find ways to use some elements of the Singaporean experience and thus make the Chinese economic growth rate sustainable and self-supporting.

Diagram 2.
The Chinese Path



Source: own compilation

2.4. Export-Orientation

Export-orientation and the policy for an open economy are not the same, since export-led economic policy can be pursued even though the domestic market is not easily accessible to foreign firms. The best indicator of pursuing a successful export-orientation is the state of the current balance. Looking at the advanced East-Asian economies' indicators, like those of Japan, South Korea and Taiwan, this strategy is easily detectable in figures. The Taiwanese economy was very successful in this aspect, since between 2000 and 2017 the average current account balance surplus (as of GDP) was 8.99 percent. Over the same period, South Korea's surplus reached 3.13 percent, while Japan had a 2.84 percent surplus on average. Comparing China's performance to the model countries, it is not difficult to see that China's economic policy can also be characterized by export-orientation. The current account balance was 3.73 between 2000 and 2017.

The same ranking can be compiled if using the GDP export ratios. Table 2 shows the merchandise and services export data as of GDP in 2016. Taiwan is followed by South Korea and China, and at the end of the list Japan can be found again, although Japan was the first Asian country to switch to an export-led growth path in the 1950s, while the government heavily protected domestic market players by implementing non-tariff barriers. Special vehicles of external trade were set up such as the "general trading companies" that attempted to identify market niches of the world market that could be targeted. Among scholars, there is a general agreement that the Ministry of International Trade and Industry (MITI) had a very strong role in directing the economy and in giving the right export incentives.

Table 2

Openness in trade (2016)

	Export as of GDP	Merchandise export as of GDP	Services export of GDP
China	20.55	18.70	1.85
Japan	16.48	13.06	3.42
South Korea	45.66	35.11	6.50
Taiwan	60.82	53.04	7.78

Source: WTO database and own calculations

South Korea was the first country in the Asian region to follow Japan's example. It introduced export-oriented policies after 1961. In contrast to Taiwan, which at first operated with state-owned enterprises, the South Korean government did not establish them to lead the export boom. Instead, it promoted the establishment of the so-called national champions, which as flagships of the country's economy, could lead the modernization of the economy. However, the government control of the economy was stronger than in Taiwan, due to subsidized long-term loans, and other measures of export promotion, which enabled the government to set strict export targets. Taiwan also followed the example of Japan very early on. Along with export-promotion measures, the first export processing area of the country was set up in Kaohsiung in 1966, so the country's comparative advantages could be utilized in textiles and other industrial sectors. In the area, three zones—a free trade zone, a duty-free zone, and an industrial park—were integrated, thus providing a new economic model for the world (See more details in: Karalekas, 2016; Csáki, 2016).

Before continuing with the example of China, it is worth looking at the theoretical background of export-promotion, and the competing idea of the import-substitution policy. The idea behind import substitution was to build up an own broad industrial base and to only import goods and services that the domestic companies were not able to produce or provide. Based on this policy, many countries attempted to catch up with the West (Former socialist countries, Latin American countries). However, only countries like Japan, Taiwan, and South Korea could complete this process, which changed from import substitution to an export-led strategy relatively early. For the failure of the import substitution policy, there are plenty of examples to be found in the former socialist countries of Eastern Europe. These failures cannot only be explained by the inherent problems of centrally planned economies, since Latin American countries using the same recipe had a more or less free market system. On the other hand, China has a centrally planned economy and indeed, the country has so far managed its catching-up process. While Wu argues that only structural reforms implemented by a strong state can provide a reason for the success of the East Asian countries (Wu, 2005, p. 251), these examples show that the 'state' factor alone cannot explain the success or failure of the import-substitution policy.

What is more critical is whether an adequate size of domestic market can be secured. The question of optimal size can only be defined if we specify the used technology first. In other words, while the import-substitution policy could provide appropriate growth impulses in Germany, Japan and the US at the end of 19th century and at the beginning of the 20th century, the same approach to economic development could prove unsuccessful since the used technology and thus the minimum size of optimal market has changed. Therefore, China is a special case, since it is one of the last few countries, that can secure the optimal size of the market in the 21st century.

Besides the large market, economic incentives to invest, to modernize and upgrade technology, to maintain or increase employment and to find green solutions, are often provided by the state. In Europe, there are plenty of development banks, which significantly contribute to investment and economic development. Among the advanced Asian economies, South Korea (Korea Development Bank), Singapore (Development Bank of Singapore), Taiwan (Bank of China) and Japan (Development Bank of Japan) could be mentioned as examples, where development banks are important elements of economic development. In China, the mono-banking system was abolished in 1984, when four entities were carved out of the People's Bank of China. In 1994, a decade later, three policy banks were created: the Chinese Development Bank (CDB), the Agricultural Development Bank of China, and the Export-Import Bank of China. This division of labor is not unusual. In Germany the Agricultural Bank (die Rentenbank), and the KfW (die Kreditanstalt für Wiederaufbau) share responsibilities, while the export-import functions are delegated to a subsidiary of the KfW (KfW IPEX-Bank).

In the late nineties, the importance of China's Development Bank increased since the banking system was burdened by the substantial share of non-performing loans. Later in the following restructuring process, the Development Bank of China took on substantial role, and it became a key player in writing off the bad loans. (The different estimates vary between 30 and 40 percent of the outstanding loans.) It is no surprise that the CDB focused on the financing of large infrastructural projects (airports in Shanghai, Beijing, the Three Gorges Dam, subway system and the high-speed railway network etc.), while the Agricultural Development Bank of China targeted agricultural production, and the Export-Import Bank of China's loans were directed towards export. Looking at the 2016 report of the CDB, it is clear that the infrastructure-focus is strong and most of the loans were directed towards medium (30.6 percent) and long-term projects (48.7 percent) in 2016. As data suggest, CDB's role is to provide loans to infrastructure projects, which gestation is longer than that of the commercial loans. Due to the classical functions of development banking, the CDP does not take deposits, but the bank borrows the needed financial resources by issuing long-term bonds in the domestic market, which are being purchased by Chinese commercial banks.

Table 3

Outstanding Loans Balance in 2016 by Industry

Urban renewal	21.87
Highways	16.23
Public infrastructure	11.30
Strategic Emerging Industries	8.46
Electric Power	8.46
Railways	7.51
Petroleum and Petrochemical	6.14
Others	20.03

Source: Chinese Development Bank, Annual Report, 2016, p. 7.

The total assets of the CDB were 1.904 billion USD in 2016, while the Agricultural Development Bank of China had 2.817, and the Export-Import Bank of China 427 billion

USD. It is worth comparing these banks with the Korea Development Bank (268 billion USD), the Development Bank of Japan (141 Billion USD) and the KfW Group (536 billion USD).

3. Conclusions

Based on the former analysis, the following divergent and common features can be underlined when comparing the Chinese economic model to the developmental states of Asia.

- Economic planning tools are stronger in China than it had been in the original development states. Not only the state-owned enterprises have larger role in the economy, but China still has a multi-track price setting system, which distorts market prices, but at the same time helps guiding the enterprises into new sectors. (Similar systems could be found in the 1950s and 1960s in Japan, South Korea and Taiwan.)

- The role of developmental banks is much stronger in China than in Japan and South Korea. It suffices to look at the total assets/GDP ratios, where China ranks first with 45 percent, while the assets of the South Korean development bank reach 15.41 percent of the country's GDP (Based on 2016 data).

- Cheap labor still characterizes the Chinese economy. Although it is true that wages are rising, there are still backups of cheap labor in the rural sector of China. As a result, inequality is on the rise in China. In our understanding, growing inequality is a key feature of the Chinese development, but it is not typical for development states.

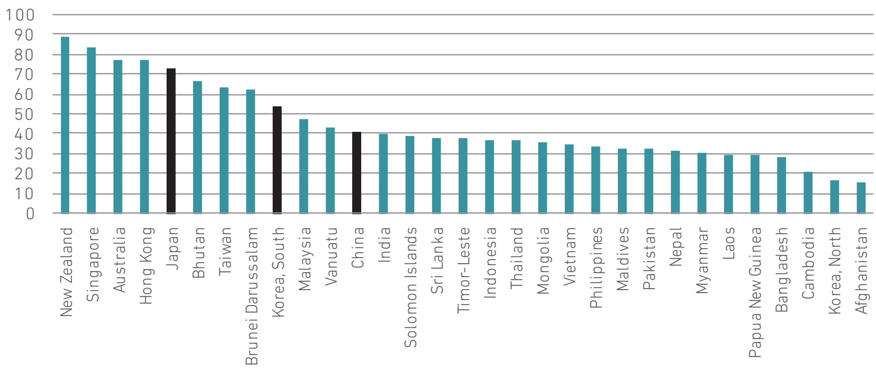
- Land reform was crucial in each case: Japan, Taiwan and South Korea started their industrialization process with the land reforms that were finished in the 1950s, and 1960s. Although the Chinese have taken steps to modernize the agricultural sector over the course of the last years, that process is far from being finished.

- The link between democratic institutions and growth rate is absent in the case of China, however, in our understanding, this link is not a crucial element of the developmental state model. The rule of law and the relative independence of state bureaucracy, and the merit-based selection are more important and inherent elements of the developmental state model, however, China's performance is weak in these features, in particular corruption is a widespread problem. According to the corruption perceptions index 2017, compiled by Transparency International, China had 41 points and was ranked the 77th in the world, while Japan ranked the 20th

(73 points) Taiwan the 29th (63 points) and South Korea the 51st place (54 points) in 2017 (See Diagram 3). However, cozy capitalism is a not new feature in the analyzed Asian economies, and China is not an exception.

Diagram 3

Corruption Perception Index in the Asia and Pacific Region (2017)



Source: based on data of Transparency International. https://www.transparency.org/news/feature/corruption_perceptions_index_2017#table

Export-orientation is strong in each case, however, the Chinese market is more closed than other Asian markets. Given the site and the different historical development path of China, this is not too much of a surprise. That is probably one of the reasons why China did not share the feature of strong foreign influence on economic policies in the initial years. And learning from the bad experiences of the 1930s, China was cautious not to open its economy too fast to the foreign capital, while implementing the first special economic zones in Guangdong and Fujian and, later, while expanding this model to other areas of China.

To sum up, it can be argued that the Chinese economic model is unique because of its size, the country's historical development, however, it does bear strong resemblance to the original developmental states model of the advanced Asian economies. The model can be efficiently utilized, when depicting the Chinese economy, and the resemblance is more striking, when we consider how much the world economy has changed over the decades. Therefore, in our understanding, the Chinese economy can be considered as a special case of the developmental state in the 21st century. The differences between China and the three analyzed Asian economies would not be outstanding if one did not consider the freedom of maneuvering room for economic policy, which follows from the size of the economy.

References

Acemoglu, Daron – Robinson, James A. (2012): Why Nations Fail? Crown Publishers. New York.

Bardan, Pranab (2017): China's Solitary Development Model. Project Syndicate [online] Available form: https://www.project-syndicate.org/commentary/china-model-xi-jinping-new-option-to-democracy-by-pranab-bardhan-2017-12

Barrett, Richard, E. – Whyte, Martin King (1982): Dependency Theory and Taiwan: Analysis of a Deviant Case. American Journal of Sociology. Volume 87. Issue 5 March, pp. 1064-1089

Berman, Sheri (2007): The Vain Hope for Correct Timing. Journal of Democracy. January, 2007 Volume 18. Number 3. pp. 14-17.

Booth, Anne (2007). Can the 'Taiwan model' of growth with equity be replicated in the Southeast Asian context? In: Taiwan in the 21st Century. Aspects and limitations of a development model. Edited by Robert Ash - J. Megan Greene. Routledge Taylor & Francis Group, pp. 74-99.

Bourguignon, F. – Fournier, N. – Gurgand, M. (2001): Fast Development with a Stable Income Distribution: Taiwan, 1979-1994. Review of Income and Wealth, Series 47, Number 2. June.

Burleigh, Michael (2017): The Best of Times, the Worst of Times. A History of Now. Macmillan. p. 541.

Carothers, Thomas (2007): The Sequencing Fallacy. Journal of Democracy. January, 2007 Volume 18. Number 1. pp. 12-27.

Central Committee of the Communist Party of China: The 13th Five-Year Plan for Economic and Social Development of the People's Republic of China (2016–2020)

Chinese Development Bank (2016): Annual Report.

China-United States Exchange Foundation (2013): US-China Economic Relations in the Next Ten Years: Towards Deeper Engagement and Mutual Benefit. Chapter 16. [online] Available form: https://www.chinausfocus.com/2022/wp-content/uploads/Part+02-Chapter+16.pdf

Ferguson, Niall (2011): The West and the Rest. The Penguin Press.

Fukuyama, Francis (2007): Liberalism versus State-building. Journal of Democracy. January, 2007 Volume 18. Number 3. pp. 10-13.

Fukuyama, Francis (2014): Political order and political decay. From the Industrial Revolution to the Globalization of Democracy. Farrar Straus and Giroux.

Fukuyama, Francis (2015): Political Order and Political Decay: From the Industrial Revolution to the Globalization of Democracy. Farrar, Straus, Giroux New York.

Goralczyk, Bogdan (2017): Eastern-Asian development model: the growth-fostering state. [online] Available form: http://dx.doi.org/10.7172/978-83-65402-51-6.wwz.2.2

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

Kang, Miongsei (2011): The Impact of the Korean War on the Political-Economic System of South Korea: Economic Growth and Democracy International Journal of Korean Studies · Vol. XV, No. 1

Karpov, Mikhail (2018): East European "BigBang" Revisiting East Asia? Why Chinese "Gradual Transition" Can End Up with "Shock Therapy. Contemporary Chinese Political Economy and Strategic Relations: An International Journal Vol. 4, No. 1, April 2018, pp. 179-202

Levy, Brian – Fukuyama, Francis (2001): Development Strategies. Integration Governance and Growth. The World Bank. Policy Research Working Paper. 5196

Lipset, Seymour Martin (1959): Some Social Requisites of Democracy: Economic Development and Political Legitimacy. The American Political Science Review 53 (1), pp. 69-105.

Mansfield, Edward. D. – Snyder, Jack (2010): The Sequencing Fallacy. In: Debates on Democratization, Edited by Larry Diamond, Marc F. Plattner, Philip J. Costopoulos. The John Hopkins University Press. Baltimore. pp. 159-163.

National Development and Reform Commission (2017): Main Functions of the NDRC. [online] Available form: http://en.ndrc.gov.cn/mfndrc/

Ostry, Jonathan D. – Loungani, Prakash – Furceri, Davide (2016): Neoliberalism: Oversold? IMF Finance and Development, June 2016, Volume 53, Number 2. pp. 38-41. [online] Available form: https://www.imf.org/external/pubs/ft/fandd/2016/06/pdf/ostry.pdf

Ramo, Joshua Cooper (2004): The Beijing Consensus. The Foreign Policy Centre. [online] Available form: http://fpc.org.uk/fsblob/244.pdf

Ranis, Dustav (2007): Taiwan's success and vulnerability. Lessons for the 21st century. In: Ash – Greene eds., 2007. pp. 36-53.

Rostow, Walt Wittman (1960): The Five Stages of Growth-A Summary. The Stages of Economic Growth: A Non-Communist Manifesto. Cambridge: Cambridge University Press. pp. 4-16.

Takada, Masahiro (1999): Japan's Economic Miracle: Underlying Factors and Strategies for the Growth. [online] Available form: http://www.lehigh.edu/~rfw1/courses/1 999/spring/ir163/Papers/pdf/mat5.pdf

Thorbeke, Erik – Wan, Henry (2007): Taiwan's Development Experience: Stability with Growth. In: Ash-Greene eds., 2007. pp. 54-73.

Transparency International (2017): Corruption Perceptions Index 2017. [online] Available form: https://www.transparency.org/news/feature/corruption_perceptions_index_2017

Vogel, E. (2011): Deng Xiaoping and the transformation of China. Cambridge, Massachusetts and London: The Belknap Press of Harvard University Press

Wan, Min (2007): The Political Economy of East Asia. Striving for Wealth and Power. CQ Power