

THE EVOLUTION OF THE IDEA OF DEVELOPMENT: FROM
DEVELOPMENTALISM TO FINANCIALISATION IN A COMPARATIVE
PERSPECTIVE

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PERSPECTIVE**

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ABSTRACT

THE EVOLUTION OF THE IDEA OF DEVELOPMENT: FROM DEVELOPMENTALISM TO FINANCIALISATION IN A COMPARATIVE PERSPECTIVE

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This thesis has attempted to show the evolution of the idea of developmentalism starting from the early ideas of developmentalism in 16th century and continuing with the analysis of developmental state from the end of the Second World War to the early 21st century. As the contours of developmentalism shifted from economic protectionism in the 1950s to market liberalisation in the 1980s, there has been a growing literature aiming at revitalizing the role of the state in social and economic transformation in the early 21st century. The thesis has thus focused on the development process of DEEs dealing with the East Asian model of DS on the one hand, and the new developmentalism in reference to Latin America on the other. It has also broadened its comparative perspective by considering the challenges the DEEs faced through the process of financialisation and the problems of de-industrialisation in Latin America and elsewhere in the post-2000 era. By questioning the relevance of the developmental state in the 21st century, it sought to bring the implications of the current debate on the DS for further researches in the wake of the Covid-19 pandemic.

Keywords: Developmentalism, The Developmental State, Financialisation, Transformation

ÖZ

KALKINMA FİKRİNİN GELİŞİMİ: KALKINMACILIKTAN FİNANSALLAŞMAYA KARŞILAŞTIRMALI BİR BAKIŞ

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Bu tez, 16. yüzyılda kalkınmacılığa dair ilk fikirlerden başlayarak, kalkınmacılık fikrinin gelişimini, İkinci Dünya Savaşı'nın sonundan 21. yüzyılın ilk yıllarına kadar kalkınmacı devlete ilişkin tartışmaları izleyerek göstermeye çalışmıştır. Kalkınmacılığın çerçevesi 1950'lerde iktisadi korumacılıktan 1980'lerde serbest piyasa yönelimli bir anlayışa evrilmiş, 21. yüzyılın ilk yıllarından başlayarak ise sosyal ve ekonomik dönüşümde devletin rolünü yeniden canlandırmayı amaçlayan bir literatür oluşmuştur. Böylece tez, bir tarafta Doğu Asya tipi kalkınmacı devlete, diğer tarafta Latin Amerika bağlamındaki yeni kalkınmacılık odaklı tartışmalar üzerinden gelişmekte olan ve yükselen piyasa ekonomilerinin (DEE) kalkınma sürecine odaklanmıştır. Ayrıca, DEE'lerin finansallaşma sürecinde yaşadıkları zorlukları ve 2000 sonrası dönemde Latin Amerika vb. ülkelerin, sanayisizleşme problemlerini dikkate alarak karşılaştırmalı bakış açısını genişletmiştir. Kalkınmacı devletin 21. yüzyılda uygun bir model olma durumunu sorgulayarak, Covid-19 salgınının ardından, ilerideki araştırmalar için kalkınmacı devlet üzerindeki mevcut tartışmanın çıkarımlarını geliştirmeye çabalamıştır.

Anahtar Kelimeler: Kalkınmacılık, Kalkınmacı Devlet, Finansallaşma, Dönüşüm

To the ones who are the most worthwhile, my future ideals

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TABLE OF CONTENTS

PLAGIARISM	iii
ABSTRACT	iv
ÖZ	vi
DEDICATION	viii
ACKNOWLEDGMENTS	ix
TABLE OF CONTENTS	xi
LIST OF TABLES	xiii
LIST OF FIGURES	xiv
LIST OF ABBREVIATIONS	xv
CHAPTERS	
1. INTRODUCTION	1
1.1. Research Motivation, Objectives and Contribution	1
1.2. Research Methodology, Questions and Design	6
2. FROM DEVELOPMENTALISM TO THE DEVELOPMENTAL STATE: AN EVALUATION OF THE RELEVANT LITERATURE	11
2.1 Historical Process in Developmentalism.....	11
2.1.1. Emergence of Developmentalism and the Developmental State	12
2.1.2. The First Generation: From Modernisation to Dependency	16
2.1.3. The Second Generation: From Neo-liberalism to Post Development..	20
2.2. Development State with Reference to East Asia.....	23
2.2.1. Common Characteristics of the East Asian Model	25
2.2.2. Different Perspectives on State-Market Relations	27
2.2.3. Policies of the East Asian Model of DS.....	29
2.2.4. Shift in the Developmental State Understanding	30
2.2.5. Marxist Critique of the Developmental State	35
2.2.6. Resolution of The East Asian Model of DS.....	39
2.3. Conclusion.....	45
3. DEVELOPMENTAL STATE IN THE ERA OF FINANCIALISATION.....	47
3.1. An Overview to Financialisation Literature	47
3.1.1. Defining Financialisation.....	48
3.1.2. Confluence between Real Sector and Financial Sector.....	49

3.1.3.	A New Type of Debate: Financialisation of the Emerging Economies	51
3.2.	Financialisation Process of Developing and Emerging Market Economies	52
3.2.1.	Internationalization of Finance.....	53
3.2.2.	Subordinated International Integration and Uneven Development.....	60
3.3.	Financial Transformation of the East Asian Developmental State Model ..	66
3.3.1.	Change in the Market Mechanism: Expansion of the Bond Market	67
3.3.2.	Change in the Industrial Policies of the East Asian Model.....	69
3.3.3.	Shift in State Autonomy	74
3.4.	Conclusion.....	78
4.	RETURN TO THE DEVELOPMENTALISM UNDER FINANCIALISATION IN 21 ST CENTURY.....	80
4.1.	Revival of the Developmental State: “New Developmentalism”	81
4.1.1.	Changing World, Changing Positions.....	81
4.1.2.	Demand for Developmentalism in DEEs	82
4.2.	An Overview to the 21 st Century Developmentalism.....	83
4.2.1	Debates on the New Developmental Understanding.....	84
4.2.1.	Challenges of Development Process Caught up by ND Approaches... ..	88
4.3.	Interactions between ND Approaches and Financialisation of DEEs	95
4.3.1.	The Monetary and Financial Subordination.....	95
4.3.2.	The Deepening of International Production Networks	96
4.3.3.	The Accumulation of International Reserves	97
4.3.4.	The Financialisation of Commodities	97
4.4.	Alternative Policies to Financialisation Challenges	99
4.4.1.	Need for a New Industrial Policy	99
4.4.2.	Need for a New Trade Policy	101
4.4.3.	Reconfiguring the State Capacity.....	103
4.5.	Rethinking the DS in 21 st Century.....	106
4.5.1.	Criticism on New Developmentalist Literature	106
4.5.2.	Relevant Position of the DS at Present and Future	108
5.	CONCLUSION	110
5.1.	Premature Deindustrialisation Comparison.....	115
5.2.	The DS and the Covid-19	117
	REFERENCES.....	121
	APPENDICES	
A.	TURKISH SUMMARY / TÜRKÇE ÖZET.....	158
B.	THESIS PERMISSION FORM / TEZ İZİN FORMU	169

LIST OF TABLES

Table 1 Local Currency Bond Markets as Percentage of GDP, 2001 and 2011	68
Table 2 New Developmentalist Approaches in the 21 st Century	86

LIST OF FIGURES

Figure 1 Capital Inflows and Outflows for Emerging Market Economies, 2000-15 (Percent of GDP).....	54
Figure 2 Capital Inflows and Outflows for Emerging Economies by Asset Type, 2000-15 (Percent of GDP)	56
Figure 3 Exchange Rate Cycle and Two Equilibriums	91
Figure 4 FAO Food Price Index 1990-2016 (Base: 2002-2004=100)	98

LIST OF ABBREVIATIONS

BPA	Bond Pricing Agency
BRICS	Brazil, Russia, India, China, South Africa
CB	Central Bank
DEEs	Developing and Emerging Market Economies
DS	Developmental State
EU	European Union
FDI	Foreign Direct Investment
FTA	Foreign Trade Agreements
GATS	The General Agreement on Trade in Services
GCRA _s	Global Credit Rating Agencies
GDP	Gross Domestic Product
GFC	Global Financial Crisis
GPNs	Global Production Networks
GVCs	Global Value Chains
IMF	International Monetary Fund
LSAPs	Large-scale asset purchases
MDGs	Millennium Development Goals
MITI	The Ministry of International Trade and Industry
MNCs	Multinational Corporations
ND	New Developmentalism
NFCs	Non-Financial Corporations
NICs	Newly Industrialised Countries
R&D	Research and Development
SAPs	Structural Adjustment Programs
SDGs	Sustainable Development Goals
SMEs	Small and Medium Enterprises
SOEs	State-owned Enterprises
TNCs	Transnational Corporations

TRIMS

Trade-Related Investment Measures

TRIPS

Trade-Related Aspects of Intellectual Property Rights

WB

World Bank

CHAPTER 1

INTRODUCTION

1.1. Research Motivation, Objectives and Contribution

Where does the developmental state start and where on stand now? Before starting this debate, what the term development refers to, and what is understood from it will be the priority. As Lawson (2007, p. 5) states: “Development itself is a complex, contradictory and powerful term that takes on particular meanings in the context of specific intellectual, institutional and political moments”. As a term, development has different meanings for different people from different perspectives and places; thus, there is no consensus on its meaning. As Chambers’ simple definition, does it mean just ‘good change’, or does it refer to just kind of state intervention? Otherwise, what are other alternatives? For example, according to Hettne, “development in the modern sense implies intentional social change in accordance with societal objectives” (as cited in Nederveen, 2010). Woolcock (2009, p. 5) defines it as “the internal and external processes that shape in a given society or for a particular social group, the welfare, justice and opportunities of its members, but especially its poorest and most marginalized” and Nederveen (2010, p. 3) explains it as “the organized intervention in collective affairs according to a standard of improvement”. Behind these definitions, there are three main emphases with which the concept has been employed: a) as definition of the desired social and economic achievement ; b) as a historical process of social change where long periods of transformations take place; c) as a set of attempts to improve through different agencies such as governments, organizations and social movements (Thomas, 2000, p.29). Whatever it means and whichever sense it is used the term development comprises “competing political aims and social values and contrasting theories of social change” (p. 23). Thus, it has a convoluted and dynamic structure as evolved in a historical process.

Next, it is important to trace and assess the journey of the idea of developmental state through time and space. On the context of the evolution of developmental state, since the sixteenth century, idea of developmentalism and the developmental state has had a significant role in pushing forward the economic development in most countries of the world. However, as affected by the Keynesian economic thinking, which stresses active role of governments to steer their economies, beginning of the development “as aspiration, ideology and field of study” takes place after the World War II (Bernstein, 1971, p. 142). This era gave much more emphasis to the developmental studies, combined with the diverse development theories based on the catch-up strategy which take place in many ways as the ‘boom’ of this field of study. As coming 1980s, this era was shaped with new market policies and characterised by ‘Washington Consensus’ (Williamson, 1990) ‘neoliberalism’, and ‘market fundamentalism’ (Soros, 2002) and it was specified with a radical transformation of Keynesian economics. Thus, putting forward the failure of state intervention in the economy, development agenda has been transformed with respect to the rule of ‘market forces. Thereby, at the end of the century, Asian Crisis has put an end to the developmental state, and it has lost its significance. Afterwards, the ‘Washington Consensus’, ‘neoliberalism’ and ‘globalisation’ became stick together in the new millennium as sharing the same logic of the market in most of the developing economies.

While strategy of catch-up continues with the neoliberal policies in the 2000s financial integration of the developing countries comes to the agenda. Thus, developing and emerging market economies have faced with a number of new challenges as a result of their “tighter integration of domestic and global financial markets”. Instead of the 20th century’s growth based developmentalist understanding, the role of the state also has become more complex issue in the 21st century’s development through changed conditions in the world with the impact of globalisation. As a result of those challenges, the term developmental state has been revitalised by new developmentalist debates in the post 2000 era. While those debates stress different points and there is not a consensus among them, they try to cope with the challenges and suggest new alternative policies to developing and emerging market economies (DEEs).

This thesis focuses on the development process of the DEEs in two foundations. Firstly, as development process is associated with the catch-up process of the developing countries since the WW II, apparently, this catch-up process has not finished at present. Now, even the distinction between developing world¹ and developed world is seen meaningless and the such distinction seems to being dissolved as suggested by annual report of World Development Indicators (WDI): “Unless otherwise noted, there is no longer a distinction between developing countries ... and developed countries” (World Bank, 2016, p. iii). However, there is still a continuity of the category “developing country” in the literature both used in many international agreements, in academic textbooks and by the developing countries themselves as a self-identifying label (Farias, 2019). Thus, the developing and emerging market economies (DEEs) are in a position that they continue to upgrade their development process in the 21st century.

Apart from those, since the introduction of the neoliberal policies and the implementation of the Washington Consensus decisions many DEEs has integrated international financial markets in the late 20th century. This financial integration process continues to grow in the 21st century. In this context, there has been growing significance of finance, financial transactions and integration, and also the sustainability of the financial systems in the literature under the concept of

¹ On the one hand, at first, categorisation of the countries considered not-developed compared to Western was done as ‘underdeveloped’, suggested by US President Truman in 1949. Then, the term ‘Third World’ became common for such categorisation. After that, several alternative nomenclatures were created. For example, after the publication of “North–South: A Programme for Survival in 1980” (Brandt, 1980; Heath, 1981), the industrialised nations of the rich as developed ‘North’ and the poor nations as developing, dependent ‘South’ were defined. Then, other alternatives included ‘developing world’ and ‘developing countries’. However, such divisions remained inferior since it puts the assumption of pursuing development process of all developing countries in a similar path to the ‘developed’ nation. Apart from, the ‘Global South’ has become one of the increasingly favoured terms. Based on the ‘North–South’ definition in 1980s, the prefix ‘Global’ removed previous geographical categorisation and it broke a new ground on economic inequalities, but it has retained some spatial resonance referring to situation of relevant countries. Now, it also represents the interconnection of the world through a range of global processes. See more in (Rigg, 2007). On the other hand, in the study, beyond the term Global South, since there will be focuses on the specific regions and countries the term ‘developing and emerging market economies’(DEEs) will be used as adapted from the IMF. According to IMF, countries are classified as Advanced Economies on the one hand and Emerging and Developing Economies on the other. Advanced Economies are sub-categorised into “Euro Area, Major Advanced Economies (G7), Newly Industrialized Asian Economies, the European Union”. The Emerging and Developing Economies are sub categorised into “Central and Eastern Europe, Commonwealth of Independent States, Developing Asia, ASEAN-5, Latin America and the Caribbean, Middle East and North Africa, Sub-Saharan Africa” (IMF, 2020).

financialisation (Crotty, 2003; Stockhammer, 2004; Epstein, 2005; Fine, 2013; Lapavistas, 2013; Sawyer, 2013; Palley, 2016). Under financialisation, there is a growing literature analysing the distinctive nature of financialisation process in DEEs. The roots of those studies come from the debates related with the risks of financial globalisation and liberalisation (Palma, 1998; Taylor, 2001; Grabel, 2003; O’Connell, 2005; Akyüz & Boratav, 2005; Barbosa-Filho, 2005; Crotty & Lee, 2005; Frenkel & Rapetti, 2009) and the discussions about capital account liberalisation and financial integration (Strange, 1994; Cohen, 1996; Rodrik, 1998; Stiglitz & Ocampo, 2008). Meanwhile, while strategy of catch-up continues with the neoliberal policies in 21st century financial integration of the DEEs has deepened because of such risks. Thus, DEEs confront with several new forces called as “*anti-catchup factors*” while trying to upgrade their development process.

On the one hand, there is a continuous evolution of the developmental state. While it was mostly associated with the Newly Industrialised Countries (NICs) of East Asia in 1960s-70s, there occurs new attempts to revive the concept focused on the DEEs (predominantly in Latin American countries) in the 21st century. On the other hand, simultaneously, there is a growing literature on the financialisation process of the DEEs resulted from their deepened integration to the global financial markets reflected as a challenge to their development process. Thus, this research focuses on the development process of the DEEs under financialisation through synchronising those debates. This leads to question whatever happens to the developmental state as there are continuous debates on the role of the state in its development process. These come in sight as new developmental state in 21st century at one point, and state capitalism debates or post neo-liberalism at other points. As a resurgence of the developmental state, in this regard, to what extent new developmentalist debates appear as an alternative to DEEs to overcome the challenges that they are faced with under financialisation will be the main focus of the research agenda.

While doing this analysis, firstly, there are some restrictions with regard to the scope of the thesis. Respectively, at first, major focus on the term developmental state and its evolution is analysed through the East Asian model including NICs of East Asia (specifically big three countries as Japan, Taiwan and South Korea). Following that,

while analysing financialisation process of the DEEs the focus will be predominantly on the Latin American countries.

Apart from that, with regard to the 21st developmental debates, the debates on the state capitalism are not included in the scope of the thesis since the state capitalism debates are mostly associated with the China's developmental process. However, since China follows a different growth pattern compared to other DEEs the study does not include China with respect to the debates on the state capitalism.

In this context, the research objectives of the thesis are:

- a) To show the relation between ideas of developmentalism with the 'developmental state' by analysing them in a historical process
- b) To argue the evolution of East Asian model of developmental state by analysing it from different perspectives and shifts on the base of its state-market relations
- c) To analyse the challenges of the financialisation of the DEEs during their development process in the 21st century
- d) To analyse the revival of the development state through new developmentalist debates in the 21st century on the focus of interactions with the financialisation of DEEs and in relation to their alternative suggestions for DEEs.

As developmentalism shifted from economic nationalism in 1950s to market liberalisation in 1980s over the course of the 20th century, it has affected the role and function of the state. Based upon this shifting nature of the state many questions also have emerged throughout the period. There were many ideas and questions in the literature about the developmental state on what it was, what it had been and what it might have been in 20th century. At present, the aim is to revitalize the debate on the role of the state for economic and social upgrading. In this regard, ideas turn around on the questions: Is developmental state still relevant in the 21st century? To what extent does the role of the state take shape in its economic development in the globalization era?

There are many studies in the literature on the evolution of the DS from different time periods and different perspectives; however, there are not sufficient analyse about the effects of financial transformation in the globalization era for the developmental change of DEEs by analysing in a historical process. For this purpose, there will be a historical evolution of the developmentalism as started from the early ideas of developmental state to new developmentalist alternatives in the financialisation process. In this context, as continuation of DEEs' catch up process in 21st century, on the one hand, financialisation literature finds out challenges faced with DEEs in their deepened financial integration with the global markets as leading to their uneven development. On the other hand, developmentalist approaches specify the challenges for development process of DEEs in globalisation era as anti-catch up factors. From this point of view, the study will contribute to literature by analysing those challenges which interact with each other between financialisation and new developmentalism (ND) approaches. Thus, how financial transformation affects the DEEs in their development process, whether there are plausible paths for the emergence of new developmental states to overcome those challenges and to play the role required for developmental success in this century and to what extent those paths can be an alternative to those states will be analysed. For all these developments, the study will base East Asian model of DS to analyse the evolution of developmentalism in historical process throughout 20th century and its financial transformation in the 21st century in a comparison with DEEs mainly from Latin America in the financialisation era. By this way, the study will contribute by noticing a comparative evaluation of deindustrialisation problem in East Asia and Latin America and by analysing to what extent developmental state can be relevant under ND alternatives in the present era of Covid-19 pandemic for the future researches that will be significant in this field of the study.

1.2. Research Methodology, Questions and Design

On the methodology of the developmental state (DS), overall, research on the DS was engaged with history, path dependencies, and cases. On the one hand, there are important debates about method in the social sciences, based on causal inference rooted in experimental models. On the other hand, there are attempts on the new

methodological orthodoxy and stressing the importance of contextualization (Deaton & Cartwright, 2016). In this context, there are also discussions within political science about the advantages of mixed methods, within case-causal inference and comparative historical analysis on the focus of developmental state (Mahoney & Thelen, 2015; Goertz, 2017). There is also a floor for more cross-national comparative work on the varieties of capitalist development and state formation of DEEs (Centeno et al., 2017). Thus, in the growing literature, there is significant emphasis of the research on the developmental state as being not only theoretical and empirical, but there should also be comparative research methods that can be done effectively for the future studies.

Starting from this, the research employs a comparative analysis methodology throughout the study. Comparative method is simply defined as “by means of descriptive features that claim to enhance knowledge about politics and society as a process” (Almond et al., 1993, p.39). It has an important place for doing research in the social sciences. As a research methodology, “art of comparing” is a base instrument for connection between ideas, theories and then cases. In other words, “without theory a comparison remains meaningless”. Therefore, doing research in the social sciences necessitates the “application of the comparative approach to gain knowledge of politics and society” (Pennings et al., 2005, p. 6).

Underlying crucial importance of relation between the Research Questions and the Research Design is an integral part of the comparative method. For this, comparative approach provides “to reduce the complexity of reality and to control for variation” (Pennings et al., 2005, p. 23). Therefore, for the application of comparative methodology, theory-driven research questions must be conducted to reflect on “*what, when and how to compare and for what purpose*”. These questions provide the development of the Research Design in which subject of the study is addressed and elaborated in the way of validity, reliability and plausibility of the research results. In this context, “the substance comes before method, questions come before answers, and theory always precedes comparative analysis” (pp. 6-7).

Since there need a process with the relation between politics, economy and society Comparative method should be applied to different conditions and relevant questions

to explain by means of the “art of comparing”. In this context, “comparative historical analysis aims at the explanation of substantively important outcomes by describing process over time using systematic and contextualised comparisons” (Mahoney & Rueschemeyer, 2003, p.6). Here, the concern is “how to select the proper combination of relevant cases and variables to validate theory without disregarding relevant contextual features” (Pennings et al., 2005, p.8).

In addition, there needs to development of a set of rules directing the research strategy that makes explanations based on comparison across theories and perspectives through time and cross-national (Pennings et al., 2005, p.20). In this sense, the assumption on the theory of the political process lies on the existence of “*mutual and interdependent relation between politics and society*”. Here, observation of this process and impacts on social and economic developments of societies have become important by means of comparison on the base to what extent and in what way (Almond et al., 1993; Hague et al., 2019).

From this point of view, the research is done through cross national and comparative analysis since the issue of the developmental state is to some extent in a cross-national understanding when systematic characteristics of the developmental state in East Asia are argued in three different countries Japan, Korea, and Taiwan; and also when there is a relevant comparison between East Asia and Latin America region with respect to the transformation of development process.

In the lights of the guidelines that show the process of doing comparative methodological research, analysis of the comparative method requires certain characteristics:

1. It requires to describe the core subject of comparative inquiry (Pennings et al., 2005, p. 19). In the study, core subject of the comparative inquiry is the ‘developmental state’. This requires a comparative analysis since the term developmental state before systematic explanation and after the entrance to literature it remains a subject of inquiry for the upgrading economic

developments of the countries. It will be seen that role of the state and its intervention to the economy in different periods preserve its significance.

2. While doing this, it is important for the comparative method ‘travel’ around the theoretical concepts comparatively “to possess a unifying capacity” for explanation of political and social processes (Pennings et al., 2005, p. 19). Thus, there will be historical analysis of the developmental state in relation to its emergence, its expansion and evolution, its resolution and its revival. While doing this analysis, the study will benefit from different perspectives and theories in relation to developmental state. In addition, while analysing different perspectives, it will be seen that these perspectives use different methods to analyse DS. In this sense, the arguments on the DS will be focused on the state-market relations by analysing to a certain extent East Asian model and to some extent Latin American countries.
3. Finally, comparative method is necessary for this research as *a means* to the study’s objectives and to answer its research questions (Pennings et al., 2005, p. 19). For this, according to research questions and objectives, comparative methodology is applied to form the research design which will be explained below part.

In this regard, there are certain research questions that will be answered throughout the study. These are:

1. How does developmental state has emerged, evolved and dissolved throughout history? To what extent does East Asian model have the characteristics of the DS and undergo changes through different perspectives in 20th century?
2. How does financialisation of DEEs grow in the literature? In consequence of increased integration of DEEs into the international financial markets, to what extent financialisation affect DEEs’ development process in the 21st century? How has East Asian model of developmental state transformed under financialisation?

3. How does developmental state is revitalised in the 21st century? What do the new developmental states bring forward? To what extent does new developmentalism interacts with the financialisation of DEEs in relation to challenges that encouraged for their development process? To overcome those challenges, to what extent ND debates appear as an alternative to the DEEs to upgrade their development under the financialisation?

After the introduction, the structure of the thesis will be followed as: Chapter 2 will analyse the developmental state in two different scales. While the first part of the chapter will analyse the historical process of developmentalism until the systematic emergence of the developmental state as started from the 16th century the second part of the chapter will argue the evolution of East Asian model of DS within its common and different characteristics from different perspectives until the end of the 20th century. Chapter 3 will move on to financialisation process of the developing and emerging market economies in 21st century. Following this, chapter 4 will analyse the revival of the DS under the arguments of the new developmentalist debates with respect to the challenges of the DEEs under financialisation process. Finally, chapter 5 will make conclusion.

CHAPTER 2

FROM DEVELOPMENTALISM TO THE DEVELOPMENTAL STATE: AN EVALUATION OF THE RELEVANT LITERATURE

2.1 Historical Process in Developmentalism

How has developmentalism emerged and evolved in the literature? To understand this, how long time could we go back in its history? How the term developmental state has been correlated with the ideas of developmentalism, to what extent has the developmental state benefited from those ideas? To answer these questions, the study will analyse historical context of the developmentalism started from the 16th century in part 1. In this context, section 1 will analyse the emergence of the DS ideas since the 16th century to the systematically conceptualisation of the term by Johnson in 1982. Then section 2 and 3 will focus on the developmental theories and policies implemented for different time periods. Then, in the part 2, the study will focus on the emergence of the developmental state in East Asian countries. By analysing the East Asian model of the DS, the section 1 and 2 will draw its common and different characteristics in its state-market relations and section 3 will outline the main policies of the East Asian model of DS. Following that, in section 4 and 5, different perspectives will be given to review the literature on developmental state and build theoretical and analytical framework to analyse evolution, further shift and resolution of the developmental state understanding. Finally, section 6 will focus on the resolution of the DS by analysing the Asian Crisis in 1997.

2.1.1. Emergence of Developmentalism and the Developmental State

Developmental state as a term was conceptualised in the twentieth century by scholars, however developmental understanding had seemed long before they were denominated by them. For this, what time developmentalism and developmental states firstly existed is the priority of the study. In this context, the origin of the DS understanding goes back to the sixteenth century. At those times, developmentalism have long played a central role as Westerners “positional superiority” over the rest of the world. (Said, 1978, p. 7). Bagchi shows it by giving the examples of developmental state emerged in the Netherlands, Britain and Germany between the 16th and 20th centuries in certain aspects. For example, Netherlands shows developmental state functions when it revolted against Habsburg rule by Philip II and intense patriotism of the Dutch existed since they considered themselves as the inheritors of the Batavian republic which showed resistance against Roman rule. (Bagchi, 2000, pp. 400-401). In addition, England had appeared as developmental state because of its emergence as the first large country in Western Europe while abolishing all the usual appurtenances of feudalism and it dominated Europe in the areas of politics, economics and military and expanded its dominance to across world until the 20th century. At that time, “this ability to conquer other lands militarily and economically” is interpreted as a characteristic of domestic transformation of the developmental state. Also, the British state capacity and its ability of making its own adaptations and innovations by learning from others demonstrates the developmental state function (Bagchi, 2000, p.404-405). Since the sixteenth century, developmental understanding has continued, and many studies and analysis emerged in the twentieth century.

Then, the idea of developmental state firstly can be found in Friedrich List’s mercantilist arguments on the focus of “*less advanced nations*” to use “*artificial means*” and to catch up with the “*advanced nations*” for the achievement of its economic development and its preparation to the universal entry in the future” (List, 1885/1966, p.175, Leftwich, 2000, p.155). Thus, the idea is also located in the List’s study of “system of protection” which is the only means of bringing nations to make universal free trade possible and desirable (List, 1909, pp. 26). Here, “*system of protection*” is the most efficient tool for improvement of “the final union of nations

and of promoting trade freedom” since it enables equal terms for the late developers to compete with the predominating nations such as England (List, 1909, p.103). The development of the national economy make progress in such a way: “nations have to pass through the following stages of development: original barbarism, pastoral condition, agricultural condition, agricultural-manufacturing condition, and agricultural-manufacturing-commercial condition” (List, 1909, p.143). The emphasis is on the national capability of developing manufacturing power, and thus, “It is the task of national economy to accomplish *the economic development of the nation*, and to prepare it for admission into the universal society of the future” (List, 1909, p.141). In this context, protection mechanism should be provided to develop infant industry. It also rebounds in Hamilton’s and Raymond’s infant industry model arguments². As distinct from them, List argues that the degree of protection should be selective and moderate. In other words, each branches of the industry should not be equally put under protection. Some crucial branches need special protection such as requiring “much machinery, much technical knowledge, skill, and experience, whose products belong to the category of the first necessities of life”. Thus, when these major branches of the infant industry were improved, subsidiary branches would grow around them (List, 1909, p.144-145).

Contemporary with List, Marx is also one of the earliest writers dealing with the idea of developmental state although he never defined them as such. Here, there is a basic notion of a capitalist developmental state when he refers to France under Louis Bonaparte having “‘*completely independent position*’ which had thoroughly been strengthened against the civil society” (Marx, 1852, p. 238; as cited in Leftwich, 2000, p. 155). In addition, this idea of the DS takes also place in the analysis of the history of advanced industrial countries which design the way of development to the late developers. In this respect, he states in the Preface of Volume I of: "The country that is more developed industrially only shows, to the less developed, the image of its own future” (Marx, 1887, pp. 6-7).

² Alexander Hamilton, the first US Treasury Secretary (1757-1804) and Daniel Raymond (1786–1849), are known to make the first systematic analysis of the infant industry model as stated *the father of the infant industry protection model*. See more in Chang (2002, p. 61).

After the earlier ideas of developmental state how ‘developmentalism’ has emerged and used in the developing world is the study’s next agenda. It firstly emerges in the Brasilia after the World War II. This understanding of developmentalism bases on the import substituting industrialization (ISI) under national developmentalism. In this context, industrialization was a *sine qua non* for protection of economic self-sufficiency and a direct intervention of state in various economic activities was needed. It firstly emerged in 1955 after the election of Juscelino Kubitschek de Oliveira as President of Brazil as a result of the successful campaign called “Fifty Years in Five”, which stressed bringing fifty years of economic development in the five years of his presidential term. In the first years of Kubitschek, series of state reforms came to the agenda for the implementation of planning focused on promoting industry on the base of “an alliance between government and private interests” (Ioris & Ioris, 2013, pp. 416- 18). Together with the Brazilian developmentalism, debates in relation to the role of the state have not come to an end in development thinking.

Debates over developmentalism continued after the Second World War. Gerschenkron (1952, 1962) realized a development approach based on the “*latecomer effect*” aiming at closing the gap between the advanced and the “backward” countries. There was a need for a state with the developmental functions showing the industrialization processes of the backward countries compared to the more advanced countries. Here, there were differences among them both in the speed of the development and productive and organizational structures of industry. Thus, the application of the most modern and efficient techniques was considered as important for the backward countries to achieve success against to the advanced countries (Gerschenkron, 1962, pp. 62-64). Gerschenkron’s view emphasizes “the building of new institutions and the pursuit of fresh strategies”, based on the current situation of the countries attempting their development push. Thus, the institutions and the strategies and their usage are crucial to overcome ‘latecomer disadvantages’³ (Mathews, 2006, p. 319). Contemporary with Gerschenkron, Akamatsu (1962) also debates about latecomer industrial dynamics by formulating “*the flying geese pattern*” (FGP) and studies

³ Hobday discusses the matter: “Gerschenkron argued that there were no automatic stages of development and that countries did not and could not pass through the same stages of development that others had passed through before them, precisely because others had passed through them” See more in (Hobday, 2003).

economic growth of the developing countries by considering the mutual interaction of the late developers with the advanced countries with regard to the catch-up process. (Akamatsu, 1962 p. 3).

Following that, Cardoso and Faletto, theorists of the 'Dependency School'⁴, brought to the fore the notion of the '*developmentalist state*'. In this sense, they argued the promotion of the industrial sector by the state in Mexico and Chile to expand their domestic economy through the alliance between workers and the middle groups comprising the bureaucracy and the new bourgeoisie (Cardoso & Faletto, 1979, pp. 143-8). Here, they labelled Mexico and Chile as the developmentalist states since they organized such alliance and followed policy of industrialization during and after the World War II. In addition, Ellen Kay Trimberger (1978, p. 3) explicates DS in stressing the "revolutionary potential of the state apparatus under certain specific internal and external conditions". Here, he analyses the model of revolution from above done by military bureaucrats as a type of revolutionary change requiring autonomous and developmentally progressive bureaucratic state as seen in post 1868 Japan and post 1923 Turkey (pp. 1-4).

After all of these ideas and thoughts, Chalmer Johnson (1982) coined the term "*developmental state*" in a systematic way for the first time by aiming at to describe the post-war "*Japanese miracle*". Here, the central argument was based on characteristics of the Japanese developmental state by emphasising role of the state and its industrial policy to explain its post-war economic miracle. In this context, Johnson questioned "how the government intervenes and for what purposes" to identify the DS (Johnson, 1982, p.18). Following Japan, South Korea (Amsden, 1989) and Taiwan (Wade, 1990) were analysed within similar developmental state extension.

Hereupon, it is important to analyse how the historical process of the developmentalism has evolved in the 20th century, to what extent countries were affected by the developmental theories and which policies they followed and implemented throughout the 20th century. In this context, 20th century will be divided

⁴ Founder of the Dependency Theory

into two stages: 1) the first generation involving the years from 1950s to mid-1970s and 2) the second generation starting from early 1980s to the end of the century.

2.1.2. The First Generation: From Modernisation to Dependency

In 1950s, development economists formulated a development strategy based on structural transformation and extensive government role in development through planning and programming. At that time, since the population was the denominator, development understanding was based on the rapid growth rate of GDP as numerator. Capital accumulation was the major focus of development models as a necessary requirement, and also there was emphasis on the role of investment in modern activities (Meier & Stiglitz, 2001, pp. 13-14). In this sense, the development economists used the theories like “The Harrod-Domar equation” (Harrod, 1948; Domar, 1947), “stages of growth” (Rostow, 1956), “balanced growth” (Nurkse, 1953), “big push” (Rosenstein-Rodan, 1943), “unlimited supply of labour and dual-sector model, (Lewis, 1952), the Prebisch- Myrdal-Singer hypotheses about terms of trade and import substitution”, “critical minimum effort” (Leibenstein, 1957) and “two-gap model” (Chenery, 1988).

In addition, industrialization was the leading sector to drive the rest of the economy and import substitution was the major means of the industrialization in the era. During the import substituting industrialization (ISI) period there were large industrialization policies as a national development strategy in the third world countries since they assumed that they could gain their independence through national industrialization.

The state was understood as the major agent of change in development. Thus, there was strong state intervention to implement those policies under promotion of capital accumulation, utilisation of reserves of surplus labour, undertaking selective industrialisation, relaxation of foreign exchange pressure through ISI policies, coordination of resource allocation through planning (Meier & Stiglitz, 2001, p.15). In this context, high protective tariffs and multiple exchange rates spread rapidly in developing countries.

The 1950s also appeared in the era when the modernisation approach was also popular. In this context, there were many projects and aid to the Global South for their development, specifically by the US government and UN agencies. As part of those projects and foreign aids, the policy focus was “top-down development” since policy makers believed that it could work there like in the advanced countries. Thus, there were projects based on the urban-based industrial policies, improvement of agriculture by means of technology, and building large-scale infrastructures including dam construction and road building (Willis, 2005, p. 46). In addition, there were also trainings for encouragement and promotion of the middleclass elites according to “values and motivations relating to a free enterprise Western culture” (Chant & McIlwaine, 2009, p. 30).

Theoretical contributions continued in the 1960s under the inter-sectoral structure (Thorbecke, 2006, p.8). The theory of effective protection (Corden, 1962, 1963, 1966, 2005), which is the percentage increase in the domestic value added in manufacturing process for the domestic import-competing industries, was one of them. There were other theories based on the pattern of economic growth. Within this context, two different approaches contributed significantly to the changing inter-sectoral structure of production and demand. First, Kuznets (1966) argued that the modern economic growth for a significant long-term economic experience is concerned with quantitative characteristics of aggregate changes and structural shifts, and relations among nations undergoing the process of growth. Here, since the base argument that the growth of one nation affects the others, aggregative and structural growth occurs (pp. 1-2, 487-509). Second, Chenery focused on international cross-sectional analysis relied on the econometric methods to find the observed patterns of industrial growth resulted from the incorporate changes in the growth of the structure of production (Chenery, 1960 p. 625; Chenery & Taylor 1968, p. 391).

In the late 1960s, modernisation approach was challenged under the debates that its policies were not working as effectively as anticipated. Specifically, whereas economic growth in developing countries was limited, there was persistent widespread poverty and raised gap not only between rich and poor, but also between advanced and developing countries. Furthermore, Cuban Revolution and the Vietnam War were also

exacerbated questioning the free market and capitalist development under this paradigm. Modernisation approach was also criticised since it viewed the “lack of development as the fault of developing countries” due to the limited economic growth and poverty reduction. Thereafter, those critics led to the emergence of dependency theory culture (Chant & McIlwaine, 2009, p. 31).

New development strategies emerged in the 1970s. Contrary to belief growth as a “*necessary and sufficient condition*” to achieve economic and social development in 1950-60s, there occurred a high recognition that growth might not be sufficient in 1970s. The new concern was based on “the employment in development plans and in the allocation of foreign aid to projects and technical assistance” (Thorbecke, 2006, p.13).

There were several different development strategies that occurred in the 1970s. At first, the model of “*redistribution with growth*” was suggested. Here, the emphasis was on the need for a model providing “*unified treatment*” of both growth and distribution for different income groups and expectation for the potentiality of raising income in low income groups through policy of investment transfers. Thus, they suggested the treatment of the distributional objectives as strategically important of the development. In this context, Chenery underlined: “The research should concentrate on redefinition of the relevant socioeconomic groups in different types of countries on their production, saving and consumption activities and also the interrelations with the groups” (Chenery, 1974, pp. 209-235).

Second, ILO advocated another alternative strategy as the basic needs strategy. It opened a road for “*structural changes and redistribution of the initial ownership of assets*” such as land reform and certain policy mechanisms such as public investment. It had two different elements: a) fundamental life necessities to consume such as food, shelter and clothing; b) necessary services sustained for large communities such as health and education, drinking water and sanitation (Thorbecke, 2006, p.14).

In addition to them, another development strategy came from a radical approach as dependency theory (also referred as underdevelopment theory). It was founded by the ‘Dependencia school’⁵ and put principally “*lack of economic development and the persistence of widespread poverty in the Global South was caused by the exploitative influence of the industrialised, advanced nations*” (Chant & McIlwaine, 2009, p. 32). In this context, André Gunder Frank was the first to challenge the expectation that developing countries could succeed in development along capitalist development process in his critique of Rostow⁶ (Rist, 2008, p.102; Frank, 1969, pp. 39-47). In addition, Baran (1957, p. 63) viewed that “*capitalist development had been disastrous*” for the underdeveloped countries in regard to the adoption of the same policies under competition. He suggested that “backward world” is represented as “*the indispensable hinterland*” of the advanced countries as becoming of the so-called “source countries” in supplying raw materials and economic opportunities (Baran, 1957, p. 120). Overall, dependency theory entailed “*a massive redistribution of assets to the state and the elimination of most forms of private property*” (Thorbecke, 2006, p.14).

In the light of these developments, by early 1970s, there occurred deficiencies in industrial programming and planning. Promoters of development planning started to criticise the “*crisis in planning*” such as running crisis of Indian planning resulted from the failure of previous plan done with the bad data (Streeten & Lipton 1969, p.5). Then, studies focused on to criticise the causes of government failure in disenchantment with planning such as a) lack of clarity about developmental goals; b) inadequate instruments of the planning authorities; c) an inability of decision making in the strategic areas to be a particular strategy of planning; d) particular reading of East Asian economies about their economic growth (Chakravarty 1991, p.7).

⁵It was formed by the intellectuals from different disciplines sharing a common sensitivity. It included “roots in the United States (Paul Baran & Paul Sweezy), in Chile (the United Nations Economic Commission for Latin America or CEPAL headed by Raúl Prebisch and Osvaldo Sunkel), in Brazil (Fernando Cardoso, Enzo Faletto and Celso Furtado), in Colombia (Orlando Fals Borda), and in Mexico (Rodolfo Stavenhagen)” (Rist, 2008, p. 109).

⁶ André Gunder Frank summarises Rostow’s ‘errors’ in his “Sociology of Development and Underdevelopment of Sociology”. He puts: “for Rostow there is no stage prior to underdevelopment, and all today’s ‘developed’ societies used to be ‘underdeveloped’ – which is contrary to the facts, and robs the societies of the South of their own history part”. See more in (Frank, 1969, p. 39).

2.1.3. The Second Generation: From Neo-liberalism to Post Development

Unlike the importance of level of capital accumulation in the first generation how capital was allocated became more important in the second generation. There was the claim that there was slow growth due to the high rates of saving in the first stage; thus, it was seen neither necessary nor sufficient for success (Meier & Stiglitz, 2001, p.18). There were many studies criticizing the “*price distortions, high effective rates of protection, and rent-seeking*” of the state intervention policies. In this context, the lack of development in Global South was explained through the misguided policies of the governments and main focus on domestic market compared to global ones. There were three main causes behind limited development:

1. The continuation of the tradition in such a way that non-market social relations and the obligatory system prevent the commodification of production (making a profit out of producing something)
2. Inhibition of the regulatory effects of the market by the state-sponsored controls done through monopolies of the capital such as industrialisation monopolies and monopolies of the labour such as trade unions
3. Overextension of the state intervention to the market associated with corruption and inefficiency. (Thomas, 2000, p.43).

In this way, the idea that the state has potential to effectively manage economic development became a disillusionment in the developed world and this was replaced with the increasing belief that market power could play as an economic regulator. On the other hand, the East Asian newly industrializing countries (NICs) became the agenda as the successful examples of development. Here, neoclassical economics claimed the role of safeguarding against the distortions and nonmarket failures.

Between the mid-1970s and mid-1980s, when there were rapid economic growths in East Asian economies, world systems theory was put forward by Immanuel Wallerstein. As different from a simple core-periphery division, “world systems theory” suggested a new term category “semi-periphery”, which exemplified as fast growing NICs in Latin America and Southeast Asia, including South Korea, Brazil

and India (Wallerstein, 2004, pp. 29-30). Here, there were possibility of scope for development and joining the core countries throughout their competition between themselves (pp. 56-57).

Then, there occurred criticisms to this strategy because of its overgeneralization for the development process. However, debates around it contributed to the perspective that integration of the developing economies into the world capitalist system might not be always negative. Thus, on the basis of the evidence that “capitalist penetration in the developing world has resulted in economic growth” neo-liberalism has emerged as a new development alternative in 1980s (Chant & Mellwaine, 2009, p. 37).

Neoliberal approach became a dominant development theory in 1980s and have continued to the present. It endeavoured deregulation of markets as much as possible for the promotion of free trade. Governments were admonished in terms of the policy-induced distortions and policy of “get all policies right”. According to it, a country became poor because of the poor policies, not from the vicious circle of poverty. Thus, “*markets, prices, and incentives should be of central concern in policymaking*” (Meier & Stiglitz, 2001, p.17). It revealed that state involvement in the economy must be minimal to sustain economic prosperity and growth. In this context, government regulations and the protectionism in the economy were removed. The role of the state was reduced to provide only goods and services which would not be provided by the private sector. In addition, policies, through the implementation of the Structural Adjustment Programmes (SAPs), started to move from “*inward-looking strategies*” to a) liberalise the trade regime and to promote export-oriented strategy to flourish; b) comply with the stabilization programs; c) privatise the SOEs; d) follow up the commands of the market price system (Meier & Stiglitz, 2001, p.19).

SAPs consisted of measures such as the reduction of the role of the state in the economy through fiscal austerity, privatization, trade and financial liberalisation, devaluation, remove of price distortions, outward orientation and reliance on markets. “*The outward orientation*”, one of the main policies in neoclassical economics, referred to “*encourage exports and industrialization in labour-intensive consumer goods*” and thus, it “*significantly and strongly correlated with the growth*”. Countries

implemented SAPs under the supervision of the WB and IMF. At that era, the Reagan and Thatcher administrations in the Western world affected developing countries strongly to encourage them relying on the operation of market forces and to minimize government activities (Thorbecke, 2006, pp. 18-19).

In 1990s, appropriateness of the role between state and the market was major concern for development. In this process, the neo-institutional and public choice schools tried to explain impacts of the state on development outcomes. This could be done by: a) provision of qualified incentives to sustain efficient economy; b) provision of the institutional infrastructure including rules and regulations to encourage long-term investment; c) assurance of basic needs in education, health care and infrastructure (Commander, 1996; Thorbecke, p. 21).

In addition, there was increasing interest in computable general equilibrium models “to simulate the impact of exogenous shocks and changes in policies on the socioeconomic system and particularly income distribution”. Here, it was a significant research area to show the impact of adjustment policies on income distribution and poverty (Thorbecke, 2006, p.22).

Together with all the alternatives, it is noticeable that the concept of development had been declared in some circles by the 1990s and led to a rival movement called “post-development”. It referred to “a critique of the standard assumptions about progress, who possesses the keys to it, and how it may be implemented” (Sidaway, 2014, p. 228). It was highly critical by arguing development as unjust, never worked and thus, it failed. According to Sachs, “the idea of development stands like a ruin in the intellectual landscape” and “it is time to dismantle this mental structure” (1992, p.1). In that way, it rejected the notions of development and strongly stressed “*bottom-up, non-hierarchical growth strategies*” which take position according to its specific aspects (Potter et al., 2008).

Critics of post-developmentalism argued that post-developmentalism was not really beyond or outside the development discourse, but rather it recollects a set of critiques and contradictions within the developmentalism (Lehmann, 1997; Sidaway, 2014). It

was also criticised in the sense that it tried to ignore tangible improvements as observable in parts of the South, specifically in East Asia (Sidaway, 2014, p.229). In this sense, the study will move on analysing to what extent those improvements make East Asian countries as a model of developmental state and focus on how this type of the term has gone through changes.

2.2. Development State with Reference to East Asia

After the Second World War, the East Asian countries have showed a spectacular economic performance; at first, Japan and, following the four East Asian tigers namely, Korea, Taiwan, Singapore, and Hong Kong. This led to a lot of interest in and to form an 'East Asian model'. Their economic growth was "at roughly 6 percent per annum in per capita terms" that exceeds the growth rates under Industrial Revolution and this made their post war experience in a literal phrase "*the fastest economic transformation in human history*" (Chang, 2006, p.17).

Thereafter, a new version of the statist thought emerged together with those success of the East Asian states. At the end of the 1970s, despite many scholars had analysed roles and functions of the states in development process, none of them could systematically conceptualised the developmental state. Only Cardoso and Faletto drew close to the notion in their study part on the "developmentalist state", on the contrary, none of the theorists had mentioned the term 'developmental state', and explained any conditional or characteristics elements of DS. Firstly, the term 'developmental state' was formally coined when Johnson's work "MITI and Japanese Miracle" was published (Leftwich, 2000 p. 157). After Johnson, South Korea and Taiwan were also analysed under the context of the DS by Amsden (1989) and Wade (1990) as differed on their state-market relations.

Although the East Asian countries differ among themselves in certain ways, it can be possible to identify commonalities between Big Three countries (Japan, Korea, and Taiwan), and to make an overall model. Here, the original usage of the term "East Asian model" refers to the Big Three without implying all the countries in the region (Chang, 2006, p.18). Thus, the East Asian model, referred in the study, means to the

economic model of capitalism as practiced by the Big Three (Japan, South Korea, and Taiwan).

When Johnson introduced “developmental state” during Cold War there was a belief that two types of political economy regime which socialism and capitalism had existed. In this sense, he put a new framework analysing Japan as “capitalist developmental state” by differentiating it from the US and USSR. The main reason for this developmental success was “the role of administrative guidance and the Ministry of International Trade and Industry (MITI) as a pilot organization” and he emphasised that “Japan’s [model] is a system of bureaucratic rule” (Johnson 1982, p.320). While analysing the changing nature of government–business relations through historical process, the role of the bureaucracy took part as a “key entity” since it had the adequate authority to advance the economy by implementing policies efficiently (Takagi et al., 2019, p.4).

Johnson held that the DS was a “plan-rational system”, which the developmental orientation predominated toward private economic activities. The prevalent feature of a plan-rational state was that state itself led the industrialization drive. In this respect, plan-rational or developmental state set the substantive social and economic goals. In addition, the government gave the priority to the industrial sector, that means, it focused on promoting structure of its domestic industry by raising its international competitiveness (Johnson, 1982, p. 19).

Despite industrial policy led by the state played a key part in the DS, the market and the state could not replace with themselves. Industrial policy, in fact, was “what the state does when it intentionally alters incentives within markets in order to influence the behaviours of civilian producers, consumers, and investors” (Johnson, 1999, p.48). Following the analysis of Japan by Johnson (1982), South Korea and Taiwan were also described as model of DS; former by Alice Amsden (1989), and latter by Robert Wade (1990). Wade (1988) opposed the neoclassical understanding that matter for high growth trajectories of Taiwan and South Korea were attributed to the application of neoclassical economics such as liberalisation reforms and shifting from import control to export promotion. Thus, he states:

Taiwan's 'initial conditions' were more favourable for success than the neoclassical account recognises; second, that the liberalisation was less marked than the neoclassical account says; and, third, that the 'non-liberal' aspects have had a more positive effect on Taiwan's success than the neoclassical account allows (Wade, 1988, p. 35).

Firstly, Taiwan and South Korea was described as "*exemplars of the guided capitalist market*" in White's and Wade's (1988) research by analysing the role of the state. These states played a part by affecting the market and by altering the composition of profitable incentives in contrast to direct regulation, thus private economic actors implemented their projects by-product of market forces. In this context, those states gave the priority to industrialisation "to constrain market rationality". Thus, industrialisation became the main aim regardless of maximisation of profits according to "current comparative advantage". In this regard, there was an aggressive government intervention in the market to realise particular impacts of allocation and measures prepared to "safeguard the self-regulating parts of the market" (p.6).

As proactive agents, Taiwanese and South Korean states recognised strategic industries and products for future long-term development. In this context, some industries were subsidised and directed by the government while there was an intermittent intervention on others, and the rest was ignored and left to care for themselves within a regulatory framework. However, states of Taiwan and South Korea did not presume to restrain investment in non-strategic projects, rather they just did not help to such projects (White & Wade, 1988, p.7). This proactive and selective developmental approach is can also be called as infant industry model (Rapley, 2007), this feature displays an important difference between the East Asian model and Western and Latin American countries.

2.2.1. Common Characteristics of the East Asian Model

Taiwan and South Korea had common characteristics similar with Japan (Johnson, 1987, p.147; Wade, 1990, pp.25, 326-34). Firstly, they formulated the investment patterns based on guided market economies. That is, it was model that the governments decided the content and pace of industrialisation. As outlined above paragraph, if there were enterprises that did not make profits they went out of business. In this sense, they

focused on the strategic projects directly and selectively since they believe there was the guarantee to invest them.

Second, state actors played a key role in all three countries. In this context, how national actors played a role in DS framework can be seen in Ministry of International Trade and Industry (MITI) in Japan (Johnson 1982), Economic Planning Board (EPB) in South Korea (Amsden 1989), and Council on Economic Planning and Development (CEPD) in Taiwan (Wade 1990), which differentiates the economic bureaucracy from private interests in East Asia.

Furthermore, state had the active role for giving the substantial importance to industrialisation in Taiwan and South Korea. It could also be seen in Japan, where economic development had the priority by the state for more than 50 years (Johnson, 1982, p.305). Hence, a common feature can be shared for the DS since “the nature of a state” is defined as *putting priority to its economic development*. After those similarities, finally, the developmental state theory under the East Asian Model can be summarised under the following characteristics:

a) development as the top priority of the state, encouraging the investment and using repression to achieve the goal; b) committed state to private property and markets; c) distribution of the land to extend national market and repression of the labour to keep wages low and attract investment; d) insulation of the state against society and giving autonomy to the highly skilled bureaucracy to impose discipline at times harsh on the private sector; e) state guiding the market on a large scale, such as implementation of strict control over investment flows, use of multifaceted import restrictions, regulation of interactive relations between industry and agriculture, change in the incentive structure of the economy, promotion of technological change and protection of selected infant industries; f) investing heavily in human capital formation required by modern industry (Rapley, 2007, p. 140; Wade, 1990, pp. 25-26).

2.2.2. Different Perspectives on State-Market Relations

Although there are several common characteristics between East Asian developmental states, there are differences based on the state-market relations of those states. In this context, Johnson suggested “market conforming method”, where the elite state bureaucracy conformed with the market in Japan (Johnson, 1982, p.317). Amsden (1989) put forward the “market-augmenting paradigm” to describe the nature and process of state-business relations in South Korea. Finally, Wade (1990) improved the “governed market theory”, covering such relations for Taiwan. Nonetheless, for all the cases, the state played proactive role in leading the market.

Johnson has discussed the market conforming model associated with productivity and competition. In this context, the state must ensure to maintain competition at the highest degree possible. Competition was required to prevent “inefficiency, loss of incentives, corruption, and bureaucratism” that state generates. Thus, all state interventions in the economy must be ‘market-conforming’ since “the state needs the market and private enterprise needs the state”. This cooperative relationship between the state and the private enterprises was reciprocal and mutually beneficial for achieving developmental goals. In addition, forming such cooperation was not easy, but when this cooperation between state and the market became possible high-speed growth has occurred (Johnson, 1982, pp. 317-8).

Amsden shared the same argument with Johnson and Wade on the point that there was a leading role of the state when making the most focal decisions in resource allocation and guiding private economic factors (Amsden, 1989, p.139). However, she differed in the point that South Korea did not conform to the market like in the Johnson’s work (p.147) and argued the market- augmenting as such:

The government initiates growth by using the subsidy to distort relative prices. Then big business implements state policy. The role of small firms varies by industry, but basically the process of industrialization through learning involves the subordination of small firms to large ones in sub-contractual relationships (Amsden, 1989, p.150).

In Korea, although the market mechanism was not competitive, there was a pervasive state intervention and high degree in the market control. As a response to neoclassical view that state intervention did not lead to great price distortion, instead of “getting relative prices right”, Amsden argued that the South Korean government had “deliberately gotten them wrong” (p.139). Growth has occurred faster in Korea because there was qualitatively superior subsidization process rather than free operation of the markets (p.145) Here, the market augmenting paradigm did not have an automatic disciplinary device like the confrontation of firms operating in the same industry in market-conforming model, however, it had a premise that “*late industrialization is a reciprocal relation between the state and the firm*”. This reciprocal relation was disciplinary and meant requiring certain performance standards from firms in direct exchange for subsidies. Thus, the more reciprocal relation between state-firm in those countries brought rapid economic growth (p.146). There occurred high growth rates in Japan, Korea and Taiwan thanks to this reciprocal subsidy systems and this appeared clearly in the comparison with other late-industrialising countries that the government failed to discipline business such as Turkey and India (p.147).

Following Johnson and Amsden, Wade has suggested the ‘governed market theory’ based on different characteristics of DS (Wade, 1990, p. 26). Wade defined central mechanism of the DS as a combined set that role of the state was described as governing and steering the market forces. In this context, the state used its power:

To raise the economy's investible surplus; insure that a high portion is invested in productive capacity within the national territory; guide investment into industries that are important for the economy's ability to sustain higher wages in the future; and expose the investment projects to international competitive pressure whether directly or indirectly (Wade, 1990, p.342).

Here, the state gradually decreased the protection to realise domestic and international competition through the increase in the competitiveness of its firms. Thus, according to Wade, the state did not solely follow the market; rather, it took one step more than it.

By viewing state in a proactive account, Wade put the main reason for the successful growth of Taiwan’s manufactured exports as the role of the state describing “*the*

contrapuntal partner to the market system". In this context, the state ensured which resources will go to the strategic industries for the long term development through "import substitutes for use in export production, such as synthetic fibers and plastics, and new export sectors such as electronics" (Wade, 1990, p.110). Here, Taiwanese state supported the developmental initiatives, manipulated public resources and enterprises (pp.110-2). Thus, Taiwan led the preferences of the private market agents rather than followed them for economic development (p. 303).

2.2.3. Policies of the East Asian Model of DS

After the theoretical understanding of the developmental state in the East Asian model, now policies of the region can be analysed to comprehend the old developmental understanding and to overlap with the developmental state theory in practice. Firstly, there were very high investment ratios thanks to the high saving rates (Chang, 2006, p.19). Second, with regard to their macroeconomic stability, the East Asian countries have been displayed as "examples of the investment-boosting effect of low inflation" (p.20). However, until the late 1970s, Japan and Korea have pursued a 'pro-investment macroeconomic policy depending on 'investment management' which emphasizes sustaining high levels of investment, under the cost of moderate inflation (Chang, 1993, p. 110; 2006, p.20).

Thirdly, East Asian countries applied strict controls on capital inflows and outflows. Here, all of the economic transactions including foreign exchange were obliged to pass through the banks under government control (Chang, 2006, p.21). Fourth, there were domestic taxes and heavy tariffs imposed on certain 'luxury' products, even when there was no domestic production of them (p.25). Fifth, the East Asian states successfully disciplined the recipients of rents. This was achieved through their power over corporations by wielding their control over bank credit and other financial sources. Furthermore, success of the state discipline in East Asia came from the choice of "strategic" industries, stressing exports by enabling state to evaluate performance of enterprises "objectively" through following them in the world market; the state policies which were planned with detailed information on the domestic and the

international economies and were gathered from mandatory reports by the state-supported enterprises and from different public agencies (p.29).

In addition to these, the central mechanism of trade policy of the East Asia was its infant industry protection and export promotion. There was an interdependency between these policies. Infant industry required continuous success on the exports when there was continuous capital inflow from the advanced countries. In return, the continuous success of the exports required successful infant industry programs which maintain the development of the export industries and other state interventions in the field of “exchange rate management, trade credit provision, marketing information service, and product quality control” (Chang, 2006, p.34).

Finally, industrial policy of East Asia was what is called as ‘selective industrial policy’⁷. By aiming at increasing in the productivity of specific industries these include: a) to achieve potential scale in industries through providing organization of mergers and negotiation in market segmentation by variety of producers with “suboptimal scale”; b) subsidisation of improving capital equipment by the means of “rationalization or modernization programs” for strategic industries; c) subsidisation of R&D expenditure and direct or indirect training programs by the public institutions; d) promulgation of information with the cutting-edge technologies in certain industries though different public agencies (Chang, 2006, p.39).

2.2.4. Shift in the Developmental State Understanding

In 1993, an influential report was published by the World Bank as “*The East Asian Miracle*” (World Bank, 1993). After that, the developmental state was provoked worldwide and the debate across scholarly and policymaking communities has increased. The report analysed the successful factors of the EA economies and argued that many of those factors could be transferable to other developing countries. Those successful factors include:

⁷ Chang defines it as a “industrial policy aimed at particular industries to achieve the outcomes that are perceived by the state to be efficient for the economy as a whole” (Chang, 1993, p. 60)

Sound macroeconomic foundations and stable institutions aiming at a balanced budget and competitive exchange rates; (ii) technocratic regimes and political stability that provided policy credibility and reduced uncertainty; (iii) an outward (export) orientation; (iv) reliance on markets; (v) a more controversial set of industrial policies with selective government interventions often using ‘contests’ among firms as proxy to competition; (vi) high rates of investment in building human capital; (vii) high physical investment rates; (viii) a process of technology acquisition consistent with dynamic comparative advantage; and (ix) a smooth demographic transition (Thorbecke, 2006, p.24).

After that, the developmental state continued to be analysed, but this time, there were many attempts to explain it further from different angles. By this means, various approaches have been analysed from different perspectives and authors to enrich the theoretical framework and information.

2.2.4.1. Neoclassical View

Neoclassical theorists have argued that there was a connection between East Asian model and the Washington Consensus. For example, James states it as: “*Behind the statistics of differential development performance among the countries of East, Southeast and South Asia lies the importance of appropriate policies*” (James, 1989, p. 21). Overall, neoclassical economists tried to explain East Asian model of DS based on a) the export oriented industrial strategies arguing “export orientation contributed significantly to economic growth” (Balassa, 1988, pp. 276–280) and stating key success as “unshackling exports” (Hughes, 1988: xv); b) orthodox and stable trade and macroeconomic policies such as low inflation, flexible fiscal policy, high level of investment (Hill, 1994, pp. 844–848; 1996, p.150); c) successful role of the government on sustaining law and order and creation of a modern infrastructure to provide a stable incentive system (Balassa, 1988: p. 286; Riedel, 1988, p.29). In this manner, neoclassical view argued that the East Asian model of DS indicates how Washington Consensus could work in practice. In addition, there was a claim that free market policies can be applicable to the other developing countries as it was seen in the successful development of East Asian NICs. Although many neoclassical economists have accepted the significant role of the East Asian governments in their economies, they interpreted that:

The government played a smaller role in [East Asia] than it did in that of other developing countries. While the government was certainly active in monitoring economic activity, there was less direct parastatal production and less overall size of government than was the case in most developing countries (Krueger, 1991 p.37, as cited in Jayasuriya & Rosser, 2001, p.383).

In addition, some have emphasised the role of the market as having a central role in the economy rather than the state. In this regard, there were few successful countries with limited government role in economy such as Hong Kong, Malaysia, Singapore, Korea and Taiwan and thus, these countries have taken the advantage of markets in determining resource allocation (Wolf, 1988, p. 27) In a similar way, Chen discussed the absence of state intervention in Japan and the Four Tigers including Hong Kong, Korea, Singapore, and Taiwan, China. In this sense, he argues the role of state as “What the state has provided is simply a suitable environment or the entrepreneurs to perform their functions” (Chen, 1979, pp. 183-84).

In addition, neoclassical economists emphasised how institutional frameworks played strong, confident and efficient role in East Asian development. Here, those states introduced new laws and created an institutional framework that was staffed by professional, accountable bureaucracies within to make interaction between economic agents and the state can take place (World Bank, 1994, p. 23, 56). For Schmitz, the crucial thing that neoclassical economists were concerned on developing countries was “not whether they were democracies or autocracies ... but whether they had the governing will and wherewithal to create the ‘appropriate policy framework’ required to achieve efficient markets and the successful implementation of donor and creditor-mandated economic liberalisation programs” (Schmitz, 1995, p. 69). Here, the successful role of the East Asian governments for their development process comes from their institutional features that have facilitated the embracement of neoclassical policies.

Outside of the neoclassical framework, WB identified also an alternative approach to recognise the range of policies of the region and to assess whether and how various types of policies made a contribution to successful implementation of three main functions of economic management as “accumulation, allocation, and productivity growth”. This approach called as ‘Functional Growth Model’ recognising that policies

should vary depending on the situation while there remain central functions requiring always to be addressed since they are crucial for development (World Bank, 1993, p. 86). Here, former referred to market-oriented policies which were widely used by all the HPAEs and they comprise of the basis for their rapid growth. The latter was the interventionist policies that contributed to growth where they touch on problems about economic coordination. Those policies must combine the benefits of cooperation with competitive discipline to be successful (pp. 86-102).

2.2.4.2. New Institutional Approach

Chang (1994) analysed the institutionalist framework as focused on state intervention and industrial policy of DS in identifying the Korean industries' development through a combination of massive support from and heavy control by the state (Chang, 1994, p.113). In line with the accounts of Johnson, Amsden and Wade, Chang also emphasized the role of state in economic development. According to him, Korean state had the capacity to create an effective means for economic development through "*its cunning use of state-created rents*" and its ability to discipline firms if required (Chang, 1994, p.123). It also reverberates in Amsden's argument about state-market relations on disciplinary matter in South Korea (Amsden, 1992, pp. 145-47). In addition, Chang emphasized the historical, political and institutional conditions of South Korea including culturally and ideologically homogenous society, the Confucian tradition, bureaucratic elite combined with control of finance by the state to define elements for the achievement of state intervention. However, those conditions have been created as a result of "an intense process of political struggle, ideological campaigning, and institutional innovation". Thus, those conditions were "not entirely God-sent gifts" and other countries could also desire to build and possess them. (Chang, 1994, p.129).

In addition to these, Chang stressed the 'entrepreneurial vision' of the DS in addressing the conditions of long term development that could not be handled enough solely by 'following current price signals', thus; it was necessary building a state mechanism for its ability to combine and contrast different visions and the state had to procure

required institutions for its realisation (Chang, 1999, pp. 194-5). According to him, definition of the DS in political, ideological, and institutional terms is:

A state which can create and regulate the economic and political relationships that can support sustained industrialisation, and which takes the goal of long-term growth and structural change seriously, ‘politically’ manages the economy to ease the conflicts inevitable during the process of such change (but with a firm eye on the long-term goals), and engages in institutional adaptation and innovation to achieve those goals (Chang, 1999, p. 192).

In the above definition, such economic and political relations required to include large economic groups such as chaebol associated with the state coordination and negotiation for the strategic projects and the investment decisions, thus leading the DS as “a paradise for big industrialists” (Woo-Cumings, 1999, pp. 17, 27). Here, the commitment to collective goals might be provided through promotion of “national ideologies and sentiment” and “ironclad guarantee” of private property rights. Later on, by institutional adaptation and the innovation, the state sector had to be able to deal with the changing requirements for being competitive in international markets, and sustaining long-term development by promoting educational infrastructure, research and development programs (Woo-Cumings, 1999, p. 27).

2.2.4.3. *Embedded Autonomy*

The notion of ‘embedded autonomy’ was brought forward by Evans to enlarge upon the relation between the state and the economy by using the comparative institutional approach. Here, the state took place as a historically rooted institution. The state and society were interacted and constrained by institutionalized sets of relations (p. 18). He argued that variations in state involvement laid in the variations in the state depends on their structures and relations with the society; and structures defined the role of the state based on its capacity (p.11). He drew attention to common concern of Johnson, Amsden, and Wade by asking how the DS interacts with market. Although they answered that the state promoted markets by cooperating, disciplining, or leading the way looking from an autonomous state perspective Evans argued that it fell short for the ability to resolve “collective action” problems and “transcend the individual

interests of its private counterparts”. Thus, a state could be called developmental when embeddedness and autonomy are attached (p. 12).

Firstly, the state must have autonomy and an autonomous state formed two different characteristics *a) ability of prowess and perspicacity for its technocrats; b) an effective and durable institutional structure for the state*. It was important that the DS autonomy completely differed from both the incoherent despotism of predatory state and the “relative autonomy” of the structural Marxist state (Evans, 1995, p. 59). Developmental autonomy was defined in his view as “*the internal organization of the developmental states are embedded in a concrete set of social ties that binds the state to society and provides institutionalized channels for the continual negotiation and renegotiation of goals and policies*” (pp.12, 59).

In addition to state autonomy, he developed the concept of “embeddedness” as another required criterion for the DS. Embeddedness was identified as “*a concrete set of connections that link the state intimately and aggressively to particular social groups with whom the state shares a joint project of transformation*” ((Evans, 1995, p. 59). Evans emphasised that embeddedness is important as much as the autonomy. Therefore, they were equally important and essential for the emergence of embedded autonomy and a successful DS.

Finally, embedded autonomy was described as “*apparently contradictory combination of corporate coherence and connectedness*” to provide a fundamental base for the success of state intervention through industrialisation. However, a few states could enhance their structures for the ideal developmental state. Korea in NICs showed a good example; but Brazil and India also showed embedded autonomy examples apart from the East Asian developmental states ((Evans, 1995, p.12).

2.2.5. Marxist Critique of the Developmental State

Marxist perspectives of the development states differently take place and vary from each other. Some of the perspectives embrace the institutionalist framework while trying to criticise the development state (Bello & Cunningham,1994; Brenner, 1998).

However, they were criticised since they neglected certain “*contradictory and conflict-ridden*” capitalist characteristics of DS, also they prided on its ability to plan and achieve national development (Song, 2013, p. 1258). Apart from that, some of the Marxist literature focuses on the class content analysis of DS (Chibber, 1999; Cammack, 2007). Moreover, some analyses the DS through social form critique (Song, 2013).

Firstly, Chibber looked at the developmental state from the perspective that the state was captured by the local bourgeoisie. He accepted the institutionalist perspective of DS as implementation of disciplinary and monitoring power against private economic actors. However, he reformulated the developmental state’s control power on the financial institutions such that it did not enable the state to impose its own development agenda such as export orientation on the entire capitalist class, rather the state could wield this disciplinary power against the firms associated with the domestic capitalists (Chibber, 1999, p. 317).

He pointed out three key features as the stylized facts of the development strategies in the 20th century: 1) policy of rapid industrialization to catch up advanced economies; and 2) industrialization based on alliance “common project between political elites, state managers and the domestic capitalist class”; 3) the alliance between the state and market. Here, state led development was one of the pillars of the development state for the notion of the industrialization. Then, he questioned the state capacity in the point that state weaknesses “leading to the eventual collapse of developmentalism and its replacement by neo-liberalism” in terms of the lack of institutional capacity needed for industrial policy to succeed focused on the conflict between state elites and domestic capitalists, similar with the institutionalists (see Chang 1998, pp. 1557-59; Chang, et al., 1998, pp. 739-44; Weiss, 2003; Song, 2013, p. 1259).

State’s relative autonomy in his view referred to that the national bourgeoisie could not directly control the state power. However, the developmental state as a state intervention “endowed with a set of technical and administrative instruments” led to the worries on the domestic capitalists. Thus, while they applied promoting strategy in their developmental agenda, meanwhile, they abused “elements which might encroach

on their investment prerogatives” (Chibber, 2004, p.161). Thus, Chibber emphasised the capture of the state by the national capitalists who commit themselves suspiciously to the national development. Here, as a crucially important point, institutionalization of the ISI strategy made it prone to resist and reject any genuine attempt in development process (pp. 148–9, 163). Whereas planners saw ISI and industrial policy in an equal set, domestic capitalists thought that ISI promoted to reject the discipline of industrial policy. Thus, they run away from state monitoring and pursued their personal interests rather than national interests. (pp. 151, 157).

As different from Chibber, Paul Cammack looked at the state from a class struggle perspective. He criticised Chibber on grasp of the logic and dynamics of the development state in Korea by “disregarding Korea’s repressive labour regime” (Cammack, 2007, pp. 1–2). Further, Chibber put the assumptions based on the institutionalist framework and could not pay attention enough to “class struggle, or the links between exploitation, accumulation, and legitimation” (p.12), and stressed that “the East Asian developmental state was pre-eminently a capitalist developmental state” (p. 3).

In this context, while Chibber focused on the role of national bourgeoisie Cammack criticised him and defined capitalist developmental state from the central point of “its creation and disciplining of an exploitable proletariat” (Cammack, 2007, p. 4). However, for both Marxist understanding of DS, there was a common point on that the DS was mainly concerned with the class content understanding. On the other hand, these understandings were also criticised for being based solely on class content analysis and their failure on institutionalist understanding of the DS (Song, 2013, p. 1261).

Apart from those, there are other Marxist views of the DS based on “intensive exploitation of labour pursuant to the violent suppression of anti-capitalist class” (Burkett & Hart-Landsberg, 2003, p. 167; Ollman, 2001, p. 82) and, focuses on to what extent political sphere is brutal and the economic sphere makes super-exploitation of labour in a totality (Kim & Park, 2007). In addition to these, Song queries “national development” and “catch-up development” in a different way. He offers a critique

aiming at overcoming two fundamental misconceptions of “the statist notion of the developmental state”: the state has autonomy in a) domestic economy and b) global capitalist system.

Song viewed the DS from the “social form critique of the state” and expanded Marx’s criticism of “commodity fetishism” to inquiry of the state in “catch-up development” and theorised the developmental state by criticising the fetishism of national development. First, misconceptions of the statist foundations of the DS stemmed not only from state autonomy but also from the fact that it represented “the national” or “internal” as distinct from “the global” or “the external”. Here, the world-system analysis⁸ was proposed as an alternative conceptualisation to go beyond the statist concept of the DS (Song, 2013, p. 1266).

The state was perceived as the potential agent for sustaining capitalist development which was generally based on the “catch-up” understanding in the form of top-down process and the state emerging as the key leading factor. This paradigm was exemplified in many ‘backward’ countries, and this led to raising the statist notion that success or failure of development came from the state-led development with certain state autonomy and also emergence of the state as the main driver of national development. In this context, since the state enforced the “capitalist plan rationality”, it created “*the dogma that the state in and for itself is the agent of such development*”. From this point view of, the developmental state lied nearer to the institutionalist view and social form of the critique of “the capitalist state”. Thus, the developmental state became “*a particular type of the capitalist state that emerges in the context of catch-up processes as a by-product of the uneven development of capitalism and the hierarchical world system*” (Song, 2013, p. 1269).

Further, the “statist notion of the developmental is fetishistic” based on Marx’s criticism of “commodity fetish” in the sense that “the development orientation of the developmental state originates from the nature of the state in itself” as putting “an autonomous and effective (developmental) state appears to be the main driver and

⁸ World-system analysis assumes the existence of capitalism as a world system as in itself constituting a world See more in (Wallerstein, 2004, p. 16).

determinant of outcomes of national development”. Here, although contradictory class relations coming from capitalist “catch-up” process are involved in the DS, “national policy choices and national distinctiveness” form the characteristics of the DS (Song, 2013, p. 1270).

In addition to the statist notion, the notion of national development was also fetishism since it essentially neutralised its class content function by displaying it in a “class-neutral national” form led by an impartial and autonomous state, but it effectively entailed a class content. It formed a set “to protect the national bourgeoisie from competition” in the advanced world and to consent “the national bourgeoisie the freedom to exploit domestic labour”. Thus, “Marx’s critique of Friedrich List still bears relevance in analysing the developmental state and in revealing its class content and the ways in which it is expressed in the fetishized form of promoting ‘national’ and ‘productive’ development” (Song, 2013, p. 1270).

Essentially, it brought a fundamental reconsideration of development itself in the sense that development is regarded as justifiable and bringing benefits from it are applaudable. This opens a road to defending authoritarianism, labour repression, and “crony capitalism” as “nationally distinctive development strategies” contrary to the universalising advanced world development. Moreover, some leftist thinkers see development as “a process separable or immune from capitalist contradictions” for the development of the South. In this respect, the state appears in the means of achievement of a proper mode of development with respect to the interest of labour and the interest for the national development (Song, 2013, p. 1271).

2.2.6. Resolution of The East Asian Model of DS

As argued in the above sections East Asia has been the main region where the developmental state has most frequently emerged and used. Inspired by the East Asian development process as late industrialisers many scholars analysed developmental state in detail and from various perspectives in 1990s. However, this economic model has started to be challenged by the process of globalisation at the end of the 20th century.

By early 1990s the WB has acknowledged the importance of the role of the state in East Asia emphasising its “*effective, playing catalytic and facilitating role, encouraging and complementing the activities of private businesses and individuals*” in development process by sustaining high growth rates and rising living standards (World Bank, 1993, p. iii; Howell, 2006, p. 275). 1997 World Development Report also emphasised the role of the state in economic development putting its main theme as “Rethinking the state” (Menocal, 2004, p. 772; World Bank, 1997, p.1). However, scholars started to doubt the effectiveness of state intervention and to downplay the role of the state in the development process since the Asian financial crisis of 1997-98. Some of these scholars have argued that the main cause of the crisis resulted from the weaknesses of all regulations relying on financial fragility and volatile capital movements, then emphasising the importance of institutional development and arrangements, also addressing the issue of the long-term growth in a different phase (McLeod & Garnaut, 1998, pp. 259, 273). In addition, the East Asian development model was delegitimised by the discursive practices of the government and international agencies of the US Treasury Department and IMF redefining the model as ‘crony capitalism’ and ‘corruption’ by highlighting the merits of market-based processes and outcomes (Hall, 2003, p. 73). Thus, the globalization actively disintegrated the East Asian model of DS and forced them to search for a new political economy model.

At least before the 1997 Asian financial crisis, as distinct from the Big Three, the eight highly performing Asian economies (HPAEs)⁹ were mentioned as model of for other developing economies in terms of institutional and policy frameworks as an example by *replicating* their highly performing economies (Takagi, et al., 2019, p.3). However, the politics of the DS started to show contradictories by the late 1980s and 1990s. First, because of the rapid growth in the economy, division of labour became more complex. In Japan and Korea, ‘worn-out’ nature of the developmental state came into sight with the stock market and chaebol collapses. Here, “*nexus of the state leads, the market follows*” have been disrupted. When the crisis happened, all institutions including market corporations, banks, chaebols could not be able to exit themselves quickly from

⁹ HPAEs are comprised of countries including Japan, Korea, Taiwan, Singapore, Hong Kong, Indonesia, Malaysia and Thailand.

overbearing state to prevent possible disturbances. Financial sector was reluctant to restructure in Japan, then, in Korea, none of the business practices considered that “the state would not come to their assistance when in crisis”. Thus, those fallacies led to intensify the Asian crisis further (Pang, 2000, p. 571).

2.2.6.1. The Asian Financial Crisis

There are several evaluations on the East Asian 1997-1998 Crisis from different perspectives. Some observers argued that the crisis led to the gradual exit of the DS in some of the East Asian region (Chang, 1998). Some scholars have propounded ideas about the crisis that raise doubts about the Washington Consensus on the point that financial liberalisation is good for developing countries. In this context, there will be review about causes of the crisis from different perspectives analysed by mainstream economists based on their explanations on the crisis and on their contradictions with the consensus.

From the point of government failure, the East Asian economic crisis has occurred because of the excessive government intervention while implementing trade and industrial policies strategically. This intervention has created rents in the economy and encouraged “rent seeking” activity, thus; the systems of “crony capitalism” has occurred in the region. In addition, the “moral hazard” problem has occurred since: a) there were not sufficient regulatory and monitoring system to the firms, banks, and borrowers for their engagement in risky and fraudulent activities. (Krugman & Obstfeld, 2009); and b) international and domestic lenders have believed the assumption that, when there were credit extensions to “government-sponsored projects or lent to well-connected capitalists”, the government would bail out in the case of loans getting worse (Black & Black, 1999, p. 44; Krugman, 1998). In this context, the story of East Asian Crisis can be summarised as:

The crisis led to the collapse of the regional economies largely as a result of a combination of dysfunctional overvalued currencies caused by a huge influx of foreign direct investment (FDI) and foreign portfolio investment (FPI) capital; a sudden and rapid liberalization of capital markets to attract more FDI and FPI; massive corporate and private debt in dollars and yen; a backlash to the prevalence of crony capitalism; a dearth of remedial tools in the arsenal of state policies; the global contagion of investor panic; and finally, the problem of moral hazard (Pang, 2000, p.573).

Overall, the essence of this view lies in the misallocated resources and imbalanced structures in the economy resulting from the investment decisions in political, but rather the economic grounds (Black & Black, 1999, p. 44; Cathie, 1998). The problem here is that there is a contradiction between its depiction of East Asia's situation and its earlier view of East Asian economies as liberal market economies or "simulated free markets". Those scholars argue that there is no evidence for exercising Washington Consensus practically in East Asian economies, but they also argue that how those economic problems arise from their objection to apply the Consensus. Therefore, rather than the compliance with the Consensus, it implicitly accepts the statist argument of the East Asian miracle as such relation between state and the market based on collaboration and cooperation (Jayasuriya & Rosser, 2001, p.384).

Apart from this, some of the mainstream economists have explained the crisis by the argument that it occurred because of the mismanagement of macroeconomic policies. For example, Ross Garnaut draws attention to the misalignment of following policies under fixed exchange rate when there have been increasing international capital mobility and business exuberance ensuing by economic expansion in the emergence of the speculative flows and growing of the crisis (1998, pp. 2-3, 9). In addition to these, there were also focuses on areas policies regarding exchange rate, interest rate and inflation stability (Jayasuriya & Rosser, 2001, p.385).

The macroeconomic perspective also contrasts with the Washington Consensus while criticising the macroeconomic policies. It shows the picture of East Asian development in line with the orthodox macroeconomic policies, likewise before the crisis, many neoclassical economists have explained the East Asian's success in terms of adoption of neo classical policies in the macroeconomic management.

Some of the neoclassical economists have explained the crisis in the point of the “premature nature of financial liberalisation” (Stiglitz, 1998; Radelet & Sachs, 1998, p. 18; Radelet et al. 1998; McLeod, 1998; McKinnon & Hill, 1996, p.35). For example, Jeffrey Sachs has argued: “It was financial market reform that allowed Thai and South Korean banks to tap into short-term international loans in the early 1990s, thereby bringing together these banks with excited young investors who were happy to be in Bangkok and Seoul for the first time” (Sachs, 1998, p. 3).

‘Road to Recovery’ report also puts a similar framework while arguing the Asian crisis as “a story of rapid growth built on incomplete foundations, which was left exposed to winds of the international capital markets” (World Bank, 1999, p. 16). Those scholars argue that while short-term effects of financial liberalisation were positive longer-term effects were not. Since that reform was made without introduction of necessary institutional and regulatory reforms, exposure of East Asian economies to volatile global financial markets became inevitable. However, this view also contradicts the key argument of the Washington consensus on growth with the financial liberalisation since it argues that capital account liberalisation could not enhance economic growth in DEEs, even it might put at risk those economies (Jayasuriya & Rosser, 2001, p.386).

Now, how the Asian crisis has emerged and how its scale has grown will be analysed in a conjunctive way with the above arguments. Asian crisis can be analysed under certain factors, which are bank based high debt model, financial liberalisation, inflows and real vulnerabilities. Firstly, the bank-based high debt model¹ has encouraged close relations between bankers and corporate sector, this to emergence of “relationship banking”² (Wade, 1998, p.696). Secondly, opening external financial liberalisation without controlled and supervised banks and financial institutions under fixed exchange rate regime undermined the corporation between financial and real sector and made fragile debt structures subject to sudden shocks. Thirdly, as requiring holding excess of investment over savings and to get higher returns for foreign creditors and to borrow more cheaply domestic borrowers, there was an upward pressure on the exchange rate through financial inflows. In addition, capital inflows under the fixed exchange rate regime caused appreciation of the domestic currency.

Appreciated domestic currency led to a fall in exports (Kaplinsky, 1998; Wade, 1998, p.697). Fourth, the main source of vulnerability in the real sector came from the deterioration in the current account resulting from falling export growth. This appears in a fall in demand of the main exports, such as semiconductors in Korea³. In addition, falling export growth reflected declining competitiveness due to increasing domestic costs faster than productivity (Wade, 1998, p.698).

The Asian crisis started with a large liquidity crisis in Thailand and followed with a set of policies under the IMF- supported policy programs with conditionality measures. Shortly afterwards, the crisis jumped into the Hong Kong and Korea with sudden devaluations. In this way, the crisis grew from a “South-east Asian” crisis to an “Asian crisis” and the perception ‘Asian Miracle’ shifted to “Asian crony state capitalism”. By this way, “Crony capitalism” was started to convey dangers of government. (Wade, 1998, pp.699-700).

2.2.6.2. Towards End of the Developmental State?

The Asian financial crisis not only caused destruction in the economy but also it caused to a critical re-examination of the East Asian Miracle and role of the state in the industrialisation process, thus the way of the demolition of the developmental state was opened. As Krugman (1997) has argued:

The biggest lesson from Asia's troubles is not about economics; it's about governments. When Asian economies delivered nothing but good news, it was possible to convince yourself that the alleged planners of those economies knew what they were doing. Now the truth is revealed: They do not have a clue.

Thereafter the Asian crisis in 1997–8, many scholars highlighted the risks related with the policies of the East Asian model both on the alignment between politics and the economy and on the efficiency of the alignment between state and market. Moreover, there was an emphasis on inadequate regulatory framework and lack of institutional transparency of the developmental state. Meantime, such terms as “booty capitalism”

and “crony capitalism” emerged to replace the developmental state¹⁰ (Takagi, et al., 2019, p.7). As Beeson stated:

Not only were such relationships routinely disparaged as forms of ‘crony capitalism’, and synonymous with corruption and inefficiency, but they were seen as incompatible with the sort of dynamic competitive pressures associated with ‘globalisation’. In short, the sorts of business structures, political practices and social relations that had formerly been seen a source of competitive advantage in countries like Japan, were now seen as self-serving obstacles to necessary change (2004, p. 5)

Last, but not least, the process of demolition of the DS can be summarised briefly as: “In the end, it seemed that the most severe and lasting casualty of the 1997 crisis was the East Asian developmental state model itself.” (Wong, 2004, p. 345).

2.3. Conclusion

To sum up, developmentalism shows a dynamic evolutionary process since it has firstly emerged in ideas, strategies and policies about developmental state started from the sixteenth century to the end of the twentieth century. Thus, developmental state framework is not a new term described by Johnson for the Japanese miracle, rather it has continuously evolved through benefiting from earlier ideas throughout the process. As its expansion as a study field after the world war II, many developmental theories and policies were generated from different developmental economists followed as modernisation theory, dependency theory, world system theory, neoliberal approach and post development theory. Throughout the twentieth century, all development theories and strategies are shaped according to catch up process based on the gap between developing and developed countries. In this context, East Asian model of DS has emerged as a successful example for achievement of that developmental gap. Although there are certain common characteristics among the East Asian countries for the model, they are differed from each other according to their own state-market relations. Further, as East Asian model of DS is published as East Asian Miracle by

¹⁰ There are some related works, see more in: Chin, K. L. (2003). *Heijin: Organized crime, business, and politics in Taiwan*. ME Sharpe; Kang, D. C. (2002). *Crony capitalism: Corruption and development in South Korea and the Philippines*. Cambridge university press; Hutchcroft, P. D. (1998). *Booty capitalism: The politics of banking in the Philippines*. Cornell University Press.

World Bank, it is also analysed from different perspectives as neoclassical view, neo institutionalist approach, embedded autonomy and Marxist view. Here, while neoclassical view adapts the model according to Washington Consensus, new institutionalist approach underlies state intervention through industrialisation in economic development on the basis of historical, political and institutional conditions of East Asia and embedded autonomy focuses on state involvement into economy based on the structural basis of the state capacity and its relations with the market and society. Contrary to those approaches, Marxist view criticises East Asian model of DS by calling it as a capitalist development state based on its class content and social form. However, this model has started to lose its validity at the end of the century with the increased globalisation and implementation of neoliberal policies such as financial liberalisation. Those factors had implications on the downplaying role of the state in the economy and has led to the Asian financial crisis. Thus, East Asian model of DS started to demolish, and East Asian Miracle gave its way to the discussions about crony capitalism.

CHAPTER 3

DEVELOPMENTAL STATE IN THE ERA OF FINANCIALISATION

After the resolution of the developmental state by the Asian crisis what happened to the developmental state? Since the introduction of the neoliberal policies and the implementation of the Washington Consensus decisions many DEEs have faced with many risks under financial globalisation and integration. After passing to 21st century with continuous increased globalisation and international financial integration, how developing process of the DEEs, as settled into their nonending development process, has taken form? Which new challenges have they confronted in this era and to what extent have they undergone transformations in their state-market relations impacting their development process? In this context, this chapter will argue financialisation of the DEEs in the 21st century to understand their way of developmental process through their deepened integration to the international financial markets. Firstly, section 1 will make an overview to the financialisation literature as started from the emergence of the term to financialisation of DEEs. Then, section 2 will elaborate financialisation process of DEEs through their economic development process. Finally, section 3 will analyse the transformation of the developmental state framework of the East Asian model under financialisation.

3.1. An Overview to Financialisation Literature

Financialisation firstly emerged in the literature in the beginning 2000s. There were different perspectives on financialisation from the critical approach of the Manchester School (Froud et al., 2000); the Regulationist approach (Boyer, 2000); the heterodox approach (Stockhammer, 2004; Epstein, 2005); the corporate governance perspectives (Lazonick & O'Sullivan, 2000); and the cultural economy approaches (Martin, 2002; Langley, 2004) (Mader et al. 2020, p.4).

After the Global Financial Crisis of 2008 (GFC), financialisation has gained a new phase. Scholars started to examine variety of financial actors and markets (Aalbers 2008; Dixon & Sorsa 2009; Finlayson 2009; Montgomerie 2009; Fichtner 2013; Gospel et al. 2014). In addition, some also started to focus on ‘variegated nature of financialisation process’ apart from Anglo-America region (Engelen & Konings 2010; French, 2011). This led to the fact that financialisation cannot be reduced simple understanding as “a global isomorphism towards Anglo-American finance capitalism” but there needs to be understanding “in relation to national/local contexts on the one hand and the global capitalist system on the other” (Mader et al. 2020, p.4) as an example such as the works on Eastern Europe (Gabor, 2010; Rethel, 2010a; Hardie, 2012) and on emerging economies (Bonizzi, 2013; FESSUD, 2013).

3.1.1. Defining Financialisation

Financialisation generally means from Gerald Epstein definition “the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies” (Epstein, 2005, p. 3). Differently from Epstein, there are also empirical definitions as “the quantitative increases in the turnover of financial assets and liabilities (Krippner, 2011) and “the increased financial operations of firms and households relative to income” (as cited in Yalman et al., 2018).

In spite of those general definitions, it is important to look financialisation in a) limiting sense to recognise what is financialisation and what is not; b) mechanism-oriented sense to clarify the linkage of cause and effect; and c) contextual sense to make clear what contexts they claim validity for (Mader et al., 2020, p. 8).

From this point of view, thereafter, financialisation has appeared in referring to set of changes emerged after the financial crisis of 2008 as deregulation of the financial sector and polarisation of the income sector, thus leading to changes in the relationship between the “financial” and the “real” sectors by highlighting the actions of financial actors (Stockhammer, 2011). At this point, there emerges a contradictory relationship between financial and the real sector as consequence of the negative effects of

financialisation on investment in real assets (Orhangazi 2008, p.865). More than this, in the contemporary era, clear-cut divisions between the “real economy” and the “financial sector” have been undermining with the expansion of the financial instruments over real economy in the point that “financial sector has become ‘too big’ means that the financial sector is proving a drag on the development of the real sector” (Engelen & Konings 2010, p. 621; Epstein & Crotty, 2013; Sawyer, 2017, p. 9; Yalman, et al., 2018, p. 7).

3.1.2. Confluence between Real Sector and Financial Sector

Here, the focus has started with the relationship between banking and industrial capital. There are compromises on the point that there is a significant transformation on the process of capital accumulation examples such as “the emergence of a new hybrid phase of monopoly-finance capital or finance capitalism” by the Monthly Review school due to the quantitative growth in finance and increasingly large and recurrent crises (cf. Peet, 2011). In addition, the French Regulation School characterises the changing relationship between the financial sector and the real sector as “the development of a finance-dominated regime of accumulation and mode of regulation” (cf. Demirović & Sablowski 2013; Jessop & Sum 2014). Furthermore, the post-Keynesian analysis handles ‘finance-dominated capitalism, in the sense that the dominance of finance hinders both the real sector investment and increase in the income inequality, meanwhile, falling labour income share (cf. Hein & Detzer 2014; Stockhammer 2011); (Yalman, et al., 2018, p. 5).

On the other hand, there are other major perspectives on financialisation from Marxist perspectives by underlying a new turn. One of the claims that financialisation causes to “*systemic transformation of mature capitalism*” during that “commercial banks have become more distant from industrial and commercial capital” (Lapavitsas, 2009, p. 115; 2011, p. 611). Along with the quantitative changes, there occurs qualitative transformations relating to both banking and industrial sectors by creating changes of their actions.

However, the financial expansion would not necessarily imply that “the financial economy has become entirely uncoupled from production” (Krippner 2011, p.4). Actually, no evidence shows the strict conflict of interest between financial and real sector although there is an understanding that there is dominance of finance over industrial capital because of the rise of monetarism after the economic crises of the 1970s. As such:

The very distinction between ‘financial’ and ‘industrial’ capital is becoming increasingly anachronistic as accumulation on a world scale is dominated by multinational corporations which take the form of financial holding companies closely integrated with multinational banks and financial institutions (Clarke 1988, p.5).

On the other hand, in the contemporary era, and giving as a key example, the transnational corporations (TNCs), organised as groups of enterprises, constitute their own category based on centralization of the financial assets and a specific organisational structure under ‘the holding company’ with the purpose of valorising them in financial markets. As a result of increase in their active management of financial assets in recent years, TNCs have become effectively financial groups with industrial activities. Hereby, they constitute a kind of manner in contemporary ‘finance capital’¹¹ in which alliance between banks and industrial sector has no longer existed with the finance-led domination. Thus, “management and valorisation by TNCs of non-invested and non-distributed profits” leads to emergence of a blurring the boundaries between productive and interest-bearing capital¹² (Serfati 2011, pp. 12-3; Chesnais 2016, p. 112; Yalman et al., 2018, p. 7). Here, critical point of TNCs is that they are able to build an integrated global space¹³, with a set of combined financial

¹¹ It was defined by Hilferding in the early 20th century, refers to increasing ratio of the capital used in industry and this industrial capital can be disposed through the banks as making industry dependent on banks. (1910, Chapter 14).

¹² There is a relationship in the process of financing accumulation such that money capitalists (earning interest) lend to productive capitalists (earning profit), and this enables the expansion and reproduction of capitalist social relations of production. This form of money is referred as interest-bearing capital.

¹³ Here, integrated global space means “beyond the national limits in an integrated space where hundreds of affiliates are co-ordinated under the control of a central office which manages resources and capabilities with the objective of giving coherence and efficiency to the process of valorisation of capital”.

and industrial operations, and they can also be analysed through GVC approach (Gereffi et al., 2005).

By the way, the crucial point is whereas integration of the banking system with industrial capital does not imply to suggest an explicit domination of the financial sector over the real sector despite of raising in “asset prices and an increasing proliferation of and other financial instruments” in recent years, the changing relationship between the two requires neither a detachment of financial capital from productive capital in the contemporary era nor a strict functional separation between finance and industry (Park & Doucette 2016, pp. 534-5; Yalman et al., 2018, p.8).

3.1.3. A New Type of Debate: Financialisation of the Emerging Economies

To what extent is it meaningful to study financialisation process on the emerging market economies? Actually, in a world where most of the emerging economies integrated into international financial system and have faced financial transformation throughout this process, the analysis of the relations between the state, financial sector and the real sector of those becomes essential. Although there is a shallow research analysis about the ‘financialisation’ of emerging capitalisms there has been a number of growing studies revealing important dimensions and contradictions of financial transformation in several regions of the global South.

As a starting point, capital account liberalisation with its accompanying currency-convertibility has been an important aspect of the financial transformation in emerging and developing economies over the last few decades. As a result of the volatility of the capital inflows regardless of banking system, portfolio investment or bond markets, those economies have become fragile and this made them vulnerable to ‘the build-up of systemic risk’ (Claessens & Ghosh 2016, p.40; Yalman et al., 2018, p.9). Firstly, as a result of the rise in the internationalisation of the capital¹⁴ leading to the significant role of the exchange rate management, the nature of a state’s insertion into the global

¹⁴ It refers to era followed by the end of the Bretton Woods system. There exists “the consolidation of the internationalisation of the money circuit of capital”, and the internationalisation of the productive circuit of capital. Those operations have been taken form by transformation of the nation-state which also necessitates transformation of the developmental state.

economy and changing forms of that relation have come into prominence (Powell, 2013, p.53). In this regard, capital account liberalisation has opened the road for states to being exposed to the fragile international financial markets and facilitated the increase in the amount of foreign ownership of domestic firms through privatisations as well as mergers and acquisitions (Correa & Vidal 2012, p. 543; Yalman et al., 2018, p.9).

Contribution of the this burgeoning “peripheral financialisation literature” refers to its internalisation of ‘variegated’ types of capitalism across diverse societies, no matter they can be identified as an instance of ‘subordinate financialisation’ (cf. Brenner, 2010; Lapavitsas 2013; Lapavitsas & Powell 2013, p.364, Yalman et al., 2018, p.9).

Comprehensively, it realises ‘the contradictory role of finance in capital accumulation’ in the sense while it provides expanding capital accumulation, at the same time, it leads to the instability ‘through crowding-out effects, new risks and uncertainties, and the occurrence of financial crises’. Starting from this, such role of the finance constitutes ‘the specific historical and institutional trajectories of national process of capital accumulation’ to be taken into consideration essentially for the analysis of ‘the financialisation of emerging capitalist economies’ (Kaltenbrunner & Karaçimen, 2016, pp. 288-9). In other words, it becomes necessary to consider the specific modes of state-capital relations and institutional forms stem from those relations since these countries are ‘all located within global financial markets that are dominated by those controlling the movement of capital flows’ (Yalman et al., 2018, p.10).

3.2. Financialisation Process of Developing and Emerging Market Economies

On the context of financialisation process of DEEs, the study will focus on the financialisation process with the catch-up strategy of DEEs with regards to their developmental process. Under the strategy of catch-up ongoing from the 20th century development, the factors that coincide with the financial integration of the developing countries will be analysed. Those factors can also be characterized as a number of new forces called as “anti-catchup factors” (Wade, 2018). On the basis of financialisation of the emerging market economies, in the study, those factors will be put together and

analysed under the deepened integration of DEEs to the international financial markets. By this way, how DEEs are increasingly integrated to the international financial area can be generalized in two different dimensions simply: quantitative and qualitative changes. Quantitative changes on finance also take place in two dimensions:

First, through rapid expansion of international assets and liabilities as conventionally defined on the basis of residence—that is, the balance sheet positions of residents of EDEs vis-à-vis non-residents. Second, as a result of growing assets and liabilities defined on the basis of nationality—that is, the balance sheet positions of nationals of EDEs vis-à-vis foreigners including debt to foreign banks located in EDEs and the external debt of overseas subsidiaries of their corporations (Akyüz, 2017, p.87).

There are some studies to analyse those quantitative changes in financial markets (Stockhammer, 2010; Tyson and McKinley, 2014). These increase and expansion on the assets and liabilities include increase in the capital inflow and outflows, capital account liberalisation and increase in the external debts.

Together with the quantitative nature changes there has been qualitative changes on DEEs' international integration process into financial markets. Here, there are not only distinctive domestic financialisation processes, but also there are change in the “international financial markets and the way of economic agents”. These qualitative changes include change in the dominance of “type of actors, instruments and markets in international financial relations” (Bortz & Kaltenbrunner, 2018).

3.2.1. Internationalization of Finance

Firstly, the capital account liberalisation is one of the crucial factors in the increasing of global financial integration of DEEs since 1980s and 1990s. After the initiating it, many DEEs have found themselves integrated to the international financial system, sometimes as a result of obligations undertaken in the World Trade Organization (WTO), or commitments made in Free Trade Agreements (FTAs) and Bilateral Investment Treaties (BITs) with advanced economies, or as a choice to facilitate the financing of their external deficits and accelerate investment and growth (Akyüz,

2017, pp. 84-85). However, the surge in capital inflows starting from early 2000s has played a major role in acceleration of the financial integration of DEEs into the international financial system. It is called as “the third post-war boom in capital inflows to DEEs”¹⁵. (Akyüz, 2017, p.84).

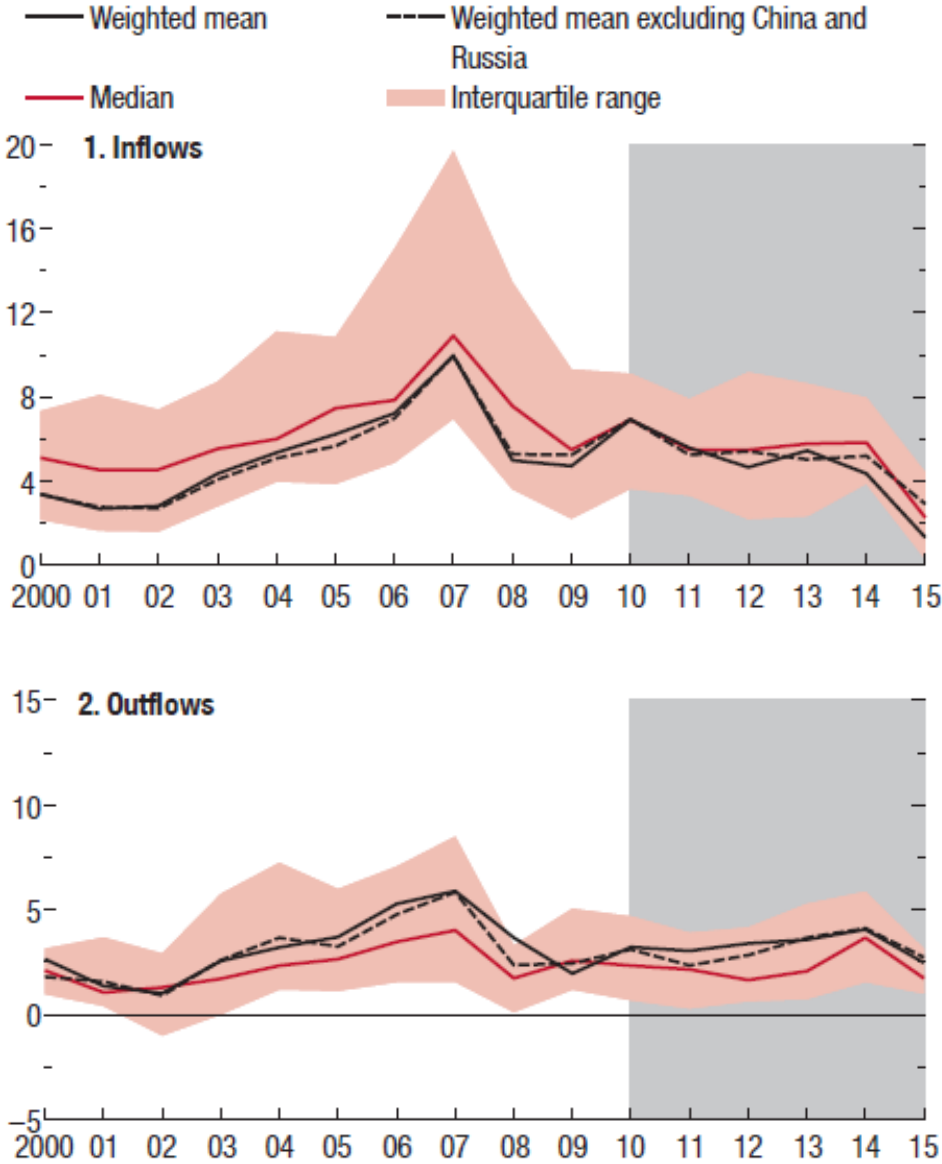


Figure 1: Capital Inflows and Outflows for Emerging Market Economies, 2000-2015 (Percent of GDP)

Source: (IMF, 2016, p.66)

¹⁵ It is the era that has occurred in the aftermath of 2002, when advanced economies started to implement policies generating highly favourable external financial conditions for DEEs. See more in (Akyüz, 2017).

Figure 1 shows the change in the capital inflows and outflows in this process. While there is a continuous increase in capital inflows till the GFC, After the crisis, a slowdown in the capital inflows occurs. Contrary to this fall after that, it is seen that capital outflows have risen (IMF, 2016, p.66).

Secondly, there was a growing interest of global investors because of the considerable extent of acceleration in growth of DEEs after the early 2000s. Although many DEEs were facing severe currency, liquidity and debt crises in 1990 they have recovered rapidly, and they had high economic growth rates until the crisis in 2008–09, thanks mainly to favourable global economic environment. They have also recovered fast recovery from the 2008 crisis¹⁶. This created a virtuous circle that rapid growth leads to attraction of more inflows into DEEs and this contributed to increase in private investments in property and private consumption, and thus leading to attraction of more capital. (Akyüz, 2017, pp. 84-85).

Specific to the nature of inflows, post 2000 period showed increase of direct inflows and portfolio equity investment. There were several attempts to find partners from advanced economies by private corporations in DEEs for the facilitation of their access to foreign financial markets, and this has formed a significant part of financial integration of the DEEs (Akyüz, 2017, p. 86).

¹⁶ Akyüz explains this: “although the crisis resulted in a rapid deterioration in global financial conditions and sudden reversal of capital inflows to DEEs, these were short-lived thank due to the policy response of the US. The resort to zero-bound policy rates and rapid expansion of liquidity, the so-called quantitative easing, generated a swift recovery of capital inflows to DEEs, resulting in a new surge in several regions” (Akyüz, 2017).

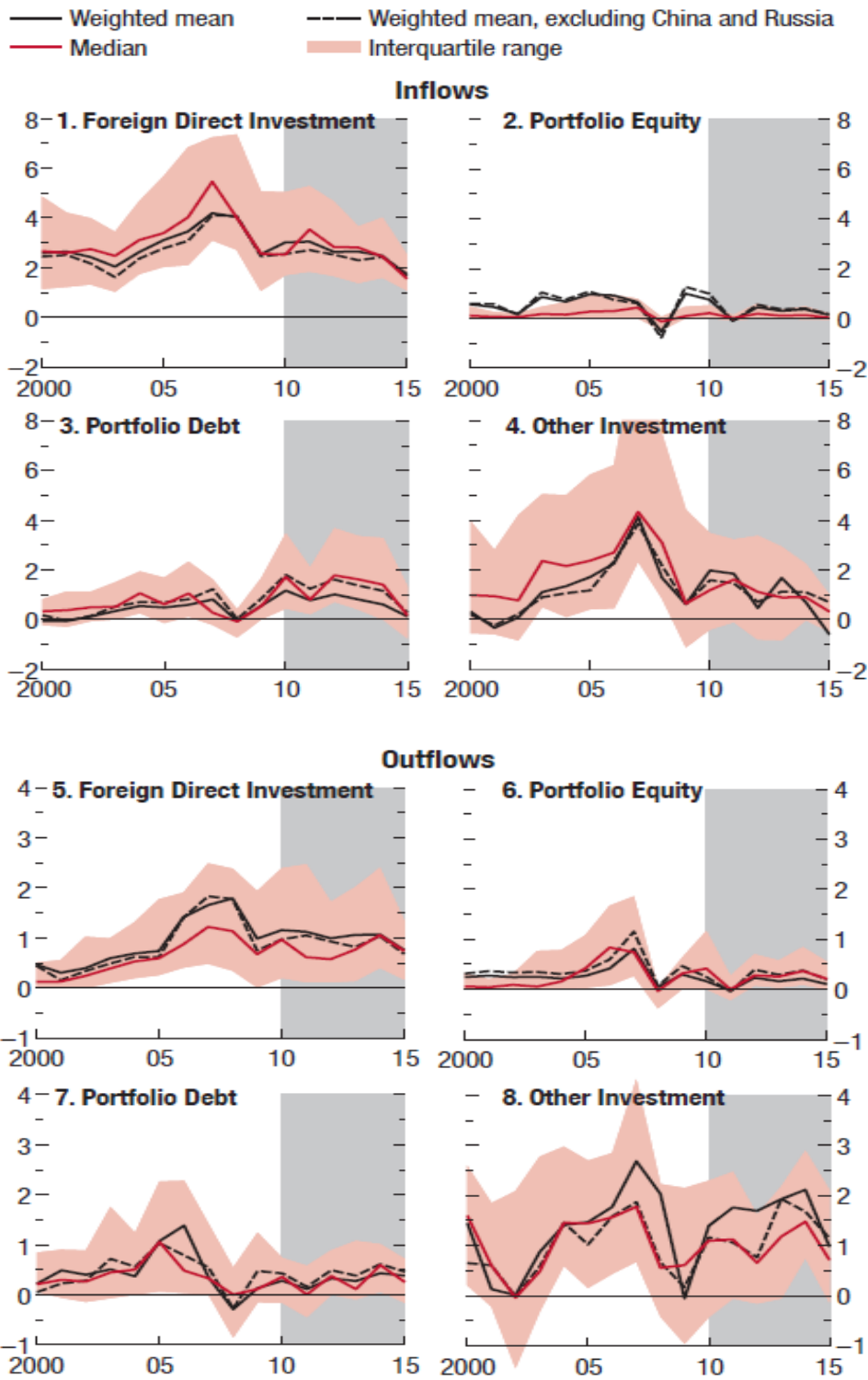


Figure 2: Capital Inflows and Outflows for Emerging Economies by Asset Type, 2000-2015 (Percent of GDP)

Source: (IMF, 2016, p. 67)

Figure 2 shows different fluctuations of four asset types as FDI, portfolio equity, portfolio debt and other investment assets. FDI and “other investment”, the two largest asset types of capital inflows, was growing till the GFC, after then, they start to decline compared to the peaks attained before the crisis because of the retrenchment of global banks. Conversely, portfolio debt inflows increased substantially after the crisis; it peaks between 2010 and 2012 and then, starts to decline. Comparing types of asset inflows shows a significant point that there is not a match between the surge in portfolio inflows after the GFC and a surge in aggregate inflows in figure 2, in contrast to Figure 1. All of the asset types lead to the raise in capital outflows between 2010 and 2014 like capital inflows. However, there are more explicit contributions for debt-generating flows than for equity-like flows in Figure 2. Thereafter, in 2015, capital outflows in all asset types declined. In a similar manner with inflows, FDI and “other investment” compose the largest parts of capital outflows. Here, it is also notable that the surge in portfolio debt inflows following the GFC does not show a similar escalation with the surge in portfolio debt outflows (IMF, 2016, p. 67).

Besides those quantitative changes, emergence of the new instruments, markets and international actors has led to the change in the nature of those flows. As a new actor, rise of the institutional investors as a result of increasing institutionalization of household savings through pensions, mutual and insurance funds in addition to the traditional investors such as banks (Bonizzi, 2017, p. 150). As a result of the increase in their size, those changes have made financial structure increasingly fragile and thus, any small change in their portfolio can have a crucial impact to the capital flows to turn system from fragile to the unstable one in DEEs. Furthermore, increase in the share of the foreign investors has led to the increase in the complexity of the domestic financial assets which are short term, aiming profit making capital gains rather than investment. This led to the substantial impact on the increase in the volatility of capital flows through the complex the foreign investment since “foreign investors have got access to a variety set of domestic currency assets, such as equities, derivatives, and local bond markets” (Kaltenbrunner & Paineira, 2015, p.4).

This led to certain consequences, for example, global integration of the local bond markets has resulted in “significant loss of autonomy in controlling long-term rates in

domestic debt markets” (Akyüz, 2017, p.147). Additionally, there occurs a sudden impact on the exchange rate because of oppositeness of the funding currency (primarily dollar) against the domestic currency and shifting the currency mismatch to foreign investor due to the externally funded investment in domestic currency. This both creates a speculative exchange rate decision by the foreign investors and increases capital and exchange rate volatility (Kaltenbrunner & Paineira, 2015, p.5).

One of the deepening financial integration processes of DEEs has been characterized as increasing “*involvement of domestic economic actors in international financial markets*”. As a result of such relation, non-financial corporations (NFCs) have internationalised their balance sheets and became active players in the global financial market. Particularly, such relation has increased their financial vulnerability in the domestic market through international bonds by “offshore affiliates”, that is, “*directing part of the borrowed funds to their home company*” (Tarashev, 2016, p. 9). This borrowing has led to the speculations as a result of currency mismatch between the funding currency (US Dollar) and the domestic currency (Chung et al. 2015, p. 6; Bruno & Shin, 2017). This resulted in substantial in short term financial asset holdings in DEEs. In this manner, together with the expansion of the NFCs in DEEs, there occurs increase in the uncertainty and volatility when there exists capital market imperfections and expansion of financial markets with a large gap between profits of financial and real sector investments. This has created a financial syndrome in the real sector investors since they distract from real productive investment changed their mind towards to benefit from speculative gains or to escape from excess risk (Demir, 2008, p. 955).

While mainstream view assert that requirement for international reserves should decrease since DEEs have got access to international financial markets and they have exhibited behaviour willingly to react balance of payments (BoP) shocks by exchange rate adjustments there has been an unprecedented reserve accumulation by DEEs in post 2000 era. In other words, contrary to expectations, capital account liberalisation and increased access to global markets have led to the spreading of the adverse result. The reason behind that is vulnerable structure of DEEs in the face of sudden stops and reversals in capital flows due to pro-cyclicality of international financial markets. As

a result, they increased their requirement “to keep reserves as self-insurance” (Akyüz, 2017, p.11). There is also empirical evidence displaying the strong correlation between capital account liberalisation and reserve holdings in the sense that there is a growing tendency on the precautionary demand for the reserves as such capital inflows are used as “self-insurance against costly output contractions induced by sudden stops and capital flight” rather than usage of them for current payments (Aizenman & Lee, 2005, p.1). This actually shows the widespread distrust among DEEs comes from the pro-cyclical macroeconomic conditionalities and structural adjustment programs resulted in the currency and balance of payment crises, this tendency does not arouse any suspicion (Akyüz, 2017, p.95).

There is also some evidence on that DEE firms’ tighter integration to the international markets has led to the financialisation of other sectors such as banking system. Here, financial needs of the DEEs have increased more and more, this has created differences in performance and loan allocations between foreign banks and domestic banks and resulted in increase in the number of the largest proportion of foreign-owned banks since they tend to have better access to funding and operating efficiencies such as *“experience and information on offshore markets which gives them an advantage over domestic banks”* (Pelletier 2018, p.293). In addition, this increase in the expansion of domestic banks internationally in the DEEs stem from to some extent the increase in outward FDI, to some extent offering new investment opportunities abroad for their rich domestic clients, and to some extent on their own account (World Economic Forum, 2012). This has led to the surge in household lending in DEEs, many of them have been largely denominated in foreign currency (Gabor, 2010).

As an example, Kaltenbrunner and Paineira shows the change in the structure and behaviour of the Brazilian banking system resulted from the reserve accumulation process. In a nutshell, firstly, Brazilian CB has operated monetary sterilization policies to control the monetary expansion. Then, Brazilian banks used those short-term sterilization bonds to expand their balance sheets and thus, their new assets became short term. By this means, banks’ credit allocation changed from productive lending to industry to short term consumption and household lending. This also exemplifies the recent financialisation process of DEEs. In addition, reduction in the banks’

balance sheet risk under short term assets led to capture more financial inflows and increase of the financial integration of Brazil. Those developments lead to increase in the uneven development and reinforced DEE's subordinated international position because reserve accumulation process refers to "a constant resource transfer" from DEEs to developed economies. In this context, foreign capital flows have generated returns as repatriated abroad and sterilization policies has led to increase in the public debt and increase in the household debt adversely affect the capital accumulation (Kaltenbrunner & Paineira, 2018).

3.2.2. Subordinated International Integration and Uneven Development

After defining factors of the international financial integration of DEEs how financial integration have been taken form by the subordinated nature of the DEEs in a hierarchical and uneven global area in the fields of production, circulation and finance and to what extent those processes have led to reinforce this subordination and as a consequence deepen uneven development will be analysed. It will be argued under the internationalization of the production, internationalization of circulation and profit realization and finally, subordinated monetary and financial position.

The internationalization of production refers to "*the creation of global networks of production, transforming value creation and labour relations*" (Kaltenbrunner & Powell, 2019, p.4). Global value chain (GVC), "*the series of stages in the production of a product or service for sale to consumers*", reflects a good example in the context. Here, production process proceeds with value addition in each stage formed by at least two stages in different countries (World Bank, 2020, p. 17).

World Development Report indicates that "*how countries participate in GVCs matters for the impact on development. Countries experience the biggest growth spurt during the transition out of commodities into basic manufacturing activities*" (World Bank, 2020, p. 66). However, there are some weaknesses inherent in the GVC turn in processes of uneven development under financialisation affecting the configuration and operation of these chains in relation to their related developmental outcomes, also from mediation of GVCs on the "implications of participation in commodity chains

for firms and workers in the global economy” (Bair, 2005, p.171). In this context, WB also indicates that GVCs create the challenge that “*gains from GVC participation may be distributed unequally within and across countries*” (World Bank, 2020, p. 3). These are frequently situated in the Global South, but there are also examples from advanced countries such as Spain, Italy and Portugal. That means whereas there is an increase in the geographical dispersion in the actual generation of value of the product, capitalist core proceeds to capture profits in retention (Kaltenbrunner & Powell, 2019, p.4).

In relation of GVCs with the DEEs, after China’s success on manufactured exports as becoming an international hub to the advanced economies, DEEs also hoped to participate in GPNs led by the TNCs from advanced economies to promote export-led industrialization. Thus, the result has occurred in raising foreign existence and impact in both real and financial sectors of DEEs (Akyüz, 2017, p. 86).

Those changes in international production also have considerable impacts on DEE firms. In this sense, a small number of firms such as Tata¹⁷ from India, or Embraer¹⁸ from Brazil have undergone a transformation to become global actors for acquirement of brand names and strategic production facilities by leading the firms to global production networks (UNCTAD, 2007, pp.4, 27). However, internationalisation of those firms necessitates NFCs “*to operate in different financial markets and currencies to obtain funding, hedge currency and operational risks, and invest in financial assets*”. These new risks and opportunities lead to the increase in the financial sophistication and connect operations of the NFCs to the global financial markets (Kaltenbrunner & Powell, 2019, p.5).

As discussed above, NFCs in DEEs recently increased their borrowing predominantly in foreign currency, more in US dollars (McCauley & McGuire & Sushko, 2015; Bruno & Shin 2017) not only deepen the vulnerability of the exchange rate changes but also they deepen DEEs further to financial markets when they try to hedge the

¹⁷ Acquisition of Tetley Tea (United Kingdom) by Tata Tea (India) and the acquisition of Daewoo Commercial Vehicle Company (Republic of Korea) by Tata Motors Ltd. (India)

¹⁸ Embraer – Empresa Brasileira de Aeronáutica Regional aircraft China and United States of America

resulting risk. As a consequence, there occurs a substantial increase in the domestic derivatives market in many DEEs such as Brazil, Mexico and Poland (Kaltenbrunner & Powell, 2019). Meanwhile, the predominance of foreign debt issues (offshore)¹⁹ has increased DEEs' vulnerability in global market conditions and a more complex way for the management of the resultant risks became essential. For instance, substantial increase in the cash holdings are among distinctive elements of DEE firm financialisation (Karwowski, 2012; Powell, 2013) due to the precautionary and speculative motives (Akkemik & Özen 2014, p. 88). In this context, it shows that there is stronger impact of putting shareholder value pressures on domestic NFCs by foreign investors since they regulate their positions conveniently thanks to their large international portfolios. Hereby, these institutions have a higher probability of “exit” as a result of putting pressure on domestic NFCs.

Lastly, there have been a slowdown in trade and GVC growth recently because of the decrease in overall economic growth and investment. On the other hand, there is a raise in protectionary policies recently and this has also an impact on the evolution of GVCs. In this sense, protectionism leads to reshoring of existing GVCs or their shifts to new locations (World Bank, 2020, p. 2).

On the context of internationalization of circulation and profit realization, stimulation of the aggregate demand stemming from the asset price inflation and increasing indebtedness do not require to overlap with the location of the production and realisation of the profits. Since “*surplus value extracted in one country may well be exported and realized as profit in another, where asset price inflation and indebtedness fuel demand*” ‘net exports or debt-fuelled consumption’ become the mechanism for the maintaining aggregate demand and profit realisation in internationalised economies (Kaltenbrunner & Powell, 2019, p.6). In this manner, since most of the DEEs have pursued export-oriented growth strategy, these global

¹⁹ Offshore issuance also refers that “the debt is issued under the law of the country of arbitration which reduces the influence of national legal systems and more generally the reach of the ECE state since the terms of these debt contracts are designed by the large international financial institutions intermediating and marketing the debt” (Kaltenbrunner & Powell, 2019).

patterns of circulation and profit realisation become mechanisms for the financialisation process of DEEs.

Firstly, export gains have been directed towards domestic and international financial markets when ‘subdued investment activity’ restrains the opportunities for the profitable investment because of the realisation of the profits by the exporters in DEEs. The evidence shows that there is an accumulation of the growing share of assets in financial investments by the NFCs in the sense that (a) the real sector firms have increased the acquisition of short-term financial assets, (b) there occurred decreasing in the fixed investment rates, and (c) “real rate of return on financial capital” have increased over and above “the rate of return on fixed capital”. In other words, investing in reversible short-term financial assets sounds interesting to the firms as “an attractive alternative to irreversible long-term fixed investment”, and hence, the increase in the financial assets led to crowd out fixed investment (Demir, 2007, p.352; Karwowski, 2015, p.28; Tori & Onaran, 2017, p.4).

Secondly, another impact of the export-oriented growth has been in increase in the accumulation of foreign exchange reserves. As an important part of the international capital flows, there was a huge increase in the international reserves to the DEEs. Here, the sources of the reserves lie under the funds streaming in as current account surpluses stemming from the net exports as well as private capital flows (Painceira 2009, p. 12).

Thirdly, export orientation supports household dependence with the financialisation process including reforms on social security systems, (Becker et al., 2010, p. 236; Correa et al., 2012, p. 268; Coşar & Yeğenoglu, 2009; Lavinias, 2017, p. 633). In this context, financialisation fronts us to serve as an engine to create social reproduction in privatised form. In addition to these reforms, households in DEEs have begun depending on the financial markets in a great extent through the extension of private pension funds, pooled investment systems, and facilitation of the access to credit as rising household indebtedness (Rethel, 2010a). Furthermore, credit extension mechanism such as microfinance functions as a discipline in undermining the resistance to wage reductions and the intensification of work for the indebted workers (Karaçimen, 2015, p. 763; Mader, 2015).

Whereas export-oriented growth appears as a key framework in the most of the DEEs there are also some except points. There are examples of the debt-financed consumption in some DEEs. For instance, stimulation of the aggregate demand has been provided by the growth of credit driven consumption leading to indebtedness of households for all income groups in South Africa (Newman, 2014, p. 59), Brazil (Lavinias, 2017, p. 629), Slovakia (Becker et al., 2010, p. 240) and Malaysia (Rethel, 2010a, p. 496). In those DEEs, finance has become to function as ‘relief valve’ for the stimulation of the aggregate domestic demand. Thus, not surprisingly, raising indebtedness in DEEs has occurred after the GFC period when the US tempered its role as global “buyer of the last resort” leading to the limitation of the export oriented growth (Kaltenbrunner & Powell, 2019, p.8).

Moreover, financialisation affect structure of the productive investment and consequently income distribution. As a consequence of the rise in the “sectors such as natural resource exploitation, construction, finance and real estate sectors” where most of the corporate sector borrowing abroad in DEEs, there has been decline in share of both manufacturing employment and investment, and this caused to the “premature de-industrialization” (Benigno et al., 2015) and to fall labour share income in most of DEEs (Furceri & Loungani, 2015). This constitutes a type of “financial Dutch disease” under the implications for the ‘real’ sector (Bortz & Kaltenbrunner, 2018).

Another factor that leads to the subordinated integration of DEEs is their monetary and financial subordination. It reflects the subordinated nature of the DEEs under hierarchical monetary structure, and this structure has several implications on the DEEs. Firstly, although government borrowing has denominated in the domestic currency increasingly reducing the DEEs’ “original sin”²⁰ problem (Eichengreen, 2003), increasing volatility of the capital flows after the GFC combined with the adverse effects of monetary normalisation after the US tapering of LSAPs and global risk perception have increasingly affected DEEs position (Ahmed & Zlate, 2013; Kaltenbrunner & Paineira, 2015). The reason behind this is the increase in the foreign financial institutions including foreign banks and non-banking investors located in

²⁰ DEEs borrow in foreign denominated currency instead of their domestic currency in the international markets.

financial markets of DEEs. As a result of the increase in the share of foreign investors in DEE assets, both the prices of the domestic assets, exchange rate and reserve stocks are affected in the face of any change in the funding conditions of those investors. In addition, since there has not been an increase in external public debt maturities of DEEs and expected capital and exchange rate gains attracts those flows and make them “sensitive to changes in expected returns and risk premiums”, such volatility has been intensified (Bortz & Kaltenbrunner, 2018, p.383).

In this context, at first, since DEEs rank as lower on the international monetary hierarchy, there is a reluctance by investors to commend long-term funds to the DEE assets. Further, developed country currencies, primarily the US dollar, continue to be invested in DEE markets. Thus, a reversal in capital flows to DEEs might happen under any change in international market and funding conditions. In addition, there occurs currency mismatch on the international investors’ balance sheets while investing in the domestic currency by foreign investors. This leads to the increase in the sensitivity of the change in the expected exchange rate, and further contributes to volatility of the capital flows (Bortz & Kaltenbrunner, 2018).

Secondly, DEEs have to offer higher interest rates because of their lower position in the face of domination of dollar. Most of the NFCs have borrowed “through dollar-denominated securities and engage in speculative carry trade activities” because of the high interest rates combined with the “lax lending conditions in international markets and lower risk perceptions” (Bortz & Kaltenbrunner, 2018, p.384). However, such condition led to affect financial conditions at home and emergence of the ‘financial Dutch disease’²¹ (Botta, 2014; Bortz, 2016, p. 162; Bortz & Kaltenbrunner, 2018, p. 384). Specially in times of stress, currencies belong to the top of the hierarchy can afford to sustain low interest rates. Here, capital flows move to the DEEs with low demand and low returns at home like thereafter the GFC. Thus ‘node size’, as a measure of capital absorptive of emerging markets, of DEE capital markets causes to

²¹ See more in Chapter 4

capital inflows moves like “big fish in a small pond”²² (Haldane, 2011). Meanwhile, there are two reasons DEEs may be precluded from cutting their policy rates for two reasons whereas receiving capital inflows: a) triggering outflows proportional to or greater than the receiving inflows due to the tightening in international conditions; b) decreasing the value of their domestic assets due to the large depreciations by dropping their “relative position in the hierarchy” and providing “acquisitions of domestic assets” through foreign firms; thus, reflects DEES’ currency hierarchy matter (Bortz & Kaltenbrunner, 2018, p.384).

Thirdly, NFCs in emerging markets have imitated the practice of the NFCs in advanced economies through increasing their external borrowing. However, such borrowing has fallen in offshore financial centres in foreign currency contrary to the advanced countries’ relatively large and liquid domestic capital markets. In this regard, those companies have been exposed to both substantial exchange rate risk and rules and regulations of international financial markets. Because of the attainment through offshore affiliates such borrowing remains imperative to the home company relating to the debt repayment. Finally, large accumulation of reserves, both by private actors and central banks in DEEs causes to the monetary subordination (Bortz & Kaltenbrunner, 2018, p. 384).

3.3. Financial Transformation of the East Asian Developmental State Model

In the light of the financialisation process of the DEEs, after the resolution of the developmental state in the late 20th century, the study focuses on analysing the transformation of developmental state in East Asian model through financialisation process.

Increasing complexity and fragmentation of global economy combined with increased in integration to the international financial markets has led to the changes and new

²² It is a kind of metaphor called as the “Big Fish Small Pond” problem. The Big Fish represents the advanced countries where there are capital exports to a large extent. The Small Ponds represents the emerging countries where there are large capital imports. It analyses changes in portfolio choice by foreign investors as today’s BFSP problem and financial deepening integration of DEEs as future’s BFSP problem. (Haldane, 2011, p.2-3)

challenges also in the East Asian model of DS resulted in difficulties to maintain the old model of DS. Related to this process, some argued that East Asian countries have shifted substantially from their model of DS to the entrepreneurial state²³ since the Asian financial crisis (Rethel & Sinclair, 2014). However, in relation to this study's focus on developmental state, such transformation raises the questions in relation to the DS framework: *How, to what extent and in what ways, have the East Asian model of DS transformed through financialisation and continued to intervene in financial markets? What can be generalised from East Asia's evolving experience of financialisation? Can this intervention still meaningfully be characterised as an alternative model of 'developmental state'?* In this context, how deepened integration of the financial markets has led to the changes in the form of developmental state in East Asia will be analysed under focused on the three important point: Change in the market mechanism through expansion of bond markets, change in the industrial policies and shift in the state autonomy.

3.3.1. Change in the Market Mechanism: Expansion of the Bond Market

One of the changes that affect the structure of the DS is the rapidly growing of emerging East Asian bond markets in the 21st century (Rethel, 2010b). Here, this is also important to see how expansion of bond leads to the continuity in transformation of East Asian model of DS (Rethel & Sinclair, 2014).

Expansion of the bond market was encouraged by East Asian governments to alleviate the risks related with large and volatile capital movements and through directing savings towards economic growth (Rethel & Sinclair, 2014, p. 565). After the Asian crisis, governments started to use regional bond markets to cope with the challenge of the double mismatch problem resulted from “short-term, dollar-denominated borrowing for long-term, local currency investments” (Katada, 2009, p. 11).

²³ At first, “entrepreneurial state” refers particularly to “the business activities of the state at the local level”. It does not imply an alternative term to the DS. Entrepreneurial state is “a disaggregation of the developmental state” to analyse its components better (Duckett, 1996, p. 189). For Rethel and Sinclair, entrepreneurial state refers to states that have ability of combining large networks and encouragement of their cooperation. Here, the entrepreneurial state does not only attempt to develop itself; but it adapts itself to large market freedom.

Moreover, there were foundation of the regional bond markets to advance the financial infrastructure by increasing the large amount of regional savings, in particular for long-term investments aiming at regional growth and infrastructure development (Kawai, 2005, p. 43). However, this process has created a challenge to the DS framework based on bank-based financial systems seeing bond markets less significant. Thus, there have been various changes in behaviour of state and market actors (Rethel & Sinclair, 2014, p. 579).

As the table 1 indicates, there is a dramatic increase in the total share of local bond markets as a percentage of GDP between 2001 and 2011 in East Asia. It also shows that financial assets including bonds and equities become major type of funds compared to domestic credit institutions in the region apart from China (Rethel & Sinclair, 2014, p. 61).

Table 1: Local Currency Bond Markets as Percentage of GDP, 2001 and 2011

Market	2001			2011		
	Govt	Corp	Total	Govt	Corp	Total
CN	17.7	0.3	18	33.9	11.4	45.3
HK	8.8	29.2	38	37.1	31.9	69
ID	29.8	1.1	31	11.4	2	13.4
JP	84.8	21.2	106	196.5	19.6	216.1
KR	27.3	54.2	81.5	47.5	67	114.5
MY	43.1	41.1	84.2	56.6	38	94.6
PH	33.8	0.1	33.9	30.3	4.5	34.8
SG	34.1	30.4	64.5	47	28.2	75.1
TH	25.9	4.9	30.8	54.5	13	67.5
VN	0.6	0	0.6	12.7	1.7	14.4

Key: CN: People's Republic of China; HK: Hong Kong SAR; ID: Indonesia; JP: Japan; KR: South Korea; MY: Malaysia; PH: Philippines; SG: Singapore; TH: Thailand; VN: Vietnam.
Source: ADB (2012).

Source: (Rethel & Sinclair, 2014, p. 572).

Related to the expansion of the bond market, there are three different mechanisms for bond market expansion: “credit ratings; securitisation via mortgage corporations; and bond valuations by bond pricing agencies”. Firstly, credit ratings have impact on the expansion of bonds with respect to conferring their creditworthiness. East Asian states set up their own rating agencies for the encouragement of bond market in the region

since Asian local bond markets have been neglected by GCRAAs based in the US with the exception of Japan because of their small scale. (Rethel & Sinclair, 2014, p. 573). Secondly, after the East Asian crisis, foundation of mortgage corporations and entrance of improved securitisation in East Asian bond markets have increased through increasing role of the housing finance agencies. However, mortgage corporations have turned mortgages into debt securities. Related to the promoting this securitisation techniques in the region, there occurred a shift in behaviour of housing finance agencies from supplying liquidity to mortgage markets towards securitisation. In this sense, they have expanded their range of activities in relation to their operation of assets and the capital market instruments. Thus, securitisation has gained significance in the part of their business through financial reforms in its form and increase in the interdependence of banking and capital market practices. In this manner, this has been the crucial change of the supply side of capital markets in East Asia in the post 2000 era (Rethel & Sinclair, 2014, pp. 575-6).

Thirdly, as a result of the lack of transparency in financial markets after the Asian financial crisis Bond Pricing Agencies (BPAs) were established. BPAs have become a significant instrument where there is less liquidity in the domestic bond markets for the price finding process. In this sense, for the assignment of a price to debt securities they have improved models for the help, in particular cases where there have been little trading and absence of daily quotations (Rethel & Sinclair, 2014, p. 576).

3.3.2. Change in the Industrial Policies of the East Asian Model

As discussed in section 2, there is a subordinate nature of the DEEs in international financial markets as a result of their deepened integration. In particular, it is seen that this subordinate structure has led to the premature de-industrialisation process of the DEEs. On the other hand, the study asks to what extent East Asian countries stay relevant in the premature deindustrialisation debate under the financial transformation through 21st century?

In this regard, industrial policies in East Asia have experienced different changes that do not follow exactly the way of DEEs in terms of direction and timing (Vogel, 2006;

Lechevalier et al., 2016). For example, financial liberalisation started in the 1980s-90s in Japan and Korea, but this financialisation process has their own specific characterizations in those economies (Hoshi & Kashyap, 2001; Crotty & Lee, 2005; Doucette & Seo, 2011). Despite there is a wide recognition on the increasing role of finance in economy, the reach of the financialisation process has showed more than the changes in the financial sector such as liberalisation, privatization, internationalization (van der Zwan, 2014). Hereby, the analysis on the industrial policies of the East Asian countries will be beneficial since there occurs also a resurgence of industrial policies since the late 2000s. In this regard, the focus will be on interactions between industrial policies and financial integration within the evolution of the model.

3.3.2.1. Expansion of GPNs and GVCs

In relation to the dynamics of GVCs and GPNs as discussed in section 2, how the East Asian economies have been well integrated into GVCs and GPNs across the world and how the East Asian model of DS has evolved will be the central argument. In this context, Underhill and Zhang have predicted the dynamic shift in the model and related the rise of East Asian firms to the changing conditions in the face of globalization:

The 1980s and 1990s witnessed dramatic changes in the state-market ensemble of industrial governance in East Asia. The sustained process of economic transformation increased the weight of private business in aggregate economic activity. In parallel with their increased structural power, private-sector actors were able to enhance their organizational resources and effectively employ these resources for economic and political purposes. The increasing integration of the national economy with the international financial and trade systems only served to reinforce the position of private industrialists as crucial economic agents and deepened the dependence of the state upon them for national development in an era of globalization (Underhill & Zhang, 2005, p. 53).

There are three significant factors bringing the disintegration of industrialization policy in East Asia since 1980s. As Wong states:

The state is increasingly incapable of directly shaping large firm behaviour. By the 1990s, the balance of power and the nature of the relationship between the state and industry had been reversed, and the state no longer commanded industry as it had during the post-war developmental state period. The development state's ability to steer industry had waned (2011, p. 95).

Firstly, there were significant transformations in certain sectors by the state itself. For example, the state of South Korea failed to force rationalization on automobile industry for different chaebols between 1962 and the 1990s (Ravenhill, 2003, p. 121). Similar to that, it is argued that state machinery was plagued by factionalism and intrastate rivalry in Taiwan in the leading state bureaucracy in charge of industrial planning and coordination of economic activity (Ngo, 2005, p. 83; Chu, 2007; Greene, 2008).

Second, there has been the transformation of the market simultaneously with the emergence of late industrialization in East Asian countries. After achieving the success, many domestic state-led industries integrated into the international markets by the late 1980s. Meanwhile, with the rapid increase in the change in technology, business strategies and organizational processes process of vertically integrated production networks has started in those industries on a global scale (Gereffi, 2005; Dicken, 2011). Thus, a significant global shift has emerged in increasingly integration of domestic firms into GPNs through shift in the organization of industrial production.

Thirdly, national firms have diverged from the guard of developmental state. These national firms firstly benefited from the favourable policies of state-led industrialization as accumulating their dynamic capabilities “through firm-specific assets and organizational processes such as learning from production for exports, acquiring technologies in the international markets, building firm-specific capabilities through reverse ‘brain drain’ and intensifying in-house R&D activity”. As a result of integration between domestic and international financial markets those domestic firms have achieved much better access to capital and started to perform well in export markets. Therefore, those industries cut the “umbilical cord” nurturing themselves (Woo, 1991, p. 66). In other words, as a result of growing their firm-specific dynamic capabilities, those industries became less dependent on their model of DS.

Thereafter, domestic industrial policies became less influential for East Asian firms in global industries in the meantime with the rise of GPNs in the late 1980s. Thus, state-firm relations have evolved “from the structural dependence to increasing autonomy and independence”, since these national firms have penetrated into globalization through their integration into different GPNs. Due to the “deepening strategic coupling”²⁴ of these national firms with lead firms in GPNs, governing the market and steering industrial transformation through state interventions have increased difficulties and problems for the developmental state. This “dynamic process of strategic coupling” comprises of two mutually constitutive dimensions. The first one implies the disembedding of national firms from the DS over time as opposed to the changing global environment. The second refers to the re-embedding of the domestic firms in GPNs organised by lead firms from developed industrialized economies. Here, the expanding “disembedding of firms” from their DS requires “the re-embedding of these economic actors” in other global organizations like GPNs. (Yeung, 2014, p. 85).

The disembedding of lead firms from the DS has taken place in East Asia since the late 1980s,. For example, after the implementation of financial liberalisation, there has been embarkments of leading chaebol groups with large globalization drive since the early 1990s in South Korea. This disembedding was occurred by both request of chaebol groups and reluctant of state due to waning its strength and control through democratization and liberalisation. In this regard, Kalinowski observes that:

. . . the large business conglomerates (chaebol) emerged as an independent interest group and stopped following the government’s economic plans . . . and in the 1990s the chaebol’s interest dominated the public discourse and government policies . . . [S]tate interventions in the late 2000s are very different from what they were during the heyday of the developmental state. State interventions are becoming less and less strategic and more and more reactive, mitigating the economic and social costs of market-oriented reforms (2008, pp. 449–50).

²⁴ The term “strategic coupling” becomes prominent “to argue for a firm-oriented approach as a revision to the dominant state-centric view of industrial transformation and economic development” in the East Asian economies. In employment of the term ‘strategic’, there is an emphasis for firm-specific strategies to explain evolution of state-business relations and industrial change in East Asia. In use of ‘coupling’, he refers to process for decoupling of national from developmental state framework in the course of time and re-couple with the leading firms in GPNs (Yeung, 2014).

On the one hand, there are debates on Taiwanese developmental state having a weak embedding of the domestic firms compared to strength and effect of governing the market and growing business leadership in South Korea by Amsden (1989) and Wade (1990). Recently, Wu (2005) and Greene (2008) further show the exaggeration of this ‘weaker’ strength of embedding. There were successful lead firms in the global ICT industry started from the 1990s in Taiwan. This led to emergence of searches for new strategic partnerships in GPNs since these firms have disembedded from the developmental state bureaucracy. In this context, while analysing DS in Taiwanese developmental state in the face of globalization, Hsu argues:

By and large, engaging in global production and competition aligns local capitals with the interests of their international partners, and undermines their embeddedness in domestic state policies. Consequently, it puts a ceiling on the state’s leadership in intervening in firms’ activities and forces the state to restructure itself to be better positioned to handle global connections (2011, p. 603).

3.3.2.2. Transformation through the State-Finance Nexus

There are certain implications of transformations through the state-finance nexus in East Asian model for the recent changes in industrial policies. In the early times, financial sector has grown according to aims of the industrial policies. In this sense, there has been proactive role of the state in giving a shape to financial systems through deregulation. In recent times, one of the main sources in transformation of the model of DS has been financialisation process in relation to the area of industrial policy in East Asia. In this context, while Japanese and Korean developmental states subordinated the financial sector to industrial needs during industrialization period the financialisation of these economies has undergone transformations in the developmental state framework (Lechevalier et al., 2016)

The financialisation process has led to resolution of the industrial policy framework in relation to strategy of lead firms in the East Asia. Here, there has been pressure on state-business nexus by “reversing the hierarchy between the state and the financial system” compared to old era. In addition, “finance-business nexus” has undergone a transformation with the rise of the financial sector in the region (Jung, 2015). In this

context, the government has lost its control over financial system and thus, strategy of lead firms has become free from its concerns. This has led to the inability of government to subordinate finance for its goals and thus there occurred restructuring of state capabilities to form the industrial policies. The allocative process of resources from the strategic policy agenda of the state has been separated through the “empowerment and disconnection of the financial system”. The corporate sector has had the ability of allocation of resources based on the main strategy focused on maximizing its position in GVCs. This gradual transformation in the state-finance nexus has led to weaker complementarities between the state and the financial system. Thus, there has occurred “*a de-coordination of the state’s policy framework and the corporate strategy of leading firms*”, which have significant implications for the recent revitalisation of industrial policies in the region (Lechevalier et al., 2016, p. 25).

In this regard, while financial liberalisation has led to substantial changes in the industrial policies of Japan through liberalisation there was the pro-active role of MITI as re-coordination of the industrial policy as an instrument to search for new complementarities including increasing public budget for industrial policies R&D expenditures, attempts to coordinate public agencies in charge of industrial policies, and attempts for coordination of countercyclical policies and growth strategies. In addition, in Korea, industrial policy has evolved in the sense that strengthening the financial system and restructuring the industrial structure as activating new complementarities including increasing support to firm-based R&D, implementing industrial policies to improve financial industry “*as an engine of growth*” and facilitation of financial restrictions with direction of large policy loans to SMEs (Lechevalier et al., 2016, pp.12, 17)

3.3.3. Shift in State Autonomy

In addition to changing selection environments in market mechanism and industrial policies transforming the developmental state model of East Asia through financialisation since the late 1980s, there has been change in embedded autonomy of state in governing the market. That is, the developmental role of the state was challenged also by the shift in the state autonomy. Firstly, Evans (1995) has anticipated

this evolution as “the new internationalization”. He realises that economic globalisation leads to simultaneous results. Together with the increased integration, while domestic firms find significant opportunity to enter global markets the embedded autonomy of the DS challenges as such:

The new internationalization clearly complicates the politics of state involvement. Once enmeshed in alliances with transnational firms, local entrepreneurs no longer comprise a political constituency as they did under the old greenhouses. Their interests are much less clearly bound up with the growth of local demand and the enhancement of local productive capacity. Getting some share of the proprietary rents generated by their partner’s global technological and marketing assets is increasingly important. Consequently, embeddedness is more problematic (Evans, 1995, p. 205).

On the other hand, starting from the late 1980s simultaneously with the democratisation, East Asian model of DS started to lose exercising strict control in steering the domestic economy. In this context, in South Korea, arising from the relations between state agencies, “interagency conflicts and rivalries” led to the breakdown of the internal cohesiveness²⁵ of the DS through turning bureaucracy against state cohesiveness and eroding the existing rule-following culture in the bureaucracy (Chibber, 2002, pp. 972-83). In addition, after the “penetration of nationalist politics into the bureaucracy, policies and policymaking agencies” of domestic economy were exposed to political manoeuvre by the politicians. This has not only generated conflicts between agencies, but also led to reduce bureaucratic independence and capability of state for surveillance (Wu, 2005; Yeung, 2014).

Apart from this, MITI, as the key institute for Japanese developmental state, had the key role in charge of change in the industrial policies in the process of liberalisation through changing industrial policy goals between the late 1970s and 1980s in Japan. This process was the starting point for the substantial changes between industrial tools and institutional capabilities of the state (Lechevalier, 2016, p. 13). As expressed by

²⁵For the promotion of development, states are required to have the ability of acting as corporate entities with broadly collective goals. In this way, to become developmental, states need to enhance their capacity through securing their internal cohesiveness (Chibber, 2002).

Tiberghien (2014): “The state has become the actor of its own decay”. Thus, MITI has been a key factor in reducing its own influence over industrial policies.

Despite all these changes regarding the state autonomy compared to old model of DS in East Asia, there still exists proactive role of the state through the transformation of DS under financialisation. This situation can be exemplified with the states of South Korea and Japan. Firstly, in Japan, after the Asian financial crisis, several reforms were made to create momentum, change the bargaining power between agencies and promote the occurrence of a “new socio-political coalition” (Yamamura & Streeck, 2003; Lechevalier, 2014). Although this coalition helped the state to implement structural reforms by IMF it did not cause a “convergence towards the liberal form of capitalism” because there still has been “a permanent and internal process of contestation within and outside the state apparatus”. In this context, the transformation of Japanese developmental state under financialisation process with the impacts of neoliberal policies has led to revitalisation of state intervention (Vogel, 2006). This revival has been described within “contradictions in a liberalized environment characterized by different types of complementarities and fundamental problems of coordination” (Lechevalier, 2014). In this sense, re-coordination of the economy has continued to benefit from institutional complementarities which seemed as disappearing. There are three examples for the revival: “the effort to downplay the negative externalities of the increasing heterogeneity of firms; the reform to better coordinate government bodies; the more recent attempt of Abenomics²⁶ in coordinating countercyclical policies and growth strategy” (Lechevalier et al., 2016, p. 15).

On the other hand, there was a dilemma in the face of South Korean state after the Asian crisis. Whereas the government promoted financial and trade liberalisation officially, there was a desire to sustain its influence over financial sector through reorientation of financial institutions for provision of strong regulations and financial incentives (Jung, 2015, pp. 51-52). Thus, South Korean state had experienced a “dual process of embracing and dismantling the legacy of the former state-led developmental

²⁶ They are the policies which new economic policy package introduced by Prime Minister Abe after December 2012.

regime” (Kalinowski & Cho, 2009, p. 223). For this purpose, Korean state had implemented structural reforms by the IMF through “strong surveillance on chaebols” in the aftermath of the crisis while restricting the policy space of the DS with liberalisation policies (Lee et al. 2015). Meanwhile, there were attempts by corporate sector to diversify it through the WTO and Foreign Trade Agreements (FTAs) as implementing “stronger regulations on trade, reduced policy space, and prohibition of public funds or subsidies for specific firms as well as trade-offs from financialization” (Ahn & Shin, 2011; Lee et al. 2015). As increase in use of global capital by domestic firms, those firms had more free space under industrial policies and financial incentives of government. In addition to increasing capital outflows, the corporate sector kept away from strict financial regulations and government monitoring in Korea and increased overseas investment. At the same time, Korea have maintained “*direct developmentalist state support*” for chaebols as being major actors promoting the green growth and “Global Korea” policies (Watson, 2014, p. 55).

In addition to these, chaebols requested protective measures from government against the foreign investors and conducted negotiations with the government for the achievement of success and corporate management. In return, there has been partial support of the chaebols to “*the government’s policies on green growth, creative economy, and FTA negotiations*” if needed. Thanks to more leverage, the corporate sector has had the ability of advocating its interests more in efficient way during FTA negotiations. These negotiations have importance to show their ongoing coherence with the state. As also stated “From a big firm’s perspective, Korea’s FTAs with the US, EU, and China are not necessary conditions for their survival and growth. The FTAs were rather necessary for the government to maintain support through visible results in economic policy” (Lechevalier et al. 2016, p. 18).

In combining role of the state on the transformation of industrial policies by triggering the “financial empowerment and disconnection” phase of financialization, South Korea has reduced its institutional capabilities in relation to its influence on firms’ strategies and long-term investment decisions. In this way, the corporate sector benefited from liberalisation through diversification of their funding and their integration to GVCs. “A new compromise around liberalization promoted by a

reconfigured socio-political coalition” has conducted those changes under and thus, autonomy of the state has been renovated. In this manner, whereas there has been an increase in the autonomy of chaebols in the face of industrial policies there has been also reorientation in the state organisations promoting industrial policies (Lechevalier et al. 2016, p. 19).

3.4. Conclusion

To sum up, developing countries have been involved in financial integration process as started with the financial liberalisation in 1980s and 1990s. Although this integration has led to transformation in the capital accumulation process according to development of finance dominated capitalism as hindering the real sector investment, in contemporary era there is not a strict distinction between financial and productive capital. In 21st century, such financial integration process has been deepened in developing world and financialisation of DEEs has emerged as a growing field in the literature. As analysed from the tighter integration of the DEEs into the international financial markets, certain factors have led to the internationalisation of finance and thus led to the subordinate integration and uneven development process of DEEs. This deepened financial integration process is also exemplified in the context of Latin American countries. In addition to the use of ‘subordinate position’ of DEEs under international financial markets, this study coins “*appurtenant structure*” of DEEs in the global markets. Here, DEEs are attached to international financial markets with the implementation of the neoliberal policies in relation to their catch-up strategy. Also, as a metaphor, DEEs resemble appurtenant structures whereas developed countries take place as manor in the global era.

Besides this, there are certain factors for how financialisation is transformed East Asian model of DS in this century under the changes in market mechanism, industrial transformation, and state autonomy. Firstly, expansion of the bond market affected developmental state in the emergence of new structures and institutions in the market mechanism such as increase in the credit ratings and securitisation with mortgage corporations, and emergence of BPAs. Under the changes in industrial policies, there occurred transformations in state itself, domestic markets and firms through involving

GVCs and GPNs, and through increasing their capability while reducing their dependence to state. In relation to the state-finance nexus, there has been transformation on the role of state in the control of financial system. In relation to the state autonomy, there occurred reductions and breakdowns on state capabilities through increasing conflicts and rivalries between bureaucratic and business agencies and reducing its own influence after implementation of liberalisation policies. Nonetheless, there is still continuation of proactive role of the state in East Asian economies under financialisation. Through “financial empowerment and disconnection” phase of financialization, emergence of new socio-political coalitions in Japan and Korea has led to revival of state intervention resulted from the contradictions under financialisation. In this regard, there have been different implementations of increasing institutional complementarities to re-coordinate the economy. Thus, those states have not remained as passive agents they have still been proactive in shaping their development process as distinct from the Latin American economies.

CHAPTER 4

RETURN TO THE DEVELOPMENTALISM UNDER FINANCIALISATION IN 21ST CENTURY

Now, with regard to reconsidering the development process of the DEEs in the 21st century, it is time to argue *to what extent those strategies that worked in the 20th century will be expected to work in the current era for DEEs*. In other words, *to what extent does the latecomer development remain relevant today?* To answer this, *which developmentalist understandings have appeared in the 21st century, could they capture the ‘anti-catch-up factors’ that are detected in the financialisation process? Are the challenges faced with the financialisation process are too strong to be kept at bay for the ND approaches? Otherwise, what solutions do they propose to the DEEs in the current era? Do they have shortcomings or what are the critics directed to the ND approaches?* Thus, we are asking *where do the developmental state stand at present and will stand in the future?* Based on those questions, it will be beneficial to analyse how the progress of the DS from the 20th century model characterised by the East Asian model has taken shape through to the 21st century developmental state model.

In this context, section 1 will argue how the debates around the resurgence of the developmental state in post 2000 era emerges and evolves. In section 2, literature on new developmentalism understanding will be covered and there will be an evaluation of the challenges of developmental process of DEEs by the developmentalist thinkers for this era. Following this, in section 3, the points and factors that overlap with the financialisation process will be analysed. Furthermore, section 4 will argue alternative policy options in ND understanding at present era. Finally, section 5 will try to interpret the reconsideration of the developmental state at the current era.

4.1. Revival of the Developmental State: “New Developmentalism”

The post 2000 era in which the fragmentation of production chains across the world, the globalization of actors, markets and governance take place is substantially different from the twentieth century as analysed in the second chapter. In respect to this, Evans put that the change in the development understanding compared to 20th century is important since development theory and the historical context of development has changed (Evans, 2008, p. 2). Hoff and Stiglitz (2001) also argue in their work of ‘modern economic theory’ in the 21st century as “development is no longer seen primarily as a process of capital accumulation but rather as a process of organizational change” (p. 389). Today, it is observable that the competition increases among emergent countries in comparison with the relatively weak growth of the advanced countries. Moreover, the needs of DEEs are no longer the same as those of the period of old developmentalism. In light of these, the revival of the developmental state in 21st century can be analysed under two subheadings: change in world and positions of the international area; and raising demand of DEEs for more developmental policies.

4.1.1. Changing World, Changing Positions

Today, there is a great debate about emerging new practices and new actors presenting both constraints and opportunities for the development strategy. As new practices, the new geography of production questions the centralized state intervention of the EA model developmental state and it requests localized forms of developmentalist activity²⁷. That is, the concept of the DS transforms to stress the role of the government as an actor including its own right in systems of innovation and seeking to sustain the economic competitiveness in the international era. As new actors, there exist internationalisation of firms, integration of the states into a supranational political network at both the national and international levels, and foundation of the civil society as a possible counter-power (Debanes & Lechevalier, 2014, p. 5).

²⁷ See more in the article “From International to Global Development: New Geographies of 21st Century Development” (Horner & Hulme, 2018).

Following those changes happened in the 21st century, there are also significant trends observed since the GFC: rise of the state involvement in the economy and deterioration of democracy worldwide. In this context, there are studies on the rise of state capitalism in economy (Bremmer, 2010; Kurlantzick, 2013; Musacchio – Lazzarini, 2014; Nölke, 2014; Naughton – Tsai, 2015), and there are studies on the deterioration of democracy (Rodrik, 2011; Kurlantzick, 2013; Bermeo, 2016; Freedom House, 2018).

In light of those developments, there are growing number of scholars and studies analysing revival of the role of the state in development process with changing global conditions in the 21st century. Such emphasis is currently under-represented in the growing literature as emergence of the new developmental state in the 21st century. Here, apart from *the big three of East Asian model of DS* (Japan, Korea, Taiwan) there is large geographic scope of the developmental state debate across the world. For example, some of the DEEs, specifically called as the BRICS, promote some form of a developmental state approach to their development agenda (Mielniczuk, 2013, p. 1087; Williams, 2014; Thakur, 2014, pp. 1802-3).

In this context, there is a wide array of studies to revive the concept of the developmental state by searching the development potential of the democratic states by exploring various aspects of the democratic developmental state (Robinson & White 1998, p.7; Sandbrook et al. 2007, p.4; Evans 2010; Paus 2012; Williams 2014; Evans & Heller 2015; Centeno, et al., 2017; Haggard, 2018). Some scholars argue the term “new developmentalism” itself and changing role of the state (Caldentey, 2008); some argue the current challenges faced with DEEs’ development by requiring change in the role of the state (Radice, 2008; Auktor & Giulio, 2017; Wade, 2018). Some also argue limits of the role of the state under neoliberal globalization era (Fischer, 2015; Jessop, 2016).

4.1.2. Demand for Developmentalism in DEEs

Apart from the changing circumstances compared to 20th century, there is demand for more state capacity and intervention for a developmental state in DEEs in the post

2000 period. This can be seen in the increase of the national development planning. Likewise, the national development planning had major precedence in 20th century under policies of the developmental state, at present, the number of countries with a national development planning, called as the ‘new national planning’, has increased from 62 to 134 between 2006 and 2018 as more than doubled. Although there is a compliance that those plans have risen in line with the aim and policies taken from the MDGs and SDGs they have resulted from challenges faced through the neo liberal process. Those countries require those plans for building institutions, resources and risk-management capabilities and for the achievement of their national development as a reaction to their uneven neoliberal process²⁸ (Chimhowu, et al., 2019, pp. 76-77).

4.2. An Overview to the 21st Century Developmentalism

In analysing new developmental approaches, the study will focus on what generic policies the New Developmental State (NDS) models inform DEEs to address the challenges of their developmental process. Here, the term ‘new developmental state’ will be moved forward *beyond*²⁹ the East Asian developmental state analysed in the chapter 2. While doing this, there are some key challenges. Although there is wide range of developmental debates both theoretically and methodologically reflecting different parts of the world there is not a unity among the debates. Here, what ND debates talks about in general will be a good start to following chapter.

The study will draw seven different approaches: new growth theory, institutionalist approach and capability approach under modern development theory, post-neoliberalism, new developmentalism, neo-structuralism and neo-extractivism. Because of scope of this thesis all of the perspectives will not be evaluated separately, but there will be emphasis on the certain points they propose and differences between them.

²⁸ See more in Rapley, J. (2007), pp. 109-118

²⁹ Chan, S., Lutz, H., Lam, D., & Clark, C. (Eds.). (2016). *Beyond the developmental state: East Asia's political economies reconsidered*. Springer; Fine, B., Saraswati, J., & Tavasich, D. (2013). *Beyond the developmental state: Industrial policy into the 21st century*. Pluto.

4.2.1 Debates on the New Developmental Understanding

Firstly, “new growth theory” was suggested by Lucas (1988) and Romer (1986; 1990; 1992; 1993; 1994), then was developed by Aghion and Howitt (1998) and Helpman (2004) in 21st century. This has led to a new ‘modern economic growth’ understanding in the development doctrine. The emphasis has been on the cruciality of idea production in contrast to the accumulation of physical capital as the real key for development (Evans, 2012, p.26). Secondly, the ‘institutional approach’ emphasises the role and quality of the institutions for the development (Rodrik, 2000; Rodrik, et al., 2004; Hoff & Stiglitz, 2001; Acemoglu & Robinson, 2005, 2006).

Thirdly, the ‘capability approach’ contributes to the renovation of development theory as pioneered theoretically by Amartya Sen (1981; 1999; 2001) and by Mahbub Ul Haq (1995). Here, the GDP growth per capita serves not only in economic growth, but also as “a proxy for improvements in human well-being”. Sen suggests the evaluation of development in terms of “the expansion of the ‘capabilities’ of people to lead the kind of lives they value—and have reason to value”. Here, there is an emphasis of the “expansion of capabilities” reflected as the primary objective of development and a principle instrument to achieve development (Evans 2012, p. 26).

The capability approach is important in the sense that there occurs a convergence between the capability approach and the new growth theory, and also between the institutional approach. New growth theorists stress “the knowledge and skills embodied in the capabilities of individuals as key inputs to growth”. Here, they also support the idea of ‘capability enhancement’ as principal input to growth. For the institutionalist approach, they “*increasingly focused on the causes and consequences of the collective goal setting*” that takes place at the centre of the capability approach (Evans, 2012, p. 27).

Apart from the modern development theories, there are other understandings related with the developmentalism in the Latin America. Firstly; ‘Post-neoliberalism’ refers to the return of state capitalism in Latin America as calling for a “a new kind of politics, rooted in and responsive to local traditions and communities, and an attempt to forge

a new pact between society and the state” (Grugel & Riggirozzi, 2012, p.3). This approach argues and critically explores to what extent democratic engagement and practices can be deepened by regional governments as requiring state renewal and more active policies in economic management.

Table 2: New Developmentalist Approaches in 21st Century

Debates	Key Authors	Key Arguments
Modern Development Theory: New Growth Theory (NGT), the Institutional Approach (IA), the Capability Approach (CA)	NGT: Lucas (1988) and Romer (1986; 1990; 1992; 1993; 1994); IA: Rodrik, 1999; Hoff & Stiglitz, 2001; Acemoğlu & Robinson, 2005; 2006. CA: Sen 1981;1999;2001	Replacement of idea production with the capital accumulation; importance of the role of institutions for the long-term development; expansion of capabilities as a primary goal of the development
Post Neo-liberalism	Borón 2003; Gutman & Cohen 2007; Sader 2009; Macdonald & Rucklert 2009; Escobar 2010; Springer 2014; Grugel & Riggirozzi 2009, 2012, 2018; Wylde 2012	New form of social consensus between the state-market and state-society relations, emphasis on welfare and social policies such as state expenditure, increase in taxes and export management, enhancement of citizenship, poverty reduction, predominantly in Latin America (2002-2012)
New Developmentalism	Bresser Pereira, (2005, 2011, 2012, 2016, 2019); Evans, 2004; Khan, 2007; Castelo, 2012; Trubek, 2012; Gezmiş, 2017	Attempt to solve macroeconomic problems emerged from inability of market to keep right the five macroeconomic prices, emphasis on the industrial policy, strategic role of exchange rate to upgrade export competitiveness and to avoid the Dutch disease, building mainly in Brazil
Neo-Structuralism	Barcena & Prado, 2016; ECLAC's Structural Change for Equality, 2012; Ffrench Davis, 1988, 2010, 2015; Leiva, 2008; Bitar 1988; Ocampo, 1998, 2005; Ocampo, Bertola, 2005;	Issue of integration into structuralism through changes resulted from Washington Consensus policies on stabilisation, privatisation and liberalisation; focus on fiscal policies, liquidity and balance-of-payments and capital account regulation to overcome the consequences of increased integration in global trade and finance.
Neo Extractivism	Burchardt & Dietz 2014; Veltmeyer & Petras 2014; Gudynas 2010; 2016; Brand, Kietz, Lang, 2016.	Based on the reason, process and shortcomings of resource-focused development understanding, in particular with the extraction and export of raw materials, search on the new possibilities to strengthen natural resource wealth, predominantly in Latin America

Source: Author's elaboration based on the selected literature

In New Structuralism, there is a recognition of “the tensions between structural transformation through renewed state activism and inclusive politics” since there are contractions resulted from the neoliberal policies. The development of this theory consists of integration into structuralist thought through changes in the region started from the late 1980s such as trade and capital account liberalisation, privatisation and deregulation as its increased integration with the rest of the world. In this context, it tries to overcome the consequences of increased trade and financial liberalisation to improve income distribution. It focuses on fiscal concerns, balance-of-payments and capital account regulation under four different areas: “macroeconomics and finance, international trade, social development and environmental sustainability” (Caldentey, 2016, p. 48).

‘New Developmentalism’, founded by Bresser Pereira in Brazil, handles certain macroeconomic problems that the market is not able to keep ‘right’ the five macroeconomic prices: non-satisfying profits in the manufacturing industry; higher interest rate in DEEs compared to the international interest rate without justifying the country risk; tendency of the increase in the wage rate below the rate of increase in labour productivity; high inflation rate as a result of cyclical financial crises followed by exchange rate depreciation; uncompetitive exchange rate in the manufacturing industry. In this context, New Developmentalism proposes “a responsible fiscal policy, an export-led and a profit-led growth strategy”, which set conditions for a balanced foreign account and a competitive exchange rate. It emphasises the strategic role of the exchange rate in the process of economic growth and it handles the over appreciation of the exchange rate (Pereira, 2020).

Finally, neo-extractivism critiques resurgent capitalist-dominated growth model based on the extraction and export of raw materials, particularly followed by many Latin American states since the post 2000 era. As a development model, “it is embedded in a specific historical phase of capitalist development where nature and its valuation in the world market play a decisive role for the realisation of exchange value, and which exhibits commonalities across different political regimes” (Brand et al., 2016, p. 131). By this way, it searches “*new possibilities for new developmental states*” where they try to strengthen natural resource wealth in contrast to other ND approaches

considering alternative policies leading to developmental states beyond East Asia (Singh & Ovadia, 2018, p. 1043).

4.2.1. Challenges of Development Process Caught up by ND Approaches

After arguing the ND debates in general, it is time to question their realisations on the development process of the DEEs. To what extent do they detect challenges for the development process of the DEEs since the resolution of the development state? In reply to this question, there are some important challenges caught up by the developmentalists in this process. These challenges can be analysed under two spheres: those posed by globalization and those posed by the peripheral situation of the DEEs.

4.2.1.1. Challenges posed by Globalization

There has been declining control of states over their national economies through deepening globalisation in 21st century (Hayashi 2010, p.46) compared to 20th one. As Evans puts: “The growing power of global capital and the growing integration of local capital into transnational networks has made close ties with capital riskier and more difficult for a developmental state” (Evans, 2011, p.50). Now, to what extent globalisation puts challenges to the development for DEEs can be argued in three different spheres: a) unrestrained structure of the international financial markets b) change in the global economic environment and c) the premature deindustrialisation problem.

Today, DEEs are faced with the three harsh realities: Firstly, because of the high volatility of the capital markets there might be punishments for mistakes that not only they have made, but for events which they have no responsibility or possibility of such responsibility according to the capital markets. Exposure of the DEEs to the discipline of international capital markets does not guarantee growth or efficiency; it puts at risk DEEs by being compelled to give up important elements of their sovereignty, in particular when the focus is on the short term capital. Secondly, when a crisis happens they face with enormous costs. Although the crisis is averted the costs of dependence

on foreign capital remain great since they force contractionary policies in contrast to the required expansionary policies. Here, the costs do more than offsetting the acquisitions that increasing earlier when the borrowing becomes the matter. Thirdly, lack of the well-functioning of the capital markets appears as a force to the development process of the DEEs. In contrast, when they are functioned well, there will be rich countries bearing the risks of exchange rate devaluations and interest rate increases. Thus, it would have arrangements which would not be a force to the development process of the DEEs. However, there is neither well-functioning international capital markets nor a well-functioning global financial architecture (Stiglitz, 2002, pp.14-15).

Another effect of the globalisation is the change in the global economic environment. This changed environment put some pressures on industrial and economic policies of DS: “It is highly unlikely that potential emulators of the Northeast Asian political economies will enjoy anything like the same favourable international conditions as did Japan, Korea and Taiwan” (Pempel, 1999, p.180). By this way, liberalisation prevents the emergence of protectionist industrial policies for an alternative to new developmental state.

As Beeson expresses, “the tolerant geopolitical environment which saw the US privilege systemic strategic issues over narrower, national economic interests, and which provided the relatively tolerant environment in which the DS states flourished, has been overturned” (Beeson 2004, p.32). That condition puts pressure to substantial liberalisation for the DEEs and leads to certain difficulties for states following a developmental route. In addition, economic, political and military dominance of DEEs in the world is locked through main international agreements such as TRIPS, TRIMS and GATS (Hayashi 2010, p.60; Wade, 2003, p. 622). Those multilateral agreements restrict “development space” of DEEs to pursue protective industrial policies whereas many of them were adapted by the East Asian economies in the 20th century (Wade, 2003, p.622).

Second, changed relations between local and global capital prevents doing protectionist policies of DEEs. As a result of these changed relations, the state takes

place in a different position corresponding with their domestic industrialists who were dependent on the state in in the East Asian model in the matter of capital (Evans 1995, p.53; Hayashi 2010, p.62). Thus, the process of globalisation has weakened states' control over their own national economies (Hayashi 2010, p.46).

Finally, DEEs experience slow growth rates in international markets in a considerable extent. In 20th century, expanded market environment provided to succeed in upgrading economies of the East Asian countries Japanese, Korea, Taiwan (Wade, 1990, p.346). However, this expansion has no longer taken place in the recent era which has made harder or impossible for DEEs to achieve growth with the same strategies that East Asian countries have benefited (Wade 1990, pp.347-8; Hayashi 2010, p.59). However, the declining growth of the markets is not only factor for the change in the global market environment.

In addition to these, changes in the global labour market has certain impacts on the development strategies of the DEEs. Here, there occurred shift in the job growth in such a way that while manufacturing jobs have been decreasing at the end of the 20th century as continued in the post 2000 era in the world even China was seen as 'workshop of the world' for the manufacturing production (Evans 2011, p. 41; Hou et al., 2017, p. 7). In addition, Rodrik analyses *pattern of deindustrialization* which DEEs have experienced reduction in "*manufacturing shares in both employment and real value added*", particularly since the 1980s (Rodrik, 2016). Recently, there is a growing in the service sector in the labour market requiring different types of inputs such as human capabilities (Evans 2010, p. 6; 2011, p. 42). This necessitates the developmental state quite differently compared to its East Asian pioneers with the possibilities for different routes since the possibilities of the rapid growth and industrialisation are restricted by the recent global environment (Beeson 2004, p.31).

Final factor of globalisation is the Dutch disease and premature de- industrialization problem. Premature de-industrialization is identified as a type of deindustrialization occurred in countries with lower level of income per capita according to international standards. Widespread premature de-industrialization is prevalent among many DEEs predominantly in Latin American countries. Premature de-industrialization is caused

by shifts in policy, in contrast to the incremental process linked with the ‘maturation’ of developed countries. This policy shift comes from neoliberal economic liberalisation policies such as trade liberalisation, liberalisation of product markets, austerity policies and financial liberalisation (Tregenna, 2016, p. 720).

The Dutch disease³⁰ is also one of the forms of premature de- industrialization and appears as a challenge for the development process of DEEs for achievement of catch-up strategy since they easily face the risk of “*missing a rapidly moving target*” under the disease (Yeung, 2018). It is seen as ‘excess’ degree of de- industrialization found in cases of discovery of natural resources, the development of export finance or tourism; and finally, and as a result of economic policy shifts in DEEs (Palma, 2014, p. 19). Figure 3 displays the Dutch disease model that links up the exchange rate, the current account balance and the two equilibriums as the current and the industrial equilibrium.

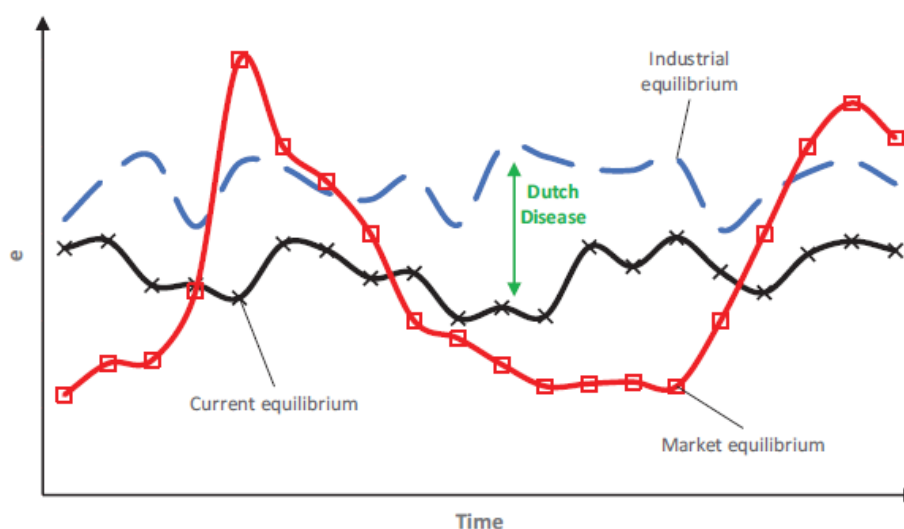


Figure 3: Exchange Rate Cycle and Two Equilibriums

Source: (Pereira, 2020, p. 10)

³⁰ It firstly emerged after the discovery of gas reserves in Netherlands. After that, the real appreciation of the guilder affected the manufacturing sector of the Netherlands in 1960s (Corden & Neary, 1982).

The two equilibriums values, given as market and current equilibrium, come from comparative unit labour cost and the terms of trade and shows how much severe the Dutch disease takes place as dependent on the distance between those equilibriums. The “current equilibrium exchange rate” shows “the production costs of the natural resources sector”; “the industrial equilibrium exchange rate” shows “the manufacturing and other non-tradable sectors” benefiting from advanced technology competitively in global markets. Thus, the Dutch disease occurs in the sense that as the gap between the current equilibrium and the industrial equilibrium has increased, countries are faced with more severe of it. It also shows involvement of DEEs in current account balance and exchange rate appreciation simultaneously (Pereira, 2020).

Frenkel and Rapetti (2012) also argue that it is de-industrialization which is the primary danger currently facing Latin American countries resulted from the capital inflows. Here, capital inflows lead to real exchange rate appreciation, erodes the competitiveness of manufacturing and thus it reduces output and employment in manufacturing as a form of Dutch Disease. They argue that this de-industrialization decreases countries’ long- run growth by supporting with the empirical analysis of Latin American countries.

In addition, some studies analyse the experience of Latin America’s deindustrialization problem since the recent thirty years. For instance, China leads to the deindustrialisation in Brazil in the way that a) increasing the competitive pressures on local producers through increase in the imports from China and b) threat of the Chinese products while exporting manufactures in foreign markets. Thus, Brazil is probably “jumping into maquiladora type industry based on simply assembling final goods” (Jenkins & Barbosa, 2012, pp. 60, 72). Brady et al. (2011) and Bogliaccini (2013) emphasise deindustrialization process in Latin America as a consequence of trade liberalisation policies since the 1980s. Furthermore, they point out that there is a substantial deepness in foreign ownership and control of the industrial structure in the current era compared to the 20th century era.

4.2.2.2. Challenges Under Peripheral Situation

Apart from the challenges posed by the globalisation there are also challenges stemming from the reaffirmance of the peripheral situation of the DEEs in the face of developed countries asserted by the developmentalists as a foundation of contemporary development studies. Here, the challenges for the development process is identified under three propositions; a) backwardness and dependency on the technology; b) decreasing terms of trade; c) pro-cyclicality of macroeconomic adjustment.

The first challenge comes from the impact of backwardness and dependency on the technology of DEEs. Peripheral DEEs do not have the ability to endogenise technological progress and thus, to catch up the 'central'. While upgrading was effective in East Asian countries, they are now also "locked in relatively subordinate and vulnerable positions" within GPNs. Although they have experienced relatively less equivalent degrees of industrialisation compared to the past they continue to benefit and there is not a prevention for "a degree of autonomy in determining their styles of development, such as industrial policy, capital controls, taxation, or welfare state regimes". However, in spite of benefits and autonomy, those states could not escape to prevent their peripheral position of development along those specific technological and industrial dimensions as also proposed by earlier dependent development (e.g. Cardoso, 1973; Evans, 1979; Fischer, 2015, p. 712).

In addition, DEEs continue to play collaborative and subordinated roles in their regional industrial capacities conducted by TNCs predominantly in the advanced countries as they were also located in the past. Further, "*there is effectively much more homogeneity in technological production and consumption today than in the past*". This reflects the *degree of monopoly* acquired by leading firms in state of art technologies and "the winner-takes-all microeconomic foundations of their emergence", combined with the DEE firms producing the output for them. For example, Russia is dependent on the US and European technology and expertise to develop new oil fields (Carroll et al., 2014).

Another proposition of the peripheral situation of DEEs is the point of decreasing terms of trade, rooted in studies of Hans Singer and Arthur Lewis. According to it, increasing productivity decreases the prices of manufacturing exports, as a result, declining terms of trade has occurred. It is also called as ‘Prebisch-Lewis hypothesis³¹’ by Fischer and it reflects recent period for DEEs since they have penetrated into manufacturing under the dominance of TNCs by integrating with the GPNs (Fischer, 2015, p. 715). As an example, Erten (2011) finds that there is a sharp decrease in the terms of trade between North and South from the mid- 1970s onwards based on the changing composition of exports. It also finds that the highest rates of decline in terms of trade occurs in the least developed and highly indebted countries; in addition, it has deteriorated more severely in major manufacturing exporters compared to the rest of the non-oil exporting developing economies. This is also supported in the sense that the terms of trade in manufacturing of DEEs have been negatively affected by intense global competition while producing specific types of manufactures at early stages of their industrialisation such as lower-skill and labour-intensive end of the GPNs in DEEs’ manufacturing (Kaplinsky, 2006; Ocampo & Vos, 2008).

Final proposition of peripheral situation of DEEs is the procyclicality of macroeconomic adjustment for countries depending on open trade and capital flows for their economic growth and development. In those countries, after the deterioration of export markets, there occurs a slowdown or stop in the financial flows. Thus, they face with difficulties to compensate for export deteriorations with the increase in investment due to the capital outflows. Fischer points out the principle of pro-cyclicality as a continuation of the cyclicity of monetary emissions from developed economies to DEEs since this monetary form of pro-cyclicality has reinforced the

³¹ Unlike the ‘Prebisch-Singer hypothesis’ as focused commodity price terms of trade, Fischer suggests the term ‘Prebisch-Lewis hypothesis’. Here, he synthesises Prebisch’s argument on declining terms of trade of peripheral economies based on the asymmetries in the operation of labour markets and Lewis’ view on factoral terms of trade theory (1954) which argues determination of the international terms of trade by relative wages based on the levels of labour productivity in developing and developed countries. Here, as a result of increasing productivity in the exports of developing countries there occur reductions in capital formation and wage when capital export increases the cost of imports from developed countries. Thus, increasing productivity leads to lower prices in manufacturing exports, and thus resulting in declining terms of trade (Fischer, 2015).

position of peripheral economies. As financial waves from the developed countries change the “productive, consumption, financial and ownership structures” of DEEs those countries continue to refinance and import intensive as increased in their dependent relation. Thus, those economies face with the vulnerabilities under the changes in external conditions. For example, “the mere hint of monetary tapering by the US Federal Reserve to throw a variety of ‘emerging economies’ into currency and balance of payments crises in 2013 and 2014”. However, it has led to “reconstitution and reinvigoration of hegemony”, supported by the neo-liberalism (Fischer, 2015).

4.3. Interactions between ND Approaches and Financialisation of DEEs

As a reminder point, in chapter 3, analysis of the financialisation process of DEEs under their tighter integration to the international financial system was argued. In this context, the study specified the anti-catch up factors for the DEEs on the focus to what extent their development process have taken form in their financialisation process. Now, after the analysis of the challenges against the developmental process of DEEs by the developmentalist thinkers, the focus will be on to what extent those debates under new developmentalism understanding is aware of those anti-catch up factors of the financialisation process, in which areas they overlap or draw apart from each other will be argued under four subheadings: monetary and financial subordination, deepening of international production networks, accumulation of the international reserves and financialisation of the commodities.

4.3.1. The Monetary and Financial Subordination

While Currency Hierarchy School brings structural asymmetries of the international monetary and financial system (IMFS) to the fore (Ramos 2016, p. 105) and realises that “the cyclical nature of the exchange rate in DEEs open to financial globalization, that follows a pattern of protracted appreciations followed by sharp depreciations”. In this context, they stress the role of the financial flows in financial crisis and exchange rates in DEEs (Kregel 2001; Arestis & Glickman 2002; De Conti et al., 2013; Kaltenbrunner 2015; Bonizzi 2017; Macalós, 2019). By contrast with, the “new

developmentalist” school focuses on the appreciation of the exchange rate linking it to the Dutch disease (Bresser-Pereira 2012, 2016, 2020).

The approaches are complementary since these schools discuss the same problem in the sense that there are cyclical movements on exchange rates. As a result of over-appreciation of the exchange rate there occurs balance of payment crisis in DEEs following sharp depreciation. Moreover, those approaches both underline that the expected outcome of market mechanisms results from those cycles. Nonetheless, whereas there is an emphasis on monetary asymmetry in the currency hierarchy school detrimental impacts of the Dutch disease is highlighted by the new developmental approaches (Macalós, 2019, p.6).

4.3.2. The Deepening of International Production Networks

ND debates argue the necessary mechanism of the national-global articulation for development of DEEs in a dominance of cross-border production networks³² across the world. Since the international production networks deepened significantly from the 1980s the idea that countries could succeed by promoting national champions through restrictions on trade and investment became increasingly anachronistic. (Haggard, 2018, p. 55). In this context, ND debates argue that it becomes harder for any national economy to build internationally competitive industries since replication of the kinds of upgrading occurred in East Asia in 20th century becomes harder in the contemporary era of GVC-driven globalisation (Yeung, 2018, p. 20; Bishop & Payne, 2018, p.3).

Furthermore, there is a substantial drive coming from international market forces in DEEs. In this context, although volatility of FDI is considered less compared to volatility of portfolio investment, predominantly, MNCs still have the power to decide where they will invest. For example, when DEEs have to follow FDI-led industrialization, there are major pressures confronted by those countries to enter the direction of trade and investment liberalisation. In addition to this, there are quick withdraws of international financial institutions from the developing economies which

³² See a current analysis about the cross- border production networks (World Bank, 2020).

they sense any sign of problem. Thus, the Asian financial crisis appears a good example: when DEEs have failed to satisfy the international markets the markets punished them in turn. (Hayashi, 2010, pp. 62-63).

4.3.3. The Accumulation of International Reserves

The vast accumulation of reserves is resulted directly from both DEEs' surging financial integration to the international markets and their subordinated nature. As it requires net flows of capital from developing to developed countries such resource transfer carries significant costs for periphery countries. It has significant implications on changing the structure and behaviour of the banking system of DEEs. Financialisation literature argue that monetary sterilization operations of the CB to control the monetary expansion has led to the change in banks' credit allocation from productive to unproductive sector. This has led to increase in the uneven development and reinforced DEEs' subordinated international position. (Kaltenbrunner & Paineira, 2018).

ND debates also handle this issue and focuses more on the macroeconomic stability. In this context, ND approaches attempt to sustain the asset price stabilization and to control financial bubbles and balance-of-payments equilibrium. Moreover, besides CB's sole responsibility of the inflation price targeting ND loads with a new charge to CB side with the controlling the inflation such as sustaining balanced exchange rate and full employment. In addition, CB and the government could buy reserves and impose capital controls for maintaining stability (Pereira, 2012, p.19).

4.3.4. The Financialisation of Commodities

As a result of the spread of financial transformation of the DEEs, many DEEs have experienced a process of de-industrialization and increased dependence on primary sector (commodity) exports. The impact of terms of trade of commodity exports on periphery economies has been widely studied since Raúl Prebisch and Hans Singer (Allami & Cibils, 2018). In addition, in section 2, it was analysed that there occurs a

sharp decline in the terms of trade between DEEs and advanced countries in the post 2000 era.

Financialisation of commodities occurs in the sense that because of the increase in the integration of the DEEs to the global markets, prices have become heavily influenced by financial phenomena and less by the ‘real’ economy (Allami & Cibils, 2018, p. 99).. In addition, the commodity prices become more prone to be affected by the events in global financial markets (Bichetti & Maystre, 2012, p. 238). This leads to greater commodity world price volatility as also seen in the figure 4.

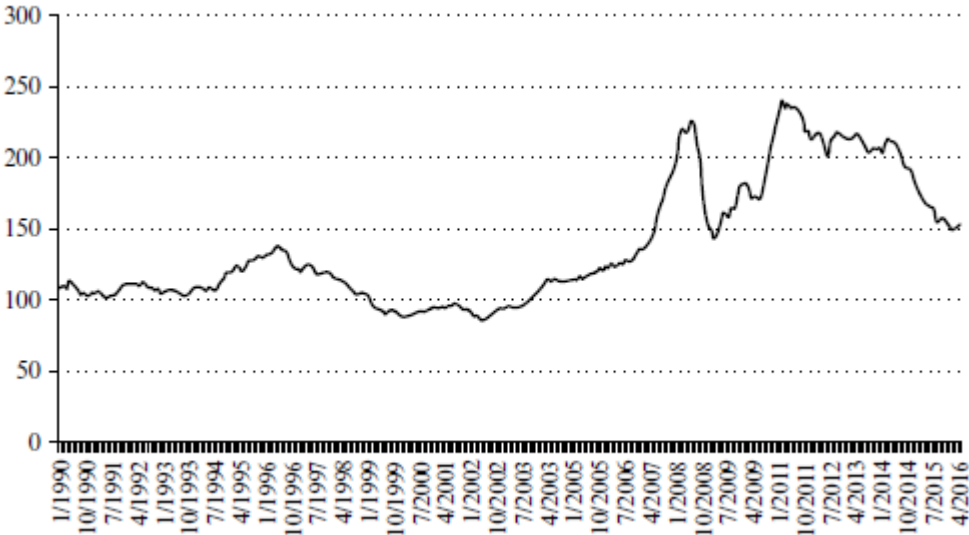


Figure 4: FAO Food Price Index 1990-2016 (Base: 2002-2004=100)

Source: (Allami & Cibils, 2018, p. 99)

In recent decades, as a result of the financialisation, hedge funds and investment banks deal with the future contracts without any limitation or control, thus causes to emergence of the new commodity markets (Allami & Cibils, 2018, p. 99). Here, while ND debates focus on the decline in the terms of trade in commodity markets financialisation focuses on the uncertainty and potential destabilization of commodity markets. Consequently, both of the approaches agree with the point that those who suffer most from commodity market financialisation and commodity terms of trade are commodity-producing periphery countries. Thus, those DEEs which are the most dependent on commodity production and export are subjected to ‘external

destabilizing factors, such as inflation, trade deficits and currency devaluations' and (Bichetti & Maystre, 2012, p. 28; Allami & Cibils, 2018, p. 100).

Here, it can be inferred that changes in financialisation process and ND debates are not actually a far cry from themselves. ND debates point out certain *anti-catchup* factors under the financialisation process of the DEEs as a challenge to development process. At this stage, it raises the question on what can be alternative solution suggestions to those countries? Has those challenges with continuous deepened integration of DEEs into the global financial markets made the developmental state redundant? Otherwise, what ND debates propose to DEEs to overcome those challenges? In this context, the next section will try to figure out the alternative policies suggested by the ND debates for above challenges.

4.4. Alternative Policies to Financialisation Challenges

ND debates do not see globalization antagonistic to the developmental state. Under the argument of financial transformation, considering the nature of global financial markets, DEEs could not run away from the financial crises. Here, ND understanding puts the importance of maintaining sound economic system for the DEEs, in addition to regular arrangement of capital account liberalisation. Despite development policy necessitates to be country-specific since each countries' socio-economic characteristics are varied from each other and thus certain lessons can be taken from their experiences instead of generalisation. This comes from the learned experience of the East Asian financial crisis as: rather than reducing the role of the state, it requires to strengthen control of state on markets (Hayashi, 2010, p. 63).

4.4.1. Need for a New Industrial Policy

ND debates emphasise the importance of the industrial policy as a core element of the DS. In this context, industrial policy actually can help DEEs to attract FDI (Khan, 2007). Thus, on the importance of trade policy, development policies cannot be considered in isolation from industrialization, industrial policy is required from

different scholars. (Lall, 2004, pp. 24-28; Rodrik, 2004, pp. 6-16; Wade, 2007, p. 353; Shafaeddin, 2006, 2012; Di Maio, 2008, p.36).

In this context, there appears an important place for a “*new kind of industrial policy*” to promote domestic firms for entering and benefiting opportunities in global industries. Here, Yeung suggests the rethinking industrial policy under three sub-title as “*its intended recipients, its policy foci and the politics of choice*”. (Yeung, 2018, p. 20). Firstly, instead of highly selective sectoral industry policy as in the 20th century, “*a more catalyst-oriented industrial policy promoting industry-level growth dynamics, such as a cooperative industrial ecosystem and inter-firm and inter-industry linkages*” is seen more effective policy since this kind of industrial policy can promote better domestic firms and it can also facilitate the location of the new foreign firms in the domestic economy (p.21). In addition, there is a requirement of the specific conditions and limits for the protection of the selected industry. This provision requires to focus on performance base of industrialists in exchange for the incentives and sanction in conditions where they perform unsatisfactorily. That is, an industrial strategy comes into the view with “*elements of both rewards and pressure from the government or market or both of them*” (Shafaeddin, 2006, p.37).

Second, “focusing on niche policies that ‘nudge’ strategic coupling with global production networks” is required. Here, how domestic firms’ coupling is strong with GPNs is seen more likely through the niche policies to industry contrary to “big spurt approach of state-led industrialisation”. Although it does not provide large industrial scales such as South Korea’s chaebols or Taiwan’s Hsinchu Science-Based Industrial Park, it proposes “a realistic pathway” for the capitalist development of DEEs. For instance, it supports policies of start-ups, financial and social incentives for returnees, engaging with the transnational actors of ‘technopreneurs’. (Yeung, 2018, p.21). In this context, state needs to achieve dynamic growth as a requirement of the modern development, thus, it needs to promote industries in line with its comparative advantage specified by the country’s endowment structure, and benefit from “*the potential advantages of backwardness in industrial upgrading*”. Then, it needs to

identify new industries where it has a latent comparative advantage³³, and thus, there needs to remove limits that hamper building industries in line with its such advantage and generate conditions for those industries by permitting their entrance to be the state's actual comparative advantage (ILO & UNCTAD, 2014, pp. 73-4).

The emphasis is to develop a GPN- relevance understanding of their national capabilities and positions in cross border relations (Yeung, 2018, p.21). Thus, as firms develop their production capacity, pressure of the competition in domestic market needs to be increased by permitting new entrants to the market by the state. Here, capability-building of domestic firms has significant importance and thus, “the capabilities of government should be developed to formulate and implement policies for capability-building at the firm level” (Shafaeddin, 2012, p. 30).

Thirdly, “the *politics* of industrial and sectoral choice” has uncertainties today compared to selective industrial policy in a straightforward promoting labour-intensive industries and heavy and chemical industries of 20th century East Asian economies. Now, value creation and capture take up greater space in new innovation-based industries. With the growing new dynamic industries such as “nanotechnology, biomedical, green-tech and digital media”, “‘catching up’ is no longer a matter of capital investment led by state-controlled financial institutions and elite industrial development agencies”. Thus, outstanding characteristics of such industries in a specialised knowledge, expertise and interest lead to the complexity and make them unruly in bureaucratic targeting regardless of well-functioning and coordinated industrial policy (Yeung, 2018, p. 22).

4.4.2. Need for a New Trade Policy

Since successful East Asian states model of DS (the Big Three) efficiently steered MNCs into the strategic sector; thus, those countries' key success was their strategic attitude to MNCs (Chang, 2003 pp. 247–72). Thus, the emphasis should be on the way to govern globalization by DEEs. Here, how DEEs should cope with the highly volatile

³³ Latent comparative advantage in an industry means to be competitive based on the factor cost of production. See more in (ILO & UNCTAD, 2014)

international financial markets is crucial, but the inefficiency or the failure of the developmental state do not come in sight through the international financial markets themselves. Now, there is a common belief that “the liberalisation and opening of financial markets in developing countries must be dealt with very cautiously”. Since the consequences of the Asian crisis showed the risk of hasty liberalisation, it was seen that the international financial markets could do harm to the economic stability of DEEs rather than shortcomings of the DS (Wade & Veneroso 1998; Bhagwati 1998, Stiglitz 2005; Hayashi, 2010, p. 64).

In this context, there needs to focus on trade and industrial policies as “selective, mixed, flexible, performance-linked, dynamic and predictable combined with development-oriented and country-specific extent” (Shafaeddin, 2005, p. 1152). In addition, there needs to be supplementary factors with respect to trade and industrial policies so-called “non-price factors³⁴” and agriculture should be developed to enhance the supply of wage goods (Shafaeddin, 2012, p.31).

Moreover, there is a requirement of the enhancement of productivity through trade policies rather than based on repeated devaluation. Also, to provide effective management of capital flows there needs to be using of FDI selectively (Shafaeddin, 2006, p. 29; Shafaeddin, 2012, p. 31). Here, “the framework for trade and industrial policies is not *a récepti for protection*”; in contrast, “it is a means of industrialization before liberalising trade completely” (Shafaeddin, 2006, p. 41).

Apart from those, WTO rules and regulations need to change to be “development friendly”. For that objective, following a bottom-up approach is a requirement for DEEs rather than a top-down approach. That is, DEEs need to be intent on their policies in trade and industry before the negotiating table with international

³⁴ In this regard, the process of industrialization requires “COU-Ps- INs” COU presents “Create capacity, operate it efficiently and Upgrade the industrial structure”. It requires incentives, but they are not sufficient. Thus, a number of INs and Ps are necessary. The INs include “INvestment, INput, INfrastructure, INstitutions, INnovation and Information”. The Ps represent “Political stability, Predictability of policies, Participatory Politics, Pressure for Performance, Public–Private Partnership, respect for Property rights and Production capabilities of local firms in the value chain and Productivity”. See more in (Shafaeddin, 2012)

organisations instead of agreeing with unclear issues on their own policies (Shafaeddin, 2012, p. 33).

4.4.3. Reconfiguring the State Capacity

In the context of economic development, scholars have argued necessity of the state authority to sustain long-term economic growth (Evans 1992; Aghion & Howitt, 2006). For example, Hanson makes an empirical work including DEEs from the period 1960 to 2005. As pointing out the DEEs, where have low GDP per capita, state authority within its high capabilities has a strong positive effect on the fast growth (Hanson, 2014).

In addition, the developmental state literature also supports the concentrated state authority for its consistency with stable economic growth. For example, Kohli (2004) emphasises capability of the state among the most successful late developers through implementation of well-designed and selective intervention in the economy. Moreover, cohesive action and extraction of performance from private firms are emphasised as a requirement for the state to expand its capacity (Amsden, 1990; Chibber, 2003). Failures occurs when there occurs lack of the corporate coherence³⁵ as well as bureaucratic coherence, lack of selectiveness in state interventions or lack of ineffective and insufficient set of linkages with groups in society or private sector which share the objective of economic transformation. Further, there is an effective institutional relationship between the coherent state organizations and corporate sector (Evans, 1992, pp. 154, 162, 171).

In 21st century, even as emergence of new theories of development and new transformations do not downplay the significance of the state as a developmental institution, continuation of the state as “agile, active, resourceful and able to act independently of private interests” to facilitate the growth must be provided. Thus, generation of the state capacity to fulfil the twenty-first century requirements appears

³⁵ Corporate coherence refers to the ability to resist incursions by the invisible hand of individual maximization by bureaucrats. This sense of corporate coherence occurs where Weberian characteristics prevail such as “highly selective, meritocratic recruitment and long-term career rewards”(Evans, 1992, p.163).

in the way of transforming public institutions. In this context, while bureaucratic and organizational capacity retain its significance, combine of the new political capacities with them is also necessary (Evans, 2012, p.43-4).

Such transformation brings the notion of ‘capability enhancing state’ for the continuation of the developmental state in the 21st century. In this century, the ‘human capital’ is generated by the large spread of the service sector in the economy as a foundation for the increased productivity generating value and growth. Here, in the focus of “expansion of human capabilities as the key means and central goal of development”, developmental precedence is ensured by giving the value for capability expanding services and accelerating their provision (Evans, 2014, p. 87).

As differs from the 20th century state capacity, the capability enhancing state “makes the ‘embeddedness’ strategies of 20th century developmental states obsolete and forces rethinking the political foundations of 21st century state capacity”. (Evans, 2010). In 21st century, with the expansion of the human capabilities, “*social returns to the expansion of human capabilities are substantially higher than private returns, private markets under-invest in human capabilities*”. Rather, investment areas are appeared in “*where total returns are lower but private returns appear higher*”. The extensivity of “collective goods” in capability-expansion obstructs to build productive alliances with private capital. In contrast to the effectiveness of such alliance in old embeddedness, close relations with the private elites is open to channels for the pursuit of private agendas undercutting ability of state for capability expanding. While such embeddedness might prevent effective state intervention rather than facilitate, capability expansion makes private sector not as a dependable ally and thus ‘becomes the core of the developmental agenda’ (Evans, 2014, p.92-3).

In light of those lessons, “*sine qua non* of a successful capability-expanding state” is to provide “accurate information on collective priorities at the community level”. Effective linkages of state with the groups of the society can be produced by the facilitation of the organisation of counterparts in civil society by the state. Thus, “*just as 20th century development states helped turn industrial elites into a more coherent*

class, a capability-expanding state must do the same for a broad cross-section of society” (Evans, 2010, p. 10).

On the other hand, there are challenges of building capability-expanding state stemming from difference of the required configuration based on the form of the embeddedness with “broad-based connections between state and civil society”. In this context, there are necessities such as ensuring the “flows of information to guide the allocation of public resources” and the coproduction for “the effective implementation of capability-expanding services”. Therefore, there is a requirement of consistency between the structure of embeddedness with respect to organised structures “to promote bureaucratic competence and coherence within the state”. Although transforming “actually existing states into capability-expanding states” sounds difficult and daunting, there will be more productive and dynamic economies after the success in implementing these institutional transformations (Evans, 2010, p.11).

Apart from the Evan’s capability enhancing state, ND debates also emphasise the role of the state capacity in DEEs’ development process. In this context, there are certain propositions on the emphasis of proactive state in the way that “governments must play a proactive, facilitating role for an economy to move from one stage to another and to overcome the challenges in development process”. Here, proactive state requires to put interventions for allowance to the markets to function properly by:

Providing information about new industries that are consistent with the country’s comparative advantage as determined by changes in its economy’s endowment structure; coordinating investments in related industries and facilitating the required improvements in infrastructure; subsidizing activities with externalities in the process of industrial upgrading and structural change; and catalysing the development of new industries by incubating them or by attracting foreign direct investment to overcome the deficits in social capital and other intangible constraints (ILO & UNCTAD, 2014).

Öniş and Şenses also draw attention to the importance of the pro-active state by pointing out that the nature and quality of state intervention still have the significance for the development performance of late-industrializing economies in the age of neo-liberal globalization (Öniş & Şenses, 2007). Overall, ND literature believe that “globalization itself is not antagonistic towards the developmental state since the East

Asian developmental states have been highly benefited from taking advantage of integration into the global economy” (Hayashi, 2010, p. 63). Since ND debates do not see the developmental state as redundant in globalisation era, they suggest DEEs to know the level of financial liberalisation matched to their developmental level in the economy. In this context, it is required that there must be strategic integration of DEEs into the international financial markets. This strategic role comes from the learned experience from the East Asian model of DS in the way how they have integrated into the international economy. Thus, the critically important point for DEEs is their ability of promoting “*international integration in the way they choose, rather than passively accepting international pressures*”. In this sense, it is required to take the ownership of their international integration process while making “their own decision about what they put into their countries, when and how they do it, how foreign powers (business, system, culture) should be integrated into indigenous society” (Hayashi, 2010, p. 64). Here, the DS appears still as a valid alternative model with the proactive role of the state.

4.5. Rethinking the DS in 21st Century

By the revival of the term developmental state in the 21st century, what does the term actually mean as developmental state? Also, why there is a belief that this concept contributes usefully to contemporary thinking on development policy? Does the DS simply mean the requirement of a kind of state intervention? Otherwise, for what purposes is it important to discuss over failures, shortcomings, or continuity of the developmental state? Based on those questions, developmental state will be reconsidered based upon its shortcomings and criticism, its relations with the financialisation process and its possible position at present and the future. In this context, rather than defining a new developmental state, drawing a framework from all the discussions will be on the centre.

4.5.1. Criticism on New Developmentalist Literature

Overall, ND literature reaches the common point as suggesting DEEs for acting proactive role to accelerate their industrial upgrade and diversity. However, at first, they

make no distinction between DEEs in respect of their different types of governance models. In addition, they make no distinction between large developing economies, in particular to BRICS including Brazil, Russia, India, China and South Africa. China, and big majority of medium and small-sized economies (Wade, 2014, pp. 13-4).

Second, ND debates simply focus on the state itself in the development process. However, “they short-change key features of the wider domestic political economy, notably corporate governance, capital markets, and labour relations” (Wade, 2014, p. 14). In this context, at the current era, although success of corporate sector in terms of maximization of shareholder proceeds to depend on capital accumulation there are necessary factors that must be taken into account stemming from the impact of the financialisation on business strategies and labour relations . For instance, the role of GVCs and GPNs becomes compulsory for analysing the business strategies and corresponding enterprise structure (Thompson, 2013, p. 477). Whereas industrial policies try to handle pressures emerged from the globalisation and financialisation in new developmentalist debates, austerity policies after the GFC have “undermined the capacity and presence of social policy and domestic production for domestic needs as core strategies for development” (Fine, 2011, 2014), because of the possibility of the challenging factors of these policies against the powers underpinning such pressures (Fine & Pollen, 2018, p. 223).

Third, by focusing on the catch-up process, they draw a path to “the state *like a runner in a marathon race*, whose position is determined by *internal capacity*”. They do not succeed “linking the role of the state with international economic and financial regimes, which provide opportunities and constraints on state action which differ between very large developing countries and the rest” (Wade, 2014, p.14). In addition, defining the idea of development on the focus of catch-up, latecomer and industrialisation based on capital accumulation and coordination of capital by the state with labour and finance have limitations on the point that the DS falls short on the attention of other stages in the process and other aspects of development. Those lack of points mainly take place in the “earlier and later stages in agricultural and industrial development and the roles of urbanisation, health, education, welfare, labour, democratisation, and so on” (Fine & Kyung-Sup, 2012, p.304; Fine, 2013). Further,

the stereotype “picking winners” does not help to understand how industrial policy worked in East Asia. Blessing the East Asian model as “an omniscient, far-seeing, and welfare-enhancing state” has led to the perceiving such states as rare and this has led to the justification of a temperate approach to government intervention (Haggard, 2018, p. 68).

On the other hand, there are certain objections stemming from international rules led by the WTO since those rules substantially curtail the active role of the state “*in steering production, diversification and upgrading*” (Wade, 2003). In addition, “the rules of the mega-regional trade agreements such as the Transpacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP)” also cause to fall role of the state. Furthermore, world trade has been highly concentrated with technology and brands in the control of certain number of MNCs located in the West and in the East Asian NICs (Wade, 2014, p.14).

4.5.2. Relevant Position of the DS at Present and Future

In relation to the developmental state, since the 2008 GFC, many DEEs have concentrated on *policy selectivity* by sector, location and ownership while they draw away from “level playing field” policies on the one hand. This is proven by Vinod Aggarwal and Simon Evenett (2010), in analysing specifically Asian countries as China, Japan and South Korea. After the crisis, as Japanese and Korean domestic markets of auto industries were severely impacted government interventions took place in the green measures in those countries to boost the domestic industry (Aggarwal & Evenett, 2010). Thus, “much of the resulting industrial policy is directed at ‘green’ products and processes, which softens neoliberal censure” (Wade, 2014, p. 17). There have been avoidance of tariffs and quantitative restrictions by the DEEs in this process. In this sense, there have been implementation of policies subject to “medium or low” restrictions by WTO including “public procurement, discriminatory subsidies and bailouts”. In other words, there is an increase in the share of industrial policy, particularly in green investments since 2008,. Here, WTO rules are influential for “the *composition* of industrial policy instruments rather than curbing the *quantum*” (Wade, 2014).

As previously criticised the restraint of the developmental role of the state as latecomer, catch-up industrialisation, ‘developmental state’ today “serves as a blanket buzz term” for the conditions in which developmental policies led by the state intervention. However, this creates a kind of confusion in organising relations between the DS and other frameworks. For instance, while Yeung (2009) places the DS according to dynamics of GPNs and regional integration; Gomez (2009) characterises concept from the East Asian developmental state literature with the concepts from the firm organisation based on the work of Alfred Chandler; Kwon and Yi (2009) and Kwon (2009) characterise the role of the government in terms of its institutional dynamics by providing poverty reduction (Fine, 2013, pp. 22).

Finally, it is seen that developmental state has a complex and dynamic process as its emergence, evolution, resolution and revitalization. Putting these dynamics into perspective, survival of the developmental state depends to a large extent on how developmental theories, approaches and strategies are able to adapt and revitalise itself to the changing conditions. For the alternative model of developmental state in Global South, specifically where there are continuous anti-catch ups faced under financialisation to take on in the international markets, apart from the above policy suggestions, there needs to be a critical engagement with the state for being reflexive and more open-ended. (Andrews & Bawa, 2014).

CHAPTER 5

CONCLUSION

As it has been argued throughout the study, development has had a convoluted history as “the lineages of development are quite mixed” (Pieterse, 2010, p.7). In this regard, developmental state has a long process since its emergence, evolution, dissolution and revitalisation leads to different theories and paradigms throughout history. The DS also carries on its complexity and contradictions on itself through different meanings, understanding and interpretations.

At first, by analysing the historical process of the developmentalism until the systematic conceptualisation defined by Johnson in 1982 as a latecomer catch-up industrial development, the study has reached the conclusion that the term developmental state is not actually a new term originated from the East Asian NICs, rather it traces the earliest developmental ideas. When the Western countries possess the “positional superiority” over the rest of the world started from the 16th-17th centuries, they hold the certain developmental characteristics such as political and economic independence and based on growth and innovation. In addition, the developmental state is related with the developmental ideas emerged from List’s studies to finish the gap between advanced nations and less advanced nations by the ‘system of protection’ to accomplish the economic development of the nation, Hamilton and Raymond’s infant industry arguments, Gerschenkron’s ‘latecomer effect’ to close the gap between advanced and backward countries, Akamatsu’ ‘flying geese pattern’, Cardoso and Faletto’s arguments on the ‘developmentalist state’ and Trimberger’s analysis on the revolution from above. Thus, the developmental state actually benefited from all of these thoughts and arguments on the developmentalism in relation to such as the leading role of the state in economics, protectionist and selective infant industry model, focus on the catch-up process to close the gap with the

Western countries. In addition, it was argued that implementation of the first developmental policies has started after the World War II in Brazil and continued in developing world in the whole century as affected from the different developmental theories in order as modernity theory, dependency theory, world-system theory, neo-liberalism and post-developmentalism.

Following this, the study has focused on the East Asian model of the developmental state. Firstly, as analysing the big three countries of East Asia as Japan, South Korea and Taiwan, the study presented the common characteristics and differences between state market relations between those states based on the East Asian model. Then, based on the success growth of the model, different interpretations of the East Asian model from the different perspectives were given to see the shifts in the understanding of the developmental state. Finally, the study analysed the resolution of the developmental state at the end of the 20th century combined with the East Asian crisis. It was argued that the implementation of the neoliberal policies without state control and limit in those states combined with an increasing globalisation as different factor of the developmental state policies, led to the emergence of the Asian Crisis and, this has put an end to the old model developmental state.

Thereafter, the study analysed that as a consequence of the implementation of the neoliberal policies in the 21st century, the developing world has been confronted with the challenges from the financialisation process. In this sense, the study firstly argued that the contemporary era cannot be only defined as finance-led dominance since there is not clear distinction between financial and productive capital as a result of TNCs' increasing role in the management of financial assets in relation with the industrial activities. Thereafter, it analysed the tighter integration of the DEEs into the international financial markets under quantitative and qualitative changes as a continuation of catch-up strategy of DEEs in the 21st century. While quantitative changes appear as increase in the capital flows, liberalisation and external debts qualitative changes include change in the dominance of actors, instruments and markets under international financialisation and subordinated nature of DEEs. Under international financialisation, DEEs have faced with change in the type and expansion of capital flows, financialisation of NFCs and accumulation of the reserves. Under

subordinated nature, DEEs have faced with a) internationalisation of production through expansion of GPNs and GVCs, b) internationalisation of profit realisation through direction of export gains to domestic and international financial markets rather than profitable investments, thus resulting increase in the financial investments of NFCs, increase in the household dependence on financialisation, decrease of the employment and investment share in the manufacturing sector and leading to *premature de-industrialisation* as a kind of Dutch disease, c) monetary and financial subordination through ranking lower position of DEEs' domestic currency in the international monetary hierarchy, currency mismatch because of increase in foreign financial institutions and investments in their domestic economies and increase in the external borrowing of NFCs.

In all analysed spheres, it has seemed that those processes have provide a basis for DEEs' subordinate position in global production and finance through the increasing volatile domestic asset prices and the exchange rate. Here, the factors which leads to the subordinate position of the DEEs come into view as anti-catch up factors during their development process. In addition, those processes not only form a basis to their "appurtenant structures" in the global area, but these processes of financialisation reinforce this structure and lead to their uneven development. Thus, financialisation has been an effect on the transformation of the developmental state.

Meanwhile, the study searches whatever happened to developmental state in the process of financialisation. In this context, it shows that East Asian model of DS has undergone a transformation through financialisation. Respectively, there occurs transformation in East Asian model of DS as a result of change in the market mechanism, change in the industrial policies and shift in the state autonomy. Firstly, bond market expansion has led to the creation of new structures and institutions in the market mechanism such as increase in the credit ratings, increase in securitisation with mortgage corporations and creation of BPAs. Change in the industrial policies have taken place in two different factors. On the one hand, as increased global integration, there has been an increased expansion of GPNs and GVCs rather than selective domestic industries in old developmental era. On the other hand, there has been a transformation through state-finance nexus since stemming from the loss of

government control over financial system. This has led to inability of the state to subordinate finance for its goals as in the old era. Therefore, allocation of resources has detached from the strategic policy agenda of the state because of the empowerment and disconnection of the financial system. Further, a shift in the state autonomy has occurred under financialisation as moving away from its embedded autonomy compared to the industrialisation era. In this way, DS has lost its control over domestic economy because of a) increasing interagency conflicts and rivalries between state agencies and b) changing state policies in industry through process of liberalisation. However, there still exists pro-active role of the state in Japan and Korea as a result of emergence of a new coalition between state and business groups to search for new complementarities for the development in the face of contradictions under financialisation. Thus, the study makes a deduction that financialisation process of East Asian model of DS does not give similar result with the implications of financialisation on DEEs with regard to capital accumulation process through international financial markets. In that case, East Asian model maintain its distinctive capitalist state model as differed from the Western capitalism model.

In line with those developments, while increased globalisation has changed the needs and positions of the world, DEEs also started to change their behaviour against the market policies supported by the World Bank and the IMF. After the GFC, this change has become apparent in raising demand of those states to the developmental policies. Thus, revival of the developmental state has started in the literature from different perspectives and theories. In this context, the study has found that there is large variety of new developmental approaches using different methods to analyse development process of DEEs. Although there cannot be formed a unity for the ND approaches there are common points on the challenges of DEEs' catch up process as stemming from a) globalisation through change in the global economic environment and premature deindustrialisation problem and b) their peripheral position through backwardness and dependency on the technology declining terms of trade, and procyclicality of macroeconomic adjustment.

Then, the study focused on how and to what extent their findings interact with the financialisation process. Here, the study draws conclusion that there are common

points between challenges through financialisation process and challenges found out by ND approaches for DEEs seen as *anti-catchup* factors during catch-up process in the 21st century. Those common factors can be followed under subordinated monetary and financial structure, deepened international production networks, accumulated international reserves and financialised commodities. Therefore, these factors show that although financialisation and development literature are different fields of study they are not actually a far cry from themselves.

Thereafter, the study asked what ND debates propose as an alternative for the DEEs as differed from the East Asian model in their development process in the face of anti-catch up factors stemming from their tighter integration to the global financial markets. Regarding this, there are suggestions on a) need for a new kind of industrial policy for promotion of domestic firms to enter global industries under “*its intended recipients, its policy foci and the politics of choice*”; b) need for a new trade policy including policies as “selective, mixed, flexible, performance-linked, dynamic and predictable” combined with development-oriented, country-specific to deal with the volatility of the international markets and requiring WTO rules as development friendly c) reconfiguring the state capacity through “*the capability expanding state*” as a result of expansion of human capabilities as the key factor of development in 21st century.

Besides all these developments, there are criticisms toward ND approaches from different perspectives as they have still fallen short for the relevancy of a successful alternative model of DS to DEEs in the financialisation process. In response their common emphasise on pro-active role of the state, in fact, they neglect the different types of governance models of DEEs and magnitude of the group of countries between DEEs. Also, they solely focus on the role of the state itself while the role of GVCs and GPNs have become significant actors in the financialisation process. Thus, while they define the development on the focus of catch-up, latecomer and industrialisation based on capital accumulation they neglect other stages aspects such as stages in urbanisation, health, education, welfare, labour, democratisation.

Thus, it becomes essential to avert the developmental state being seen as a *blanket buzz term* defined as type of state intervention to follow the developmental policies.

As discussed in the study, the developmental state has a complex and dynamic historical process of economic and social change throughout its emergence, evolution, resolution and revitalization. Last but not least, to put a relevant survival of the DS in the contemporary era, it becomes crucial to reconsider the ability of revival and adaptation of development theories, strategies and methodologies for the changing conditions of globalisation at one hand, and financialisation at the other.

5.1. Premature Deindustrialisation Comparison

Throughout the thesis, analysis of the developmental state was touched upon in two different regions: East Asian model and DEEs which face financialisation challenges during their development process, predominantly Latin American countries. At this stage, the study asks for the future researches to what extent premature deindustrialisation pattern is relevant for the East Asian model and DEEs involved specifically in Latin American countries and thus; to what extent alternative policies can be useful for the process of DS in the Latin American countries affected deeply in the financialisation process?

In this context, the study shows that financialisation process of the DEEs have increased deeply into the international financial markets since the capital account liberalisation with the introduction of neoliberal policies in 1980s and 1990s. This deepened financial integration process continues in the 21st century and thus, DEEs face challenges in their development process because of the *anti-catch up factors* resulting from the financialisation. This has led to the subordinate position of DEEs and experience uneven development while they have neglected potential sectors for long-term economic benefits. On one level, this lack/failure of long-term benefits in the economy means to those Latin American countries' premature deindustrialisation pattern. As analysed in the study, impacts of financialisation on structure of productive investment has caused fall in the employment and investment share in the manufacturing sector has occurred. This is also reflected as Dutch disease as a type of premature deindustrialisation.

At the same time, the study analyses the transformation of developmental state in East Asian model through financialisation. In this case, it asks whether the East Asian countries are involved in/stay distant from the premature deindustrialisation pattern after the Asian crisis compared to Latin American countries. The study showed that although financial liberalisation and integration have increased in East Asia and financialisation process has transformed the East Asian model of DS in certain circumstances as discussed in the study there still exists proactive role of the state in searching new complementarities to their development process in the wake of financialisation in Japan and Korea. Thus, as a result of revival in the industrial policies in the 2000 era, there still exists continuity of the strength of industrial structure in those countries. That is, premature deindustrialisation pattern is no longer a fact for those countries in the region. In this context, the study asks could the East Asian model remain an alternative model for the development process. Or does the East Asian model offer a different development pattern in this era?

Whatever happens to the East Asian model through time, admittedly, it shows a striking and distinctive process as an example of continuous story of the developmental state. The study shows how East Asian model forms a DS model based on its common characteristics and state-market relations. In addition, it also analyses how policies of the East Asian model differ from the rest of the world in industrialisation era in 20th century. In this context, there are two fundamental reasons for how the model worked well: a) organisation of internal political junctions through provision of balance of power between state and society b) benefiting from external geopolitical environment thanks to large amounts of aid and temperate view to state intervention in the Cold War era (Bishop & Payne, 2018). Besides, although relevancy of the model had been downplayed after Asian financial crisis and the model has transformed through financialisation it still remains its distinctiveness through its proactive role in industrial policies compared to subordinate position of DEEs in the financialisation.

On the other hand, to remove the challenges of development process under financialisation for DEEs, the core question regarding to what extent an alternative model of DS can be settled underlies how to handle the relationship with the global

economy. ND debates in the 21st century, predominantly focused on the Latin American countries, do not support the idea to turn back to the old developmental state as exemplified in East Asian model. Rather, since the financial liberalisation and increasing globalisation across the world continue they do not see them antagonistic towards the DS. Thus, it is the most important fundamental decision that has to be made in all DEEs whether they embrace deepened international financial integration wholeheartedly or whether they object to full integration and implement a certain degree of protection. In this context, ND debates stress matching the level of financial liberalisation with the level of development of the economy by achieving strategic integration with the global markets.

Thus, it is critical for DEEs to have the ability of promotion for international integration according to their decisions by managing the process properly without passively accepting international pressures and downplaying the framework of the developmental state. To be able to do this, it requires proactive role of the state for a valid alternative model of DS in the current era. In this way, the government should identify targeted industries and promote them rather than just leaving any economic activity to the market. However, the means for promotion of the particular industries does not require the means as equal as trade protectionism like in the old developmental state approach.

After all of these alternative suggestions for the continuation of a new model of developmental state, predominantly its proactive role in relation to the state capacity, the study further asks questions: to what extent does ND debates achieve success for the claims of itself until the process of the Covid-19? How is the situation for the DEEs in relation to ND debates under the global pandemic? To overcome the shortcomings, whether they offer a new agenda or not?

5.2. The DS and the Covid-19

At this stage in which there is a global pandemic continues worldwide, there is also continuous increase in the socio-economic inequality globally since last three decades, as a consequence of the neoliberal policies through international financial institutions

(Hickel, 2017; Van Barneveld et al., 2020). In this manner, there are continuous cuts on social expenditures and taxes in the name of reducing deficits and debts while increasing inequalities in income, wealth, opportunities and gender between and within the countries (Atkinson, 2000; IMF, 2017, p. 2) and thus specifically leading to raising inequality in public health. At the same time, the WB emphasises the rising inequality in the income resulted from the falls in the labour shares of income since it requires to sustain aggregate demand only with debts, no matter both private and public. In this sense, the WB (2019) states “global wave of debt is largest, fastest in 50 years”.

Overall, the pursuit of neoliberal policies such as reduced and privatised healthcare system has led to creation of vulnerabilities to the consequences of a pandemic for countries still struggling to recover from the GFC. In this context, the pandemic reinforces the increase in social and economic inequalities between and within countries. Whereas there are social security payments or guaranteed wages in many developed countries, there have been few such measures in many DEEs. For example, social isolating is one of the primary measures since the pandemic has started in those countries. However, this was not at all sufficient while skilled persons have the ability remote work people working in low-paid sectors not. It was also hard for people living in over-crowded places and inadequate access to the Internet (Jones et al., 2020).

Apart from direct socio-economic effects of the health crisis in DEEs, the pandemic has negative impacts on its development process through “global supply chain disruptions, tourism industry collapse, commodity price falls, falls in remittances by migrants, capital flights and foreign investment decline” (Van Barneveld et al., 2020). Meanwhile, the Institute of International Finance (2020) makes an estimation that the capital outflows move around US\$67.45 billion in DEEs since late January 2020, as exceeding the number of outflows after the GFC and Asian financial crisis. Because of fall in demand with the nearing recession in the world economy there will be major problems faced with by commodity exporters. Thus, the virus emerges a new source of poverty, as intensifying existing position of the countries and putting restrictions those vulnerable societies to escape from and stay out of poverty.

As discussed in the previous chapters, deepened integration of DEEs into the international financial markets has led to the increasingly dependence on GVCs while share of manufacturing and jobs were decreasing resulting in their de-industrialisation. As pandemic occurred in the global economic slowdown, it also dramatically affected supply chains. For example, China's shutdown "accounting for over 28% of global manufacturing output" has led to occur production delays and close in the technological, pharmaceutical and car manufacturers around the world. (Chowdhury, 2020).

For example, immediately after the Covid-19 eruption, there were shortages in two essential products of ventilators and face masks and thus there were stringent export controls in as many as 80 countries across the world in April 2020, according to the WTO (WTO, 2020). In this manner, this study has answered the control of the GVCs and how this control of value chain is exercised. It has showed that most global industries are driven by MNCs' 'lead firms' and suppliers of these firms in DEEs to undertake part of other activities in value chain. Thus, the control is internalized within the boundaries of lead MNCs, through their own subsidiaries, or extended to other firms, including suppliers of raw materials to those countries. In the above example, while for ventilators, the global trade has been concentrated in the hands of vertically integrated MNCs, headquartered in advanced industrial economies with their subsidiaries in specialized locations of medical device production that require increased both production capacity of companies and expertise of domestic logistics providers. On the contrary, the production of face masks is heavily concentrated in China and many DEEs where production of face masks is much less skill-intensive compared to ventilators (Pananond et al., 2020). In the context of COVID-19, the question comes regarding the complexity of GVC management in global industries: how should global industries be organized to prepare for inevitable future shocks? Should an alternative model of DS framework be a solution for it?

Following the current crisis of pandemic, the world has confronted with "a systemic crisis of global capitalism and neoliberal economic globalisation" (Gill, 2020). As discussed in the literature, the pandemic accelerates the crisis in neoliberal capitalism including contractions in the economy through GVCs and GPNs, increase in the

bankruptcies and high unemployment, raising poverty and inequalities in the society and large debt crises, especially for the countries which have long term tendencies to the economic crisis after the GFC. Thus, the pandemic poses a most basic and controversial question whether capitalism overcome the crisis or not, in this context, which one will the world choose: defend profits or save lives? Otherwise, how can be a radical reconstitution brought forward to the world? At present, many scholars started to debate over the point of exit from the crisis. As a solution, to minimize the negative economic impact of the COVID-19-virus, there are debates on the back of Keynesian economic policies inspired from the importance of national self-sufficiency as Keynes (1933) wrote: “Ideas, knowledge, science, hospitality, travel – these are the things which should of their nature be international. But let goods be homespun whenever it is reasonably and conveniently possible, and, above all, let finance be primarily national.”

Chowdhury (2020) argues that this “indicates the need for national development strategies, including industry and agriculture policies and regulation of finance – both domestic and international”. In addition, Stiglitz has advocated for targeted assistance to help people and sectors focused on the role of government and stated in his speech: “It is clearly a case where targeted fiscal policy is what is needed....this is a different kind of crisis than normal crises. It’s just not a problem of aggregate demand....” (Tan, 2020). Last but not least, when the DS is taken into consideration, in line of current developments, how ‘back to the Keynesian arguments’ meaningfully be characterised as an alternative model of DS with regard to the challenges under globalisation and financialisation? Otherwise, if there is a need for kind of developmental state policies across the world what type of alternative DS should be the point in question will be significant in relation to the study’s evaluation at this stage.

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APPENDICES

A. TURKISH SUMMARY / TÜRKE ÖZET

Kalkınma ekonomik, tarihsel, sosyokültürel ve siyasal yapılardan etkilenen karmaşık, çelişkileri barındıran ve dinamik süreç içinde gelişen bir terimdir. Birbirinden farklı görüşler tarafından uzun yıllar boyu farklı yerlerde farklı anlamlarla ifade edilmiştir ve bu yüzden de bir anlam birliği oluşmamıştır. Ancak süreç boyunca kalkınmanın konsept olarak üç temel unsurda kullanıldığı gözlemlenmiştir: a) arzulanan toplum seviyesine ulaşmak için devlete verilen bir tanım, bakış açısı ya da bir tedbir b) uzun zaman periyodları sonrası toplumsal ve ekonomik değişimi dönüştüren bir tarihsel süreç; c) hükümetleri, örgütleri ve sosyal hareketleri içeren çeşitli ajansların gelişimini amaçlayan girişimlerin bütünü. Kalkınmanın süreç içindeki gelişiminde kalkınmacı devlet faktörü önemli role sahip olmuştur. Çalışmada da kalkınmacı devletin ilk ortaya çıktığı andan itibaren içinde bulunduğu toplumların dönüşümüne nasıl katkıda bulunduğu süreç içinde analiz edilmiştir.

Kalkınmacılık süreci bir tarafta, içinde bulunduğumuz çağda çoğu gelişmekte olan ülkelerin 1980'li yıllarda başladıklarından beri uygulamış oldukları neoliberal politikalar ve küreselleşmenin artan etkisiyle karşılaştıkları sorunlar yirmi birinci yüzyılda finansallaşma süreciyle değişiklikler göstermeye başlamıştır. Bu süreç içinde bu ülkelerin kalkınma süreçlerini olumsuz etkileri de gelişmekte olan ve yükselen piyasa ekonomilerinin finansallaşması (*Financialisation of DEEs*) olarak yeni gelişen bir literatür olarak ortaya çıkmaktadır. Gelişmekte olan ülkeler, gelişmiş ülkelere kıyasla özellikle beşeri, sermaye ve birikmiş teknolojik kapasite açısından geride kalmışlardır. Bu nedenle, söz konusu ülkelerin gelişmiş ülkelerin iktisadi gelişmişlik

düzeyini yakalayabilmeleri için muazzam bir telafi edici çabaya ihtiyaçlarının olduğu (*strategy of catch-up*) vurgulanarak günümüze gelmiştir. İkinci dünya Savaşı'nın arkasından itibaren bu yetişme stratejisi sanayileşme seviyesindeki farktan meydana gelirken içinde bulunduğumuz çağdaki yetişme stratejisi, neoliberal politikaların uygulanmasıyla beraber bu ülkelerin finansal entegrasyonlarını artırarak gelişimlerini takip etmeye çalışması bu sürecin devam ettiğinin bir göstergesidir. Bu yüzden gelişmekte olan ve yükselen piyasa ülkelerinin küresel marketlere daha sıkı bir şekilde entegre etmeye devam etmeleri sonucu bu yüzyıl içinde farklı sorunlarla karşılaşmaya devam etmektedirler.

Çalışma, kalkınma sürecindeki değişimi ele alırken iki temelde ilerlemiştir. Birincisi, ikinci dünya savaşı sonrası dönemden itibaren, kalkınma sürecinin çoğunlukla yetişme (*catch-up*) stratejisiyle ilişkilendirilmesinin içinde bulunduğumuz dönemde de bitmediği görülmektedir. Bu konuda, yirminci yüzyıldaki gelişmiş ve gelişmekte olan ülke ayrımının devamı, her ne kadar günümüzde çeşitli uluslararası finansal kuruluşları tarafından gereksiz ve anlamsız olarak görülse de, bu ayrımın devamlı olarak literatürde, çeşitli uluslararası sözleşmelerde, akademik kaynaklarda ve uluslararası arenada gelişmekte olan ülkeler tarafından “kendilerini tanımlama” etiketi olarak kullanıldığı görülmektedir. Bu sebeplerle, bu ülkelerin kendilerini sürekli bir kalkınma süreci içinde yetişme stratejisi yönünde ilerletmek istedikleri bir durum söz konusu olmaya devam etmektedir.

Yetişme stratejisi, gelişmekte olan ülkelerin artan finansal entegrasyon süreciyle devam ederken bu ülkeler yetişme stratejini takip etmeye engel olan (*anti-catch up factors*) faktörler tarafından finansallaşma sürecinin getirdiği yeni zorluklarla karşılaşmaya başlamışlardır. Diğer taraftan kalkınmacı devletin de devamlı bir gelişim ve dönüşüm içinde olması, bu çalışmanın gelişmekte olan ülkelerin finansallaşma altındaki kalkınma süreçlerindeki durumunu analiz etmesine olanak vermiştir. Çalışmada kalkınmacı devlet odağında Doğu Asya Tipi Kalkınmacı Devlet içinden “Büyük Üçlü” (*Big Three*) olarak tanımlanan Japonya Kore ve Tayvan analiz edilmiştir. Gelişmekte olan ülkelerin finansallaşma sürecindeki analiz içinse Latin Amerika ülkeleri ağırlığında faktörler ve örnekler incelenmiştir. Çalışmanın ana objektifleri sırasıyla a) kalkınmacı devletin kalkınmacılık çerçevesinde gelişen

fikirlerle tarihsel süreç içindeki ilişkisini göstermek, b) Doğu Asya kalkınmacı devlet modelini farklı yaklaşımlardan piyasa-devlet ilişkileri temelinde gelişimini tartışmak, c) gelişmekte olan ülkelerin finansallaşma boyunca yaşadığı sıkıntıları analiz etmek, d) yirmi birinci yüzyılda kalkınmacı devletin yeni kalkınmacı yaklaşımlar çerçevesinde yeniden doğuşunu analiz etmek. Bu amaçlar doğrultusunda, kalkınmanın karmaşık ve dinamik bir tarihi süreç içinde yer aldığından yola çıkılarak kalkınmacı devletin ortaya çıkışı, gelişimi, çözülüşü ve yeniden canlandırılması farklı teoriler ve paradigmlar tarafından tartışılmıştır.

İlk aşamada, kalkınmacı devletin tarihsel yolculuğunu analiz edilmiştir. Burada, kalkınmacı devletin ilk defa 1982 yılında Chalmer Johnson tarafından ekonomik kalkınmada gelişmiş ülkelerin seviyesine kıyasla geri kalan (*latecomer*) ekonomilerin endüstriyel kalkınmasını geliştirmesi olarak ortaya atılan sınırlı bir terim olmadığı görülmüştür. Yani, kalkınmacı devlet ifadesi ilk olarak Doğu Asya tipi kalkınmacı devletleri tanımlamak için kullanılan yeni oluşmuş bir terim değildir. Kalkınmacı devlet kalkınmacılık etrafında gelişen ilk zamanlardan beri yer alan fikirlerden beslenerek günümüze kadar gelebilmiştir. Bu bağlamda 16. yüzyıldan başlayarak Batı Avrupa toplumlarının (İngiltere, Hollanda, Almanya) belirli ölçülerde dünyanın geriye kalan kısmıyla siyasi ve iktisadi bağımsızlıklara sahip olarak kendi ekonomik gelişme ve yeniliğe odaklı ele aldıkları politikaları yürüttükleri süreç kalkınmacı devlet karakteristik niteliklerine sahip oldukları görülmüştür. Bunun yanında, Friedrich List'in çalışmalarında kalkınmacı devlet, gelişmiş uluslarla daha az gelişmiş olan uluslar arasındaki kalkınma boşluğunu gidermek için "koruma sistemi" (*system of protection*) politikalarıyla bu ulusların ekonomik kalkınmalarını tamamlama olarak tanımlanmıştır. Kalkınmacı devletin temel dayanaklarından biri olan "bebek sanayi" (*infant industry*) modeline ait ilk fikirlerin 18. yüzyılda Alexander Hamilton ve Daniel Raymond tarafından başlangıcı atılmıştır. Bunların yanında, yetişme stratejisinin gelişimi gelişmekte olan ekonomileri tanımlamada ve devletin ekonomideki rolünün öneminin vurgulandığı yaklaşımlar görülmektedir. Bu konuda, Gershenkon "geri kalan etkisi" (*latecomer effect*) terimini geliştirerek kalkınma konusunda geride kalmış devletlerin (*backward countries*) gelişmiş devletlerle arasındaki mesafeyi kapatmayı hedeflemiştir. Akamutsu'nun "uçan kazlar modeli" (*flying geese pattern*), Cardoso ve Faletto "kalkınmacı devlet" (*developmentalist state*) ve Trimberger'in yukarıdan

devrim analizleri kalkınmacı devleti terimsel olarak besleyen argümanlar olarak katkıda bulunmuştur. Böylece kalkınmacı devlet tüm bu argümanların savunduğu devletin ekonomi üzerindeki rolünün liderliği, seçici ve korumacı bebek sanayi modeli anlayışı, diğer gelişmiş ekonomilere yetişme stratejisi argümanlarından beslenmektedir.

Tüm bu argümanların yanı sıra, kalkınma politikaları ve stratejileri ilk olarak İkinci Dünya Savaşı'ndan sonra Brezilya'da başlamıştır. Yirminci yüzyıl boyunca 1950'li yıllardan 1970'lerin sonuna doğru birinci nesil, modernleşme teorisi ve bağımlılık teorisini; 1980'lerden yirminci yüzyıl sonuna kadarki dönem ikinci nesil dünya sistemleri analizi, neoliberalizm ve post-kalkınmacılık yaklaşımlarını içererek gelişmekte olan ülke ekonomilerini etkilemeye devam etmiştir. Birinci nesilde, kalkınma politikaları bu yüzyıl içinde sermaye birikimi odağında geliştirilmiş, endüstriyelleşme önde gelen sektör olmuş, ithal ikameci sanayi politikası uygulamalarıyla ekonomik kalkınma hedefi planlanmış, bu politikaları gerçekleştirmek için de devletin ekonomiye sert müdahil olma süreci gerçekleşmiştir. İkinci nesilde, neoliberalizm dönemin baskın ekonomik kalkınma yaklaşımı olmuş ve günümüze kadar devam ederek gelmiştir. Devletin ekonomiye müdahil olma durumunu sınırlandırarak ekonomik gelişme önererek, seçici ve korumacı politikaların yerine, devletin ekonomideki rolünü azaltan mali kemer sıkma, özelleştirme, ticari ve finansal serbestleştirme, devalüasyon, fiyat distorsiyonlarını kaldırma, ihracata yönelik sanayileşme politikalarını destekleme, piyasa mekanizmasına dayanan politikalar IMF ve Dünya Bankası gibi uluslararası finansal kuruluşların gözetimiyle birlikte takip edilmiştir. 1990'lara gelindiğinde tüm bu alternatiflerin yanında post-kalkınmacılık yaklaşımı tüm kalkına sürecine karşı eleştirel perspektiften bakarak kalkınmacılığa dair geçen tüm süreci başarısız bularak kalkınmacı devlete ait tüm düşünce ve kavramları reddeden bir öneri sunmuştur.

Tüm bu gelişmeler, kalkınmacılığın gelişimine farklı metotlar ve yaklaşımlar sunarak katkıda bulunmuştur ve bu gelişmelerin açtığı doğrultuda kalkınmacı devlet sistematik bir şekilde Johnson tarafından 1982 yılında Japon Mucizesi olarak ele alınmıştır. Bunu takiben, çalışma Doğu Asya tipi kalkınmacı devlet anlayışını analiz etmiştir. Büyük üçlü olarak tanımlanan Doğu Asya'da Japonya, Güney Kore ve Tayvan odağında

model içindeki ülkelerin ortak noktalarını ve bu ülkelerin piyasa-devlet ilişkileri temelinde birbirinden ayrıldığı noktalar analiz edilmiştir. Hızlı gelişme gösterdikleri dönemlerde bu ülkelerin kalkınma sürecinde devletin doğrudan rolü öne çıkmaktadır. Doğu Asya modelinde, devlet bürokrasisinin görece özerkliğini kullanarak sanayileşme özelinde uyguladığı korumacı ve seçici müdahaleler, yetişme stratejisi hedefi doğrultusunda uzun dönem ihtiyaçları karşılamak için uygulanmıştır. Bebek endüstri politikası olarak öne çıkan stratejik görülen bazı endüstriyel sektörlerin desteklenmesi politikası, kalkınmacı devlet modelinin iktisadi başarısında önemli bir rol oynamıştır. Bu ülkelerden özellikle ihracatını gerçekleştirdikleri ürünler için geniş bir iç pazara da sahip olanlar, ihracatçı firmalara sağladıkları önemli düzeyde teşviklerin yanı sıra, firmaların kendi başlarına altından kalkmaları büyük zorluklar taşıyan yeni aktivitelere girmelerini özendirilmiş ve belirli bir süre dış rekabete karşı korumuştur. Burada, Doğu Asya tipi kalkınmacı devlet kuramının gelişmesinde, geç sanayileşmenin başarılabilmesi için devlet müdahalesine merkezi bir önem atfetmeleri kritik öneme sahiptir.

Japonya, Güney Kore ve Tayvan örneklerini birleştiren nokta, bu ülkelerde piyasa güçlerinin kendi başlarına başarılı iktisadi sonuçlar sağlayamayacağıdır. Johnson (1982), devletin rolünü, geleneksel kaynak dağılımını sağlama ve oyunun kurallarını koyma ile sınırlı gören “piyasa-rasyonel” yaklaşımın tersine, Japonya’nın ekonomik başarısını sanayileşmede aktif rol alan ve daha çok stratejik sonuçlarla ilgili olan “plan-rasyonel” devlete bağlamaktadır. Güney Kore örneği üzerinde çalışma gösteren Amsden (1989), devletin fiyatlara karşı uyguladığı aşırı müdahaleye dikkat çekerek fiyatların yanlış olmasını kasıtlı bir şekilde sağladıklarını savunur. Tayvan örneğinde Wade (1990) uygulanan politikalarla imalat sanayinin kalkınma gelişimindeki önemini belirtmek için devleti piyasaya kıyasla bir adım önde tutarak rolünü piyasa sistemine kontrapuntal bir partner olarak tanımlar. Doğu Asya modeli sanayi politikalarında yatırım yapması stratejik gördüğü projelere doğrudan destek vermiştir. Ayrıca bu devletlerin hepsinde devletin ekonomi içinde ana role sahiptir ve kalkınma planlarını yürüten bürokratik kurumlar bu süreç içinde ön plana çıkmıştır. Bu benzerliklerin yanında modelin kendi içinde piyasa-devlet ilişkileri temelinde ayrıldığı noktalar vardır.

Bu yazarların neo-klasik rakiplerinden ayrıldıkları temel nokta, Doğu Asya kalkınma modeli dışında görülen ekonomik kalkınma çeşitliliğinin bu devletlerinde meydana gelen kapasite farklılıklarından geldiğini savunmalarıdır. Bu bağlamda, Johnson (1982) bürokrasinin piyasayla uyumlu bir şekilde koordine olduğu “piyasa uyumlu model” (*market conforming method*); Amsden (1989) “çoğalan piyasa paradigması” (*market augmenting paradigm*), ile Güney Kore’de güçlü devlet kapasitesinin özel sektör firmalarını disipline ederek sübvansiyon politikaları aracılığıyla piyasa ve devlet arasındaki karşılıklı ilişkinin gelişmesiyle başarılı olduğunu Wade (1990) “yönetilen piyasa teorisi” (*governed market theory*) ile devletin rolünü piyasa güçlerini yükseltmek ve yönetmek için kullanılan bir kombinasyon mekanizması olarak tanımlanmıştır.

Sonrasında modelin gelişim başarısına dayanarak, Doğu Asya kalkınmacı devletine yönelik farklı yorumlamalar farklı yaklaşımları analiz ederek kalkınmacı model anlayışındaki değişimler süreç boyunca yer verilmiştir. Doğu Asya modeli Dünya Bankası tarafından “Doğu Asya Mucizesi” adıyla yayınlanmış ve bunun ardından neoklasik yaklaşım, revizyonist yaklaşım, yerleşik özerklik (*embedded autonomy*), ve Marxist yaklaşım tarafından kalkınmacı devlet analiz edilmiştir. Burada, neoklasik yaklaşım modeli Washington Konsensüs’e göre uyarlarlarken, revizyonist yaklaşım devletin endüstri politikaları doğrultusunda ekonomik kalkınmaya olan müdahalesini Doğu Asya’nın tarihsel, siyasi ve kurumsal koşullarına dayanarak açıklamıştır. Yerleşik özerklik yaklaşımı ise devletin ekonomi içine dahil olmasını devlet kapasitesinin yapısal temeline ve kapasitesinin piyasa ve toplumla olan ilişkileri çerçevesinde açıklamıştır. Bu görüşlerin aksine, Marksist yaklaşım ise modeli kapitalist kalkınmacı devlet olarak tanımlayarak devletin sınıfsal yapısından ve onu oluşturan sosyal form bakış açısından eleştirilerde bulunur. Tüm bu gelişmelerden sonra, küreselleşmenin artan etkisiyle beraber devletin kontrolü ve müdahili olmadan uygulanan neoliberal politikalar öncelikle devletin ekonomideki rolünün öneminin azalmasına, devamında da Asya finansal krizinin oluşmasına neden olmuştur. Bu durum kalkınmacı devletin sonunu getirmiştir, böylelikle Doğu Asya Tipi Kalkınmacı Devleti “Doğu Asya Mucizesi” olmaktan çıkıp “crony” kapitalizm oluşumuna neden olan tartışmaların odağında kalmıştır.

Sonrasında, çalışma neoliberal politikaların uygulanmasına devam edilmesiyle 21. yüzyılda finansallaşma süreciyle beraber gelişmekte olan ülkelerin yaşadığı zorlukları analiz etmiştir. 2000’li yılların başında literatüre giren finansallaşma genel olarak Epstein (2005) tarafından “finansal işlemlerin, kurumların ve aktörlerin ulusal ve uluslararası ekonomide rolünün artması” olarak ifade edilirken pek çok farklı tanımlamalar da yapılmıştır. Yalnız, içinde bulunulan dönemde finansallaşma süreci finansal kapitalizmin baskınlığı olarak tanımlanmaktan uzaktır. Çünkü finansal ve reel kapitalizm arasında keskin bir ayrımın yapılamadığı görülmektedir. Burada, çok uluslu şirketlerin sanayi aktiviteleriyle ilişkilerinde finansal varlıkları yönetimindeki artış bu sonucu doğurmasına neden olmuştur. Diğer taraftan, gelişmekte olan ve yükselen piyasa ekonomilerinin (DEE) finansallaşma sürecini analiz etmek için uluslararası finansal marketlerle olan sıkı entegrasyon süreci incelenmiştir. Bu durum niceliksel ve niteliksel değişim olarak iki farklı boyutta ele alınmıştır. Niceliksel değişimler uluslararası varlıklar ve borçların bu ülkelerde genişlemesiyle beraber sermaye girişi ve çıkışlarındaki artış, sermaye hesabının serbestleşmesi ve dış borçlarda meydana gelen artış olarak genellenebilir. Niteliksel değişimler gelişmekte olan ülkelerin yurt içi finansallaşma sürecindeki farklılıklarla beraber uluslararası finansal marketler ve ekonomik aktörlerin rolündeki değişim olarak karşılırlarına çıkmaktadır. Bu değişimler küresel market ilişkilerindeki piyasa, aktör ve araçlardaki türlerinin baskınlığındaki değişim sürecine dayanarak a) uluslararası finansallaşma, b) gelişmekte olan ülkelerin dengesiz kalkınma sürecinde tabi pozisyonlarını tutma olarak iki faktörde analiz edilmiştir. İlk olarak uluslararası finansallaşma altında, yaşanan sorunlar sermaye hareketlerindeki değişim, finansal olmayan işletmelerin finansallaşma süreci ve artan rezerv birikim süreci olarak yer alır. Diğer tarafta gelişmekte olan ülkeleri tabi pozisyonda tutan dengesiz kalkınma sürecine etki eden faktörler sırasıyla, üretimin küresel üretim ağları ve değer zincirlerinin oluşumu ve genişlemesiyle küreselleşmesi; küreselleşen ekonomik kar realizasyonu ile ihracat kazançlarının üretken yatırım alanları yerine yurt içi ve uluslararası finansal marketlere yönlendirilmesi ve imalat sanayinin azalmasıyla üretken yatırım yapısının değişimi ve erken sanayisizleşme sürecine yol açması; parasal ve finansal hiyerarşiye tabi olma yer alır. Parasal ve finansal hiyerarşiye tabi olma uluslararası hiyerarşik parasal yapı sisteminde gelişmekte olan ülkelerin para birimlerinin alt sıralarda yer almasıyla bu ülkelerdeki yabancı finansal kuruluşların artmasının bu tabi olma

durumunu artırmasını ifade etmektedir. Sonuç olarak, finansallaşma sürecinde gelişmekte olan ülkelerin bağımlı pozisyonunu değişken market varlığı fiyatları ve döviz kurundan kaynaklanan küresel marketler karşısında artırmıştır. Burada, DEE'lerin tabi olmasına neden olan faktörler yetiştirme stratejini takip etmeye engel olan (*anti-catch up*) faktörler olarak da tanımlanabilir, bu faktörler gelişmekte olan ve yükselen piyasa ekonomilerinin tabi pozisyonunu sağlamlaştırırken aynı zamanda bu ekonomilerde dengesiz bir kalkınma sürecine yol açmışlardır.

Bu süre içerisinde, Doğu Asya kalkınmacı devleti de finansallaşma süreciyle beraber dönüşüm içine girmiştir. Sırasıyla, tahvil piyasalarındaki genişlemeyle market mekanizmasında, artan küresel entegrasyon sonucu küresel değer zincirleri ve küresel üretim ağları genişlemesi ve finans-devlet bağlantısındaki dönüşümle sanayi politikalarında ve son olarak devletin görece özerkliğinde değişimler olmuştur. Bu bağlamda, tahvil piyasalarındaki genişleme piyasa mekanizmasında kredi derecelendirilmesi, ipotek işletmeleri aracılığıyla menkul kıymetleştirme ve tahvil fiyatlandırma ajansları gibi yeni yapıların ve kuruluşların oluşumuna neden olmuştur. Sanayi politikalarındaki değişim iki farklı alanda yer alır. Küresel üretim ağları ve değer zincirlerinin genişlemesi, ülke içinde takip edilen sektörlerin dönüşmesine ve böylece bu ülkelerin bebek sanayi politikalarını bırakmasına ve yurt içinde gelişmiş olan büyük sanayi oluşumlarının küresel üretim ağ sektörlerinin içine dahil olarak kalkınmacı devletin düzenlemeleri ve gözetiminden çıkmasına yol açmıştır. Diğer bir taraftan, sanayi politikalarıyla piyasa devlet bağlantı noktasında dönüşüm içine gidilmiştir. Burada önceki dönemde finansal sistemin devlete tabi olan yapının tersine devletin finansal sistemi elinde tutan kontrol mekanizmasını kaybetmesinden kaynaklanan bir dönüşüm süreci vardır. Böylece, “finansal sistemle bağlantının kopması ve finansal sistemi yetkilendirme” politikası takibiyle sanayi politikaları için kaynakların dağıtım süreci devletin politika gündeminden çıkmıştır. Son olarak, finansallaşmayla beraber devletin yerleşik özerkliği de dönüşüm içine girmiştir. Burada, bürokratik kuruluşlar ve özel sektör kuruluşları arasında artan çatışmacı ve rekabet ilişkileri, serbestleşme politikalarıyla devletin ekonomiye olan etkisinin azaltılması, Doğu Asya ekonomilerinin devlet kapasitesinde bozulmalara ve sınırlamalara neden olmuştur. Bunlara rağmen, Japonya ve Kore’de finansallaşma sürecinde devlet müdahalesini yeniden canlandırmaya yönelik devlet ve özel sektör

kuruluşları arasında yeni sosyo-ekonomik koalisyonlar oluşturulmuştur. Burada bir taraftan kalkınma sürecinin devamı için finansallaşma sürecinde ortaya çıkan çelişkili sıkıntıların karşısında yeni tamamlayıcı politikalar aranmaktadır. Bu yüzden Doğu Asya devletlerinin finansallaşma sürecinde kalkınmacı devlet modelinin dönüşüm içine girdiği görülürken bu devletlerde gelişmekte olan ve yükselen piyasa ekonomilere kıyasla finansallaşma sürecine müdahil olmaya çalışan devletin pro-aktif rolünün devam ettiği bir süreç içinde olduğu görülmektedir.

Bu gelişmelerle birlikte, küreselleşmedeki artış dünyadaki ihtiyaçları ve pozisyonları değiştirirken gelişmekte olan ülkeler de uygulamış oldukları neoliberal politikalara karşı hareketlerini değiştirmeye başlamışlardır. Küresel ekonomik kriz sonrası bu değişim, bu devletlerin kalkınma politikalarına olan taleplerinin yükselmesiyle gözlemlenebilir. Bununla ilgili literatürde farklı metotları kullanarak gelişmekte olan ülkelerin kalkınma süreçlerini farklı yaklaşımlardan analiz eden “yeni kalkınmacı devlet” tartışmaları ortaya çıkmıştır.

Bu yaklaşımlar arasında bir bütün oluşmamasına rağmen gelişmekte olan ülkelerin kalkınma süreçlerine ilişkin sorunlarını tartışabilen ortak noktaları mevcuttur. Bu süreçte, gelişmekte olan ve yükselen piyasa ekonomi ekonomileri artan küreselleşmenin etkisi ve gelişmiş ülkeler karşısında periferik pozisyonlarının devam etmesine neden olan faktörler yüzünden kalkınma süreçlerini geliştirmek için uğraştıkları engeller mevcuttur. Küreselleşme altında, uluslararası finansal marketlerin kontrol edilemeyen yapısı, küresel ekonomik çevrenin yirminci yüzyıldaki koşullara kıyasla değişmiş olması ve erken sanayisizleşme problemi yer almaktadır. Periferik pozisyonlarının devam etmesinden kaynaklı olarak, gelişmiş devletlere karşı teknolojiye geri planda kalma ve teknolojik bağımlılık, gelişmekte olan ülkelerin imalat sanayi politikalarının küresel üretim ağları içine dahil olmasıyla verimlilik artışına karşın sanayi ürünleri ihracının azalmasıyla ticaret hadlerinde meydana gelen azalma ve konjonktürle aynı yönde hareket eden makroekonomik uyarlamalar bu ülkelerin kalkınma süreçlerinde yaşadığı ortak sorunlar olmuştur.

Sonrasında, gelişmekte olan ülkelerin kalkınma süreçlerinde yeni kalkınmacılık tartışmalarının saptamış olduğu bu sorunların finansallaşma sürecinde yaşanan

değişmelerden dolayı ortaya çıkan sorunlarla ne kadar örtüştüğü ve birbirinden ne kadar ayrı kaldığı noktalar tartışılmıştır. Çalışmadan şu sonuç çıkarılmıştır ki, finansallaşma sürecinin içindeki yaşanan sorunlarla yeni kalkınmacı devlet anlayışlarının yakaladığı sorunlar arasında etkileşim içinde olduğu belirli ortak noktalar vardır. Bu ortak noktalar parasal ve finansal tabii bıraktığı hiyerarşik yapılar, yoğunlaşmış küresel üretim ağları, biriktirilen uluslararası rezervler ve finansallaşmış ticari mallar altında incelenmiştir. Bu şekilde, finansallaşma ve kalkınmacılık literatürü birbirinden farklı çalışma alanları olmasına rağmen bu alanların birbirleriyle etkileşim içinde olduğu faktörler gösterilmiştir.

Sonrasında yeni kalkınmacı devlet tartışmalarının gelişmekte olan ülkelere alternatif olarak ne önerdikleri analiz edilmiştir. Bu öneriler içinde yeni bir sanayi politikası, ticaret politikası ve devletin görece özerkliğinin canlandırılması yer alır. Yeni bir sanayi politikası içinde, yurt içi firmaların küresel endüstrilere başarılı girişimlerini yükseltmek amacıyla planlanma yapılması, yeni endüstriyel politika odakları belirlenmesi ve sanayi politikalarına ilişkin seçim politikasına farklılıklar getirilmesi yer almaktadır. Yeni bir ticaret politikası; esnek, seçici, kalkınma odaklı dinamiği olan, küresel marketlerin değişkenliği karşısında başarmak için ülke özeline uygun, WTO kurallarını yeniden düzenleyerek kalkınma yanlısı sonuçlar doğuracak politikalar getirilmesini içerir. Son olarak, devletin görece özerkliğini yeniden canlandırmak amacıyla Peter Evans'ın önerdiği "kapasitesini genişleten devlet" (*capability expanding state*) olarak yeniden şekillendirilmesi yer almaktadır. Burada Evans yirmi birinci yüzyılda beşeri sermaye odağında gelişmeye dayanan kalkınma anlayışıyla kalkınmanın temel amacını beşeri kapasitenin artırılması yoluyla ve bu kapasiteyi artıran hizmet sektörüne ağırlık vererek gerçekleştirilmesi gerektiğini savunur. Bunun haricinde diğer kalkınmacı ekonomistler kalkınma sürecinde devletin özerkliğinin pro-aktif rolünü artırması gerektiğini vurgulamaktadırlar. Burada, pro-aktif rol geliştirmekte olan ekonomilerin uluslararası piyasalara stratejik bir şekilde entegrasyonunu sağlamak için finansal serbestleşme seviyesini kalkınma seviyesiyle eşleştirecek politikaları takip eden piyasaya müdahil olma sürecini gerektirir.

Tüm bu gelişmelerin ardından, yeni kalkınmacı devlet tartışmalarına farklı yaklaşımlardan eleştiriler de ortaya çıkmıştır. Burada içinde bulunduğumuz çağda

alakalı alternatif bir kalkınmacı modelin yapılan önerilerin eksik kaldığı noktalar vurgulanmıştır. Genel olarak önerilerin pro-aktif devlet rolünü vurgulamalarının yanında gelişmekte olan ülkelerin yönetim biçimlerinin farklılığı ya da ülke gruplarının büyüklüğüne dikkat etmeden genelleme yapmaktadırlar. Ayrıca kalkınma süreci içinde devletin rolünün kendisine odaklanarak özellikle de finansallaşma dönemi içinde önemli aktörler haline gelen küresel değer zincirleri ve küresel üretim ağlarının rollerini gözden kaçırmaktadırlar. Ayrıca, yeni kalkınmacı devlet yaklaşımları kalkınmayı yetiştirme stratejisi süreci, geride kalma ve endüstrileşme odağında tanımlarken kalkınmanın kentleşme, sağlık, eğitim, refah, iş gücü, demokratikleşme gibi diğer yönlerini ve süreçlerini ihmal etmektedir.

Böylece, kalkınmacı devleti “genele vızıldayan” (*blanket buzz term*) bir çeşit devlet müdahalesiyle yapılan kalkınmacı politikalar tabirinden uzaklaştırmak gerekli hale gelmektedir. Çalışma boyunca tartışıldığı üzere kalkınmacı devlet, tarihi süreç içinde çıktığı dönemde, gelişiminde, çözülüşünde ve yeniden canlandırıldığı tüm dönemlerde ekonomik ve sosyal değişikliklerin temeli olarak karmaşık ve dinamik bir yapı içinde hareket ettiği analiz edilmiştir. Son olarak, şu anki dönemde kalkınma devletinin ilgili bir devamlılığı olması için, kalkınmayla ilgili teori, strateji ve metotların yeniden canlanması ve uyumu sürecindeki var oluşunun ve kapasitesinin yeniden düşünülmesi; bir tarafta küreselleşmeyle beraber değişen şartlar ve pozisyonlar altında, diğer tarafta finansallaşma süreci için kritik şekilde önemlidir.

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