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The East Asian developmental state and the Great Recession: evolving contesting coalitions

Richard Stubbs*

Department of Political Science, McMaster University, Hamilton, Ontario, Canada L8S 4M4

This analysis explores the impact of the Great Recession on the evolution of East Asia's developmental states. An analytical framework, which emphasizes the political tug-o-war between the coalition of groups that support the developmental state and the coalition of those who advocate for neo-liberal reforms to state structures and state policies, is used to plot the fortunes of the developmental state since the 1980s and the advent of globalization in East Asia. The elements of the Great Recession that influenced this battle between the two sets of collations are examined and the shift in the influence of the coalition supporting the developmental state structures and policies are assessed.

Keywords: developmental state; neo-liberalism; contesting coalitions; Great Recession; East Asia

What impact has the Great Recession had on the East Asian developmental state? Some argue that the Asian financial crisis (AFC) of 1997–1998 signalled the death of the developmental state (Pang 2000) while others see the developmental state as alive and well, if somewhat transformed by the rapidly changing global context of the last quarter century (Hayashi 2010). Intriguingly, this academic argument has mirrored the battle of ideas that has been fought at the level of economic diplomacy and international bargaining between those who support the policies and political structures associated with the developmental state and those who advocate for the spread of policies and political structures associated with orthodox Western economics – often referred to as neo-liberalism (Hamilton 1999, Hall 2003, Gamble 2006). Given these conflicting views of the health of the developmental state, what is the best way to analyse the evolution of the developmental state and the policies most closely associated with it? And, more specifically, what is the best way to understand the effect of the Great Recession on the prospects for the future of the developmental state?

To answer these questions, the following analysis builds on the work of Etel Solingen and her use of 'coalitions as ideal types, conceptual constructs, or limiting concepts with which real situations are compared' (Solingen 2004, p. 190; see also Solingen 1998, 1999). An analytical framework based on political contestation between coalitions paves the way for an exploration of the evolving relationship between those who wish to retain key aspects of the developmental state model and those who wish to bring in neo-liberal oriented reforms. It also allows for review of the impact of the devastating Great Recession on the developmental state and to put it in historical context.

*Richard Stubbs is Professor of Political Science at McMaster University, Canada. He is the author of *Rethinking Asia's economic miracle* (Basingstoke: PalgraveMacmillan, 2005) and co-editor of *Political economy and the changing global order* (Toronto and Oxford: Oxford University Press, 2006), *Theorizing Southeast Asian relations* (London: Routledge, 2009), and *Routledge handbook of Asian regionalism* (London: Routledge, 2011). Email: stubbsr@mcmaster.ca

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This analysis is divided into three parts. The first part sets out the coalition contestation framework in more detail. The second part reviews the way in which the struggle between the two coalitions had evolved up to the eve of the Great Recession. The final section examines the impact of the Great Recession on the developmental state's approach to managing an economy.

Coalition contestation

Coalitions, or semi-permanent alliances – some of longer duration than others – of individuals and groups that cooperate to achieve a distinct purpose, compete in many different political arenas. One of the coalitions of concern here supports the structures and policies of the developmental state model of economic development and the other the neo-liberal model of economic development. These two coalitions should be considered ideal types that are at the opposite ends of a continuum of the role of the state in the economy. Since the late 1970s in each of the key East Asian states – Japan, South Korea, Taiwan, Singapore, Malaysia and Thailand and in a slightly different form in China and Vietnam and some might argue also Indonesia – there has been a battle between the real world developmental state coalition and the neo-liberal coalition with each attempting to shift state structures and state policies closer to the ideal form they espouse at their end of the continuum.

This battle between the competing coalitions is fought at two levels. First, there is the level of state structures. Developmental state coalitions emphasize a strong, competent, insulated state bureaucracy; a pilot agency able to control industrial policy through its influence over key sectors of the economy, such as finance, energy, and transportation; and links between the state and the business community that blur the public–private distinction and enable the state to steer the economy in a particular direction (Johnson 1982, Leftwich 1995, Deans 2000). Neo-liberal coalitions, on the other hand, emphasize a limited role for the bureaucracy in the economy, including, for example, having an independent central bank. They also advocate for the market, not pilot agencies, leading the industrialization process and for a clear distinction between the state and the private sector (Cerny 2006, Robison 2006).

Second, there is the level of state policies. Development state coalitions advance policies that pursue rapid, coordinated industrial development through extensive planning and regulation, promote new industries, aid technology transfers, ease the dislocation created by the shift from old industries being phased out to new leading-edge industries, give a comparative advantage to export manufacturing sectors, and protect import-substitution industries (Johnson 1982, Onis 1991, Woo-Cumings 1999). Against this approach, neo-liberal coalitions seek to enact policies that privatize and de-regulate the economy; enforce rules against monopoly pricing and collusion among companies; generally open up the economy, especially in areas such as currency values and interest rates, to market forces; and encourage the free flow of capital and trade so as to capture the gains made from participating in the global economy (Steger and Roy 2010).

Preferences about the two different sets of state structures and state policies distinguish the two different coalitions. The developmental state coalition generally includes politicians who have tied their careers to the developmental state approach as well as those who represent areas of a country or specific parts of the population that have benefitted from developmental state policies. Other notable members of the developmental state coalition are bureaucrats and groups of bureaucrats who come from ministries and agencies that have successfully implemented developmental state policies and believe in their value to the larger society. Similarly, both agricultural and industrial producer groups help to make up the developmental state coalition. Especially active tend to be those businesses and groups of businesses, such as small farmers as well as small and medium-sized businesses catering to the domestic market, that have benefitted from import-substitution policies such as tariffs or quotas and the protection of infant industries. In addition, business groups of all sizes that have been helped by export subsidies of one form or another have been members of the developmental state coalition. Moreover, the coalition is also buttressed by those within the general public who value the rapid, reasonably equitable, and widespread economic growth that developmental state policies deliver and by those among the political elite who are concerned that neo-liberal policies could lead to increasing disparities of wealth within the population which in turn could affect social harmony and stability (Pempel 1999, Stubbs 2009, Hayashi 2010).

On the other hand, neo-liberal state structures and policies have been promoted by a very different set of individuals and groups. At the forefront of the neo-liberal coalitions have been Western-trained technocrats, many of whom hold key positions in economic planning agencies, central ministries, such as finance or trade and industry, and the central bank. Coalition members have also included groups of Western-trained economists in universities and at policy think-tanks, as well as non-Asian managers in Asian companies who value emulating America's strong economic performance over the years and adhering to Western orthodox economic philosophy (Yeung 2007). In addition, domestic export-oriented manufacturing companies and multinational corporations, especially American and European-based companies, tend to support the neo-liberal coalition. They do so because they fear that protectionist policies on the part of the government could jeopardize their attempts to gain access to foreign markets if other governments impose retaliatory protectionist measures. They are, therefore, especially keen on neo-liberal polices that abolish import controls and promote free trade (Busch and Milner 1994). Furthermore, those, both within the political and business elite and within the general population, who view the unrestricted inflow of capital, whether in the form of foreign direct investment (FDI) or portfolio capital, into the country as a very positive development, are also members of the neo-liberal coalition (Solingen 2004, Gamble 2006).

The extent to which either coalition is able to promote its approach to economic development depends on a series of domestic and international factors. First is the 'stickiness' of path dependency, or the degree to which institutions and policies associated with each coalition's approach is embedded in the societal norms and values and buttressed by existing political institutions. Second is the legitimacy each set of policies is able to garner through the provision of prosperity and social stability. Third are the predispositions and views of individuals in key decision-making positions. Fourth is the demonstration effect of the success or failure of other economies which pursue one or other of the two approaches – for example, Japan as the original model of the developmental state and the USA as the model of successful neo-liberalism. Fifth is the pressure from the US government, especially the US Treasury, as well as from the International Monetary Fund (IMF) and the World Bank, which together promoted a set of neo-liberal policies know as the Washington Consensus (Williamson 1990). The Washington Consensus prescriptions were augmented by advice from expert groups such as the Organization for Economic Cooperation and Development and the Pacific Economic Cooperation Council.

This framework has a number of advantages. It is dynamic in that it emphasizes changes in the mix of developmental state and neo-liberal policies over time as they are influenced by the variations in the domestic and international factors that affect the stature of each coalition in decision-making circles. The framework makes no assumption that economic development is linear. It does not assume that the mix of structures and policies will necessarily trend steadily towards increasingly neo-liberal state structures and policies. The mix of structures and policies can, and does, oscillate backwards and forwards as the struggle between the two coalitions is played out over time. And the framework allows for each of the East Asian developmental states to develop a different mix of developmental state and neo-liberal structures and policies as the two coalitions in each state come under different sets of influences.

History of coalition contestation in East Asia

In her analysis of the domestic political consequences of the AFC for Southeast Asian states, Solingen (2004, p. 190) uses two ideal types of coalitions. The first coalition is the 'internationalizing' coalition. It is roughly equivalent to what is described as the liberal reform coalition in this analysis. Second is the 'backlash' coalition. It is close to the idea of the developmental state coalition used in this analysis. Solingen also posits the very useful concept of a 'hybrid' coalition. This allows for an overlap on particular policies between otherwise competing coalitions.

This analysis, however, reverses the sequence in which Solingen portrays her coalitions as forming. It is extremely significant that the developmental state coalition is understood to have come first, usually starting in the 1960s, with the neo-liberal coalition in each society in East Asia emerging in the 1980s as the forces of globalization gathered strength. The timing is important because the fact that the developmental state coalition came first and became embedded in the society and political structures gave it a strong position from which to attempt to repel the neo-liberal reform coalition. This section, then, provides a review of the emergence of the two coalitions and the policies they advanced and takes the analysis up to the aftermath of the AFC of 1997–1998 and into the new century.

The developmental state coalitions in the various societies of East Asia – Japan, South Korea, Taiwan, Singapore, Malaysia, and Thailand – were products of the emergence of the developmental state in the period after World War II. Five 'facilitative conditions' provided fertile ground for the formation and perpetuation of the developmental state and its distinctive state structures and industrializing policies. First, across East Asia, the various civil societies were weak and fragmented as a result of the physical destruction and social disintegration caused by the fighting during with the Second World War, the Korean War, the Chinese Civil War, and various guerrilla wars in the region. This weak society gave the central governments the space to expand and develop the strong institutions that could exercise control over the different societal interests. Second, there was a clear, imminent domestic and international threat coming from Asian communism. This threat put at risk those societies that were allied to the USA and the West. Both regional leaders and their general population sought to organize themselves so as to resist the threat. An important by-product of this process was increased sense of nationalism that fuelled each society's collective action. Third, there was strong external support for a centralization of power within society in East Asia – what Migdal (1988, pp. 271–272) refers to as a 'concentration of social control' – with the USA in particular willing to countenance strong centralized states in the region to contain the threat from Asian communism. Fourth, resources, most importantly financial resources in one form or another but also skilled manpower and organizational and technical knowledge, were channelled into America's East Asian allies. Military and economic aid, prompted by the Korean War, the Vietnam War, and the overarching Cold War and later Japanese aid, as well as American and Japanese FDI, contributed to the substantial resources that were funnelled into East Asian economies.

Finally, within the East Asian societies that produced developmental states, there was a widespread acceptance that a developmental ideology based on state intervention to promote rapid industrialization should be implemented as urgently as possible. The strong developmental motivation of the East Asian political elites was engendered by the fear of communism and the need to build a strong economy and a strong society to face down the threat. It was supported by a population that valued performance legitimacy, or in other words, a government that provided security, stability, and prosperity (Johnson 1982, p. 4, Migdal 1988, pp. 269–277, Fallows 1994, Woo-Cumings 1999, Zhu 2002, 2003, Stubbs 2005).

Out of these facilitative conditions came the East Asian developmental state which spawned the political coalitions that formed in support of them. Crucially, the developmental states had many years of successful economic development during which they became well and truly embedded in their respective societies. For Japan, it was from the 1930s to the 1980s, while for Taiwan it was from the early 1960s to the late 1980s and for South Korea it was from the mid-1960s to the late 1980s. The Southeast Asian states – Singapore, Malaysia, and Thailand – were much more influenced by the Vietnam War and it was not until the mid-to-late-1960s that all three developed, at least compared with the rest of the developing world, relatively strong administrative states (Riggs 1966, Nuechterlein 1967, Esman 1972, pp. 62–71, Chan 1975).

Globalization, aided by the winding down of the Cold War, came to the various corners of East Asia starting in the 1980s. The USA persuaded Japan to abolish some of the formal barriers to inward FDI and reduce tariffs, import-quotas, and non-tariff barriers. At the same time, Japan agreed to greater internationalization of Japanese capital, increases in the number of foreign-owned firms, and the weakening of the links connecting Japan's *keiretsu* (Pempel 1998). In South Korea, the government of Chun Doo Hwan sought to extract the country from a debilitating recession in the early 1980s by taking the advice of Western-trained economists in key economic agencies and allowing foreign banks to operate within the country, the curtailing state regulation of the financial sector and the development of a stock market (Euh and Baker 1990, Weiss 2000). In the early 1990s, the South Korean government folded the Economic Planning Board into the Ministry of Finance. This action was symbolic of the government's reduced monitoring and coordinating powers and its increasingly limited capacity to manage the country's economic development. In response to the external pressure, Taiwan's government chose to move in a much more circumspect way, particularly in liberalizing the financial sector. Moreover, the developmental state institutions were only gradually reformed. Changes, however, were made to the restrictions on inward and outward movement of FDI and long-term capital transactions.

In Southeast Asia, increasing external pressures from the US government and the international financial institutions, as well as the drop in commodity prices during the first half of the 1980s, forced governments in the region to rethink their economic development strategy. The region-wide recession of 1985–1986 that was prompted by low commodity prices was a major catalyst in the liberalization of the region's most successful economies. Generally, the new focus was on the export of manufactured goods. For example, the Bank of Thailand reduced tariffs on imported goods used in manufacturing and removed key export taxes. In Malaysia, the government responded to the recession by liberalizing the investment process and making provision for special incentives for investing in sectors associated with the export manufacturing. Foreign labour was also allowed into the country to keep down labour costs. In Singapore, there was a continued push for FDI especially in the advanced electronics sector (Stubbs 2005).

And all three Southeast Asian countries benefitted immensely from a wave of Japanese FDI that was produced by the increasing price of land and labour in Japan and the 1985 Plaza Accord which doubled the value of the yen in terms of the US dollar. Many Japanese companies were forced to move some of their export manufacturing into places such as Southeast Asia in order to remain competitive. And once they had proved that it could be done and that their products were of a high quality and competitive in the global market place other companies from Taiwan, South Korea, the USA and Europe followed suite. Just as the neo-liberal coalitions were gaining strength in Japan, South Korea, and Taiwan so they were also expanding and increasing in influence in each of the Southeast Asian societies as the liberalization strategy produced greater economic prosperity (Felker 2009).

Domestic changes in the East Asian societies also started to alter the balance between the developmental state coalitions and the emerging neo-liberal coalitions. The weak and fragmented societal forces which had allowed the central state apparatus to grow and become a dominant force in terms of policy development had changed markedly as the economy grew and the business sector prospered. Business groups, especially some of the large conglomerates, gained increasing political influence. At the same time, an increasingly educated middle class expanded and in some cases sought to have a greater impact on decision-making. It was increasingly more difficult for governments to direct the economy and to mange the competing elements within their societies.

In the late 1980s and into the 1990s, South Korea, Taiwan, and Thailand went through periods of democratization. In South Korea, the state's autonomy was undermined by political parties becoming increasingly dependent on funding from businesses in order to fight elections. Democratization came with regular changes in the presidency and the party system which in turn produced inconsistencies in South Korea's liberalized economic policies (Ahn and Jaung 1999). In Thailand, the elections of September 1992 reduced the military's influence and increased the power of elected parliaments. But rather like South Korea, democratization brought with it a somewhat chaotic liberalization of the Thai economy. Democratization in Taiwan evolved in a much less chaotic fashion, with the continuity provided by the Kuomintang party remaining in power under the new electoral system. This relatively orderly move to democratize produced a more systematic liberalization of the economy (Stubbs 2005).

From the early 1980s to the AFC of 1997–1998, the facilitative conditions that had promoted the developmental state coalitions in the various East Asian societies started to disappear. The changing domestic and international environment allowed neo-liberal coalitions to gain strength and promote neo-liberal policies at the expense of policies advocated by the developmental state coalitions. In addition, Japan, long seen as the model developmental state and a country that had experienced remarkable economic success began to falter as problems associated with the doubling in the value of the yen under the Plaza Accord produced a period of economic stagnation. At the same time, the 1990s saw the USA go through a period of rapid economic expansion. The USA was, of course, the model for those who advocated for neo-liberal government structures and policies. Both Japan and the USA had their followers but as the decade wore on the neo-liberal coalition appeared to gain momentum.

But the success of the neo-liberal coalitions in advancing policies was not uniform across the East Asian region. In Taiwan, for example, suspicion of mainland China's intentions underscored the need for a gradual approach to economic liberalization so as not to undermine the island's capacity to defend itself at any future date. Singapore's leaders continued to emphasize that the country's small size made it vulnerable to external threats of all kinds despite the seeming reduction in the threat from Asian communism. And Malaysia's government remained concerned about communal tensions that threatened the country's social stability. Moreover, the developmental state coalitions could still count on considerable support given that both developmental structures and policies had pulled many of East Asia's societies out of abject poverty and provided a measure of security and social stability. Indeed, many of the key elements that made up the developmental state coalitions remained in place.

The AFC of 1997–1998 came with a massive attack on the developmental state. The bulk of the criticisms came from international advocates of neo-liberalism such as the US government and IMF officials. Hall (2003) provides an impressive analysis of 'the discursive demolition' of the East Asia's developmental state by key US Treasury officials such as Robert Rubin and Lawrence Summers. Both not only laid the blame for the Crisis at the door of Asia's developmental state structures and policies but also sought to promote neo-liberalism as the way out of the AFC (Hall 2003, pp. 75–77). Others who followed the same line of argument as Rubin and Summers were IMF Managing Director, Michel Camdessus, and the Chairman of America's Federal Board of Reserve, Alan Greenspan (Hamilton 1999, Hall 2003). Their criticisms of the Asian developmental state model influenced USA and IMF policies towards the AFC-affected states. The US government refused to come to the aid of the Thai government at the outbreak of the AFC in 1997 despite pleas for help. The IMF initially assumed that the Crisis in Asia was similar to the many Latin American crises it had dealt with over the years. It insisted on the application of a series of policies from its neo-liberal tool kit, such as increasing interest rates, forcing banks that could not meet set capital adequacy ratios to shut down, reducing government spending and implementing further market opening (Stiglitz 2002).

While this onslaught against the developmental state model might be thought to have given a boost to neo-liberal coalitions, the consequences were much more mixed. Certainly, in South Korea, there was a push to implement more neo-liberal policies with regard to banking and financial institutions. But at the same time, a good deal of frustration and resentment built up around East Asia over the way in which the region was treated by the USA and the IMF (Higgott 1998). The IMF was widely seen as providing advice that simply exacerbated the problems created by the original crisis. The IMF's policies were thought by many within the region's elites to have converted the currency crisis of mid-1997 into a deep economic recession and social tragedy by 1998 in places such as Thailand, Indonesia, and South Korea (Stiglitz 2002, pp. 98–118, Kwon 2003) The senior officials of the Fund were perceived to be following the expressed orders of the US government which many in the region saw as taking advantage of an opportunity to undermine the successful, but competing, East Asian developmental state model. The obvious problems that had been created by the ill-conceived and Western-advocated liberalization of financial institutions were not taken into account by most Western policy-makers and analysts.

Out of the chaos of the AFC came a number of lessons. These lessons helped restore some of the influence that the developmental state coalitions had lost to the neo-liberal coalitions during the decade prior to the AFC. First, it was accepted within the region that the liberalization of the financial sector during the 1990s had been undertaken without the necessary precautionary oversight. There was recognition that building an effective bureaucracy allied to 'an increased political commitment to regulatory integrity' was crucial to avoiding a future crisis (Hamilton-Hart 2008, p. 69). Moreover, a wider lesson from the AFC was that those countries with a reasonably sized, well-trained bureaucracy were able to manage their way out of the Crisis much more easily than those, such as Thailand and Indonesia, that had been unable to maintain an effective bureaucracy during the period of liberalization, deregulation and privatization advocated by the neo-liberal coalitions (Chuan 1998; see also St Marie *et al.* 2007).

In the post-Crisis period, then, a succession of reforms were introduced which reinforced the role of the state. As a result of the realization of the need to bolster the state's financial oversight capacity, changes to state banking regulatory structures and practices were put in place in Japan, South Korea, and Malaysia (Hamilton-Hart 2008). In Thailand, after his 2001 election victory, the new Prime Minister, Thaksin Shinawatra, reorganized the outdated and inadequate bureaucracy so as to promote his nationalist agenda which included an upgrade of the country's infrastructure and a more state-guided approach to economic development (Thitinan 2003, Hicken 2008). This approach moved policy-making much closer to the developmental state ideal. However, a coup in 2006 saw the removal of Thaksin and an unwinding of some of his reforms as neo-liberal-minded politicians gained power. In Singapore, despite the continuing pressures from the forces of globalization, the bureaucracy maintained its strong role within the economy following what one analyst describes as a 'significant developmental trajectory charted by the state' (Yeung 2003, p. 29).

Second, during the AFC those governments that had relatively substantial reserves, which could be used to counter a run on their currencies, fared better than those countries with limited reserves. As a result, governments started to build up reserves as their devalued currencies allowed them to export their way out of the Crisis. Indeed, one commentator has noted that the 'staggering build up of foreign exchange reserves by countries in the region' is a particularly notable post-AFC development (Hamilton-Hart 2008, p. 69).

The building up of foreign exchange reserves was essentially viewed as a 'self-insurance' measure designed to make sure that East Asian states would be better positioned to weather any future economic crisis (Chin and Helleiner 2008). In a sense, this policy was a throwback to the neo-mercantilist ideas that originally underpinned aspects of the developmental state approach (Fallows 1994, Wolf 2010). Just as building up reserves of bullion was a way of protecting the state against unforeseen crises in the hay day of mercantilism, building up foreign exchange reserves in the years after the AFC was seen as a means of better weathering any major economic crisis of the future. Moreover, the idea of self-insurance was essentially regionalized through the Chiang Mai Initiative (CMI) which was set in motion in May 2000. The CMI (which was converted to the CMI Multilateralization in 2010 making available a total fund of US$120 billion) provided for a network of currency swap agreements on which member states could call should their currencies once again come under attack (Hamilton-Hart 2006, Bank of Japan 2010).

Third, the rise of China and its state-led economic development model gave the developmental state coalitions in East Asia considerable ammunition as they fought with the neo-liberal coalitions for influence in the post-AFC years. The regional resentment of the way the US government and the IMF had treated East Asian states during the AFC meant that the USA was not so readily accepted as a model for the region's economic development. As China became increasingly central to the region's economic development and crucial to the post-AFC economic revival of a number of East Asian economies, its power as a model of economic development that could be emulated grew accordingly.

Importantly, China displayed many of the features of an East Asian developmental state. Although on the other side of the Cold War divide it had gone through the same sequence of social dislocation, centralization of power prompted by the Korean War and the Cold War and the injection of capital from the early 1990s onwards as FDI from around Asia, and subsequently the world, flowed into its economy (Stubbs 2005). A series of reforms initiated in the early 1990s started to take effect in the late 1990s, which further centralized power and allowed the Beijing Government to give added guidance to the economy. A value-added tax on all enterprises generated a wider tax base and meant that budgetary revenue steadily climbed from a low of just under 11% of GDP in 1995 to a high of just over 20.5% of GDP in 2008 (Naughton 2009). At the same time, from the mid-1990s onwards, smaller state-owned enterprises (SOEs) which were operating at a loss were either privatized or closed reducing the drain on the government's resources. The massive increase in the central government's revenues allowed for large-scale public investment in the economy including in the transportation, energy and education sectors. Moreover, a number of the largest SOEs were promoted to the level of national champion, the scope of their operations broadened, their corporate governance structure reformed, and their competitiveness enhanced so as to undertake the task of linking the Chinese economy with the global economy (Beeson 2009).

China's appeal as a model of development for others to follow was also enhanced by it rapidly increasing trade with its neighbours in East Asia. Japan's imports provided a good market but there was little growth as the Japanese economy stagnated and the drop in exports to the USA, as the dotcom bubble burst shortly after the turn of the century, created uncertainty. However, the Chinese economy sustained growth rates of over 10 percent per year which proved to be a major factor in the dynamism of many of East Asia's economies. For example, the Japanese economy was in many ways rescued from 2003 onwards by the surging Chinese economy. In the 10 years from 1996 to 2006, the percentage of Japan's exports to China rose from 5.3% in 1996 to 14.3% in 2006. Similarly, over the same period Taiwan's exports to China as a percentage of total exports rose from 0.54% to 22.7%, while South Korea's exports to China grew from 8.8% to 21.3% (Saunders 2008, pp. 134–135). Total trade between China and

ASEAN also increased significantly from \$38 billion in 2001 to a staggering \$202.5 billion in 2007 (*China Daily* 2008).

Chinese dynamism and increasing importance to its neighbour's economic wellbeing provided strong arguments for the developmental state coalitions. China's substantial foreign exchange reserves, its willingness to keep capital controls in place and to protect its state-owned banks, and its general philosophy of state spending on large economic infrastructure projects as well as on education set an important example for other East Asian governments seeking to manage the forces of globalization and growing domestic aspirations.

It should also be noted the China has its own version of the battle between the developmental state coalitions and the neo-liberalizing coalitions. China has liberalized haltingly at times but has slowly opened up its economy and moved towards a more market-oriented approach to economic development. Yet, even just prior to the onset of the Great Depression, China was not as close to the neo-liberal end of the continuum between the developmental state approach and the neo-liberal approach as its East Asian neighbours. In that China was a avowedly communist state prior to Deng Xiaoping's move to introduce greater liberalization of the economy in 1978, it obviously had a lot further to travel in terms of the developmental state/neo-liberal structures and policies continuum than the archetypal developmental states of the region. However, there is clearly within the upper reaches of the Chinese Communist Party a 'liberalizing' coalition that is interested in pushing for a further opening of the Chinese economy just as there remains a significant coalition that wishes to maintain a strong interventionist role for the state (Fewsmith 2007).

Overall, then, the battle between the developmental state coalitions and the neo-liberal coalitions in the various East Asian states went through a series of phases. Initially, from the 1960s until the 1980s, the developmental state coalitions essentially held sway relatively uncontested. Then, from the 1980s through to the AFC of 1997–1998, the neo-liberal coalitions gradually gained the ascendency. In the period after the AFC, the developmental state regained a measure of its lost influence and was able to initiate some important policies. Even in countries where the neo-liberal coalition remained strong, such as in South Korea, the legacy of the developmental state gave the developmental state coalition some leverage (Hundt 2009, Lim 2010). It is in this context, of the continuing battle between the two coalitions that the impact of Great Recession on East Asia must be analysed.

The Great Recession

The Great Recession had a profound effect on East Asia and on the battle over state structures and policies between the developmental state coalitions and the neo-liberal coalitions. First, it has changed the way in which China and the USA, the two countries which had come to exemplify the developmental state and neo-liberal models of economic development, are perceived around the region. Second, by encouraging governments to implement state-guided stimulus spending packages, the Great Recession has bolstered the legitimacy of the developmental state coalitions' prescriptions for economic development. And, third, in managing the US-initiated crisis, regional governments benefitted considerably from the policy reforms that came out of the AFC and even reinforced some policy changes in order to buffer themselves against the continuing problems that have arisen from US attempts to pull itself out of the Great Recession.

The Great Recession delivered a severe blow to America's reputation as a model of economic development to be emulated. US officials, Western trained economists, and business leaders, who advocated for a US-style neo-liberal model of economic development to be adopted by economies around the world, received a good deal of criticism as the global economy collapsed. For example, at the January 2010 meeting of world political and business leaders at the World Economic Forum in Davos, Switzerland, President Sarkozy of France noted that ‘without State intervention to maintain confidence and support industry’ there would have been ‘total collapse’ (Sarkozy 2010). It was also reported that ‘Western delegates appeared, depressed, defensive’ (Rachman 2010) while George Soros, the well-known currency trader and investor, favourably contrasted ‘China’s approach to pricking asset bubbles through “administrative guidance”’ to the ‘failed reliance on a purely monetary approach’ of Alan Greenspan, the former chairman of the US Federal Reserve (Pilling 2010). Moreover, when the then-Chinese vice-foreign minister, He Yafei, put the question, ‘Now that the free market has failed, what do you believe the appropriate role for the state in the economy should be?’ to a distinguished group of American economists and scholars in a New York meeting, it was given a good deal of publicity which could not have escaped decision-makers in East Asia (Bremmer 2010; see also, for example, Bremmer and Stewart 2010, Dyer 2010).

More specifically, the US model which emphasized property rights, the rule of law, and effective corporate governance has been severely tarnished by the unfolding of the Great Recession. The problems with the country’s bankers in 2008 simply highlighted once again previous massive corporate scandals at Enron and WorldCom. The foreclosure fiasco, which began to emerge in 2010 and which centred on the lack of legal documentation indicating which financial institution held an individual mortgage in a world of packaged mortgage-backed securities, reinforced the negative views of the US model (Krugman 2010, McQueen *et al.* 2010). The American system’s failure to follow the rule of law and to respect property rights not only undermined the appeal of the US model but also made it extremely difficult for the US economy to pull the global economy out of the recession it had created.

At the same time, China has been widely applauded for helping to prop up the global economy as the Great Recession ravaged the USA and Europe. While China experienced a softening of its economy as its export markets collapsed in late 2008 and early 2009 and a drop in GDP growth rates to below 7% during this period, it quickly bounced back to record GDP growth rates of well over 10% in the final quarter of 2009 and the first two quarters of 2010 (Trading Economics 2010). Just as importantly, it passed Japan as the second largest economy in the world, behind only the USA, in the second quarter of 2010. And for nearly all the economies in the East Asian region, China had become their biggest trading partner eclipsing even the USA (Barboza 2010). For example, ASEAN members’ trade with China increased by a remarkable 54.7% in the first half of 2010 (*Financial Times* 2010). The appeal of China’s approach to economic development as a model for other developing countries in East Asia and elsewhere to follow was clearly on the rise. The East Asian developmental state coalitions were emboldened by this turn of events.

It is not just China’s economic success during the Great Recession that has impressed regional decision-makers and especially developmental state coalitions, but the way this success has been achieved. China’s economic stimulus package was unveiled in November 2008 and put a premium on state intervention in a number of targeted areas. For example, RMB1.5 trillion was assigned to major infrastructure projects such as high-speed rail links, regional airports, and an expanded power grid; RMB400 billion was allocated to low-cost housing for low-income workers; and RMB210 billion was put aside to be spent on ecological and environmental projects (EIU 2009). In addition, China actively promoted ‘indigenous innovation’. RMB370 billion was allotted for this area of the economy in the November 2008 stimulus package and the government increased its pressure on foreign multinational corporations to hand over information on key technologies in return for access to its market and then handed on this information to domestic companies (EIU 2009, Anderlini 2010, Dyer 2010). This approach to supporting China’s companies has been backed up by a series of policies ‘ranging from patent laws and technology standards to procurement policies and product approval rules’ (Dyer 2010).

The effects of China's stimulus package and the Chinese government's general approach to riding out the Great Recession had a substantial economic impact around East Asia. For example, Japan, which suffered one of the worst declines of any major economic power during late 2008 and early 2009 (Kojima 2009), saw its key stock index jump more than 5% as investors responded to news of China's massive economic stimulus (Fu 2008). Moreover, looking back on the Chinese stimulus package from the vantage point of early 2010, Hayashi Tomoko, the Director for Overseas Economies of the Japanese Government's Cabinet Office noted its importance in terms of promoting consumption in China and, by extension, stimulating imports (RIETI 2010). In Malaysia in late 2008, the President of the Malaysia–China Chamber of Commerce noted that the Chinese stimulus package would effectively 'boost the global economy' and 'bring ample business opportunities to Malaysia' (Xinhua 2008). This point was echoed later by Malaysia's Deputy Finance Minister, Chor Chee Heng, when he stated that China had become a major destination for 'Malaysia's exports which greatly helps in lifting Asia's economy in times of crisis' and that China's stimulus package had 'created more demand and opportunities for ASEAN businessmen' (*People's Daily* 2009). And with Chinese imports rising to US$767 billion in 2009, up by over 47% from a year earlier (Xinhua 2010), the economies of East Asia were clearly being pulled out of the Great Depression by the Chinese economic locomotive.

Other countries around the region also developed plans to get their economies out of the Great Depression and on the road to rapid economic development. For example, during the first half of 2008 and into 2009, Japan introduced a series of measures that gave assistance to small and medium enterprises (SMEs), extended the safety net for non-regular workers, revitalized local and regional economies, and put more money into nursing and medical services. South Korea introduced a stimulus package in January 2009 that emphasized conservation, recycling, clean energy, green transportation, and clean water supplies as well as developing the country's information and industrial infrastructure to ensure efficient energy use. Both sets of plans required an increased level of state intervention and relied on the strong bureaucratic capacities of both governments (ESCAP 2009, p. 100).

Each of the major Southeast Asian economies also developed stimulus packages that required increased government involvement in their respective economies. Infrastructure, especially transportation, projects were popular in Indonesia, Malaysia, Thailand, and Vietnam. Promoting strategic industries was high on the agenda in Malaysia's plan and supporting SMEs prominent in the Indonesia's and Thailand's plans. In Singapore, the government provided cash transfers to employers to cover a portion of their wage bills in order to avoid mass layoffs and also guaranteed working-capital loans to individual firms (ESCAP 2009, p. 142). Some countries expanded on their stimulus packages. In Malaysia, for example, government guidance of the economy spearheaded by the Economic Planning Unit in the Prime Minister's Office was extended with the announcement of the ambitious Tenth Malaysia Plan in June 2010 and the Economic Transformation Plan in November 2010 (Brown 2010).

Each of these attempts to promote economic growth required government intervention, and hence, they all reinforced, however, modestly, the influence of the developmental state coalitions. Just as significantly, these stimulus packages have sought to extend governments' involvement in developing infrastructure capacity, a hallmark of the developmental state in its prime, as well as extending capacity in specific industrial sectors. Temporary assistance for selected import-substitution production and aid targeted at industries developing specific technologies or companies showing signs of success in exports markets are also symptomatic of developmental state coalition policies. These policies tended to underscore the facilitative approach of the developmental state coalitions (ESCAP 2009).

Some avowedly protectionist measures such as bailouts and tariff increases, which could be attributed to the influence of developmental state coalitions, were brought in by the main economies of East Asia to deal with the fallout from the Great Recession. However, given the depth of the crisis, protectionism was surprisingly limited. One study, which looks at the ratio of liberal to protectionist measures implemented by East Asian governments, notes that in 2009 China and Indonesia had a ratio of 1 liberal measure to 3.7 protectionist measures while South Korea had a ratio of 1:2.5 and Vietnam a ratio of 1:1.7. Japan also brought in protectionist policies but for Malaysia and Thailand during 2009 liberal and protectionist measures roughly off-set each other (Mikic 2009, pp. 41, 44).

One area where governments in East Asia moved in an attempt to protect their economies was capital controls. Both China and India were widely thought to have gone through the AFC relatively unscathed because they had capital controls in place. And although Malaysia was criticized by the IMF and US government officials for introducing capital controls in 1998 as part of its strategy for getting out of the Crisis, subsequently even the IMF came round to accepting that it could be an effective tool in combating surges in capital flows and consequent exchange rate pressures (Burton 2004; see also Ostry *et al.* 2010). During the Great Recession both China and India maintained their controls, while South Korea, Taiwan, Thailand, and Indonesia, which had previously abandoned capital controls, brought them back in one form or another. The concern was that the injection of stimulus money into the US economy, especially as a result of quantitative easing, meant that capital in search of the best returns could flow from the USA to the more robust economies of East Asia, thus driving up currency values and, hence, making East Asian goods less competitive in the global marketplace. While there has been some circumvention of capital controls, in the main they have been reasonably successful in dampening surging capital inflows that might create problems (Grabel and Chang 2010, Mallaby 2010).

Overall, then, the Great Recession has moved the mix of structures and policies in the major East Asian economies – Japan, South Korea, Taiwan, Singapore, Malaysia, Thailand, and China – away from the structures and policies promoted by the neo-liberal coalitions and back towards those advocated by the developmental state coalitions. Bureaucratic capacity has been expanded to allow for increased government intervention to guide economies and policies have been introduced that facilitate economic growth through sustaining import-substitution industries and aiding export industries in a variety of ways. Yet just as the developmental state coalition remained strong even after the neo-liberal coalition was able to gain increasing influence in the late 1980s and into the 1990s, so the neo-liberal coalition still has considerable influence despite the almost instinctive developmental state impulses that have been unleashed by the Great Recession.

Conclusion

This analysis points to three important conclusions. First, the coalition contestation framework is invaluable in evaluating the developmental state approach to economic development in the main East Asian economies. Coalition contestation emphasizes that once the neo-liberal coalition became established in the 1980s, the push and pull of politics meant that neither the developmental state coalition nor the neo-liberal coalition had complete control over changes to state structures or state economic policies. The mix of structures and policies resulting from the political struggles between the two coalitions constantly varies over time depending on the extent to which neo-mercantilist/developmental and neo-liberal ideas are embedded in the society, the nature of the economy, its relationship to the regional and global economy, and the political strength of the two competing coalitions. Moreover, the different combinations of these factors found in each of the countries of East Asia means that they may be placed at different points along the developmental state/neo-liberal continuum at any one point in time.

Second, understanding the historical context is crucial in gaining an appreciation of the effect that the Great Recession has had on the developmental state. The Great Recession did not take place in a vacuum. The experiences of the East Asian governments during the liberalizing years of the 1980s and 1990s, the lessons learnt from the traumatic AFC and its aftermath, and the models of economic development offered by Japan, the USA and China all provide vital clues as to how each of the East Asian governments responded to the Great Recession and, therefore, the impact it had on their economies. Both the developmental state coalitions and the neo-liberal coalitions were well entrenched in the various East Asian countries when the Great Recession hit and so while it had a considerable impact on the region, the developmental state coalitions were not as able to move structures and policies as sharply towards their end of the continuum as might have been expected.

Finally, the impact of the Great Recession on the economies of East Asia underlines the point that governments have a crucial role in economic development. Each of the East Asian societies has, through the cut and thrust of debates between contending developmental state and neo-liberal coalitions, developed a mix of state structures and policies that reflect both developmental and neo-liberal philosophies. This mix of policies is what Solingen (2004) refers to as a 'hybrid' approach. It is this mix of state intervention to guide, facilitate, and regulate the economy and the dynamism of domestic and global market forces that has proved so successful in East Asia in the past and is, therefore, unlikely to be abandoned. The important point from the perspective of the analysis undertaken here is that the impact of the Great Recession highlights that many key developmental state structures, policies, and, indeed, ideas survive and will remain very much part of the political economy of East Asia well into the future.

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