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The Changing State–Market Condominium in East Asia: Rethinking the Political Underpinnings of Development

GEOFFREY R.D. UNDERHILL & XIAOKE ZHANG

This article addresses the long-running debate concerning the changing nature of state–society relations in the development process in East Asia and elsewhere in the developing world. It affords a critical re-examination of the developmental state model that has become central to the study of the politics of economic growth and achieved the status of a dominant paradigm in international policy circles.¹ The relationship between state institutions and private market agents, as portrayed in the model, is viewed as one of two analytically distinctive entities—a state–market dichotomy that obscures as much as it illuminates the political underpinnings of development. Recent revisionist efforts have critically reviewed the developmental state claims about state–society relations and provided a more nuanced view of the complex and interdependent interaction between states and markets that has shaped industrialisation policies in East Asia.² This article argues that while the revisionist efforts have correctly emphasised the importance of state–market interactions in the development process there is still a further and crucial conceptual step to take in order to move beyond the developmental state thesis and to overcome the conceptual constraints of the state–market distinction. The concept of the state–market condominium is proposed as an alternative approach to the political economy of development and argues that the experience of East Asia can be more fruitfully theorised if states and markets are viewed as an integrated ensemble of governance.

This state–market condominium approach has been articulated within the national setting of industrial policy management and financial market governance in major East Asian newly industrialising economies over the past two decades. The value added of the approach can be demonstrated by thinking in terms of opportunity cost, that is of *not* employing the approach: the distorted view of the political economy which results from employing the existing concepts in the developmental state literature. The central claim is that the state–market condominium is greater than its state–market/public–private parts and that the outcomes in terms of governance are significantly different from the preferences of

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either as identifiable agents. In this way the approach helps to understand both the successes *and* limitations of the developmental states in East Asia, including the apparent difficulty of a number of developmental states to respond to pressures to adapt their development strategies despite clear reform preferences and strategies. As the state thinks like a public–private condominium, it internalises many of the antagonisms of the society it reflects and solutions are not always evident.

The article begins with an analysis of the developmental state debate and recent theoretical efforts to transcend the developmental state thesis. There follows the main section that outlines the concept of the state–market condominium and applies the concept to empirical materials on industrial and financial policy processes in East Asia. The conclusion summarises the major arguments and suggests possible directions in the future research on the developmental state.

The developmental state debate

Changing state–society relations and their impact on national economic performance are a perennial concern of scholars of development studies. Common to extant studies of developing and emerging market countries is the fundamental assumption that development policies and processes are a function of the complex interactions of economic, political and social forces operating at domestic and systemic levels of analysis. Most of the diverse theoretical perspectives have sought to explain cross-national variations in industrialisation trajectories by focusing on the interplay of states, markets and societies in the making and implementation of development strategies. In this regard, many scholars have attempted to advance explanatory frameworks that address the role of the state in economic development. Equally importantly, they have focused on how key societal actors relate to state institutions and how the changing configurations of state–society relations are crucial to industrial transformation within the contexts of national and international political economies.

Among these theoretical frameworks, the developmental state model focuses on the insulation of Weberian state bureaucracies, possessing considerable technical capacity and political autonomy, from societal interests, minimising the scope for rent-seeking and ensuring the coherence and effectiveness of economic policy.³ In recent years, however, the model has been subject to criticism and reassessment on both theoretical and empirical grounds.⁴ Critical assessments, while coming from different perspectives and disciplines, have focused on the ahistorical portrayal of the state as a rational and unitary actor and the passive characteristics the model has assigned to private market agents. Two conceptual and empirical points are important here. First, it is difficult to explain why some developmental states succeed, while others of apparently similar characteristics fail. Second, it is difficult to explain the relative success of a particular state at one time as opposed to another. For example, if success was due to state autonomy and capacity, then failure of reforms related to the outbreak of the Asian financial crisis must necessarily be based on the *incapacity* of state officials to overcome the very institutional inertia they were so able in successful times to surmount.⁵ The criticisms have thus aimed to revise or even refute the developmental state thesis and to recast the

experiences of socioeconomic transformation in East Asia against the backdrop of rapid economic and political changes during the 1980s and 1990s.

Among the revisionist efforts, neostatist scholars have offered a novel approach, most eloquently elucidated in the works of Peter Evans, Linda Weiss and John Hobson. The approach has superimposed state autonomy and capacity on close public–private ties as the essential conditions for effective market governance and successful economic restructuring in an age of globalisation.⁶ The dynamics of state–market relations are captured by Evans’ concept of ‘embedded autonomy’, which combines well-developed Weberian bureaucracies with linkages between bureaucrats and private business. The concept draws our attention to an insulated state preventing particularistic interests from subverting the coherence of development strategies but simultaneously involved in linkages with private market agents to achieve policy goals and economic transformation. For Evans, autonomy and embeddedness are complementary and mutually reinforcing; only when the two are entwined in a balanced combination can bureaucratic efficacy be achieved and a state called strong.

In a similar vein, Weiss and Hobson have emphasised the ‘governed interdependence’ between an autonomous bureaucracy and a well-organised business sector as the underlying institutional basis for effective market governance. This concept portrays a well-insulated state which maintains an interrelationship with similarly cohesive organised industry through strong and structured consultative and cooperative networks. Such networks preserve state effectiveness, facilitate private-sector participation in key policy areas and enhance industrial transformation and growth. In a more recent reformulation of her argument, Weiss emphasises the institutional framework of governed interdependence as the critical political underpinning of state capacity for guiding and coordinating economic change in response to pressures and constraints generated by global market integration.⁷ This analytical approach is thus a conceptual counterpart to Kent Calder’s conception of ‘organic interdependence’ and Richard Samuels’ idea of ‘reciprocal consent’ as advanced in their studies of Japanese industrial and energy policies.⁸ These theoretical formulations have revealed an interactive and dynamic government–business relationship in which state officials take the role of senior partners, but private market agents are more vital and autonomous.

Scholars who privilege the role of private-sector organisations have taken the neostatist argument further by proposing a social-institutionalist approach to the politics of development.⁹ They argue that while strong states are still considered an effective solution to collective action problems confronting the development process, business groups and private–public sector bodies can also serve as functional equivalents in their ability to resolve these problems. These industrial organisations, inter-sector networks, business associations and private–public consultative forums and arrangements contribute to the exchange of information, the build-up of trust and the development of cooperative ties between government and the private sector. Conflicts are solved, common goals identified and industrial policies formulated, all through these multiple institutionalised networks. Neopluralist scholars have gone even further by developing a ‘state-in-society’ perspective on the political underpinnings of industrialisation.¹⁰ Drawing on divergent development experiences in East and South Asia, they contend that

the characteristics of state structures by themselves correlate poorly with economic performance, suggesting that the contrasting cross-national social and cultural settings within which state actors operate explain development outcomes.

These various recent re-examinations of the developmental state thesis have helped to advance theoretical debates about, and to establish a new research agenda for, the changing East Asian political economy.¹¹ They represent a conceptual advance over the simple developmental state versus business/society model. Underlying these revisionist claims is the belief that successful policies are contingent on state–market configurations that shape underlying governance arrangements. By focusing on state–market interdependencies, neostatist and social-institutionalist scholars have thus overcome the tendency of developmental state theorists to marginalise the role of social actors and institutions and view outcomes as a result of unified states making clear choices among defined alternatives. The revisionist literature explicitly defines state autonomy with reference to the organisational setting and capacity of private market agents, and development as the product of interaction between them.

State and market in the developmental state debate

This essentially *relational* (as opposed to *integrative*) logic of the state–society nexus has a long intellectual genealogy in the institution-oriented literature on comparative political economy.¹² The theoretical insights embodied in this literature constitute the analytical parameters of revisionist efforts and lead to the central propositions to be developed in this article. Underlying these revisionist claims is the common understanding that growth-promoting economic policies are contingent on dense and multiple state–society *interactions*. However, we argue that the revisionist approaches have not taken us far enough in our efforts to understand these processes. The fundamental weaknesses of the developmental state model stem not just from a failure to include configurations of societal variables embedded in the structures of the market, but also from an essential state–society *dichotomy* which contrasts with the observable nature of markets as mechanisms of governance, as if the market were somehow operationalised *outside* these social processes and patterns of bureaucracy–business relationships.¹³ While revisionist literature introduces society-centred variables, it portrays them as the other side of a state–market equation instead of an integral part of governance arrangements which underpin the dynamics of developmental capitalism. There is, then, a need to view state and market agents as part of the same integrated ensemble as opposed to analytically and empirically distinct institutions and processes.

The approach adopted in this article aims to conceptualise these points and develop the revisionist literature in three ways. First, the concept of state–society interdependence in the literature is one involving subordination—interdependence under ‘state sponsorship’¹⁴—and continues to characterise the state–market relationship as one between analytically *and* empirically distinct entities. Such interdependence, as Weiss argues, is characterised by ‘a negotiated relationship in which public and private participants maintain their autonomy, yet which is governed by broader goals set and monitored by the state’.¹⁵ Equally, social-institutionalist

theorists have set state interests and structures apart from social and cultural configurations and have emphasised independent private-sector preferences and actions as a primary explanation of cross-national variations in the pattern of industrial transformation. While developmental state theorists reify the state, their social-institutionalist revisionists, who tend to privilege private–sector preferences and public-private ties over state interests and institutions, have erred in the opposite direction.

The basic premise underlying the central argument of this article is that state and market agents, despite the analytical distinction, evolve and exist symbiotically in practice, and that the developmental outcome of the whole is distinguishable from the interests of particular state or market agents. States and markets are not discrete *things* as such, and it is argued that this is empirically verifiable and thus they should not be thought of as such either. If the empirical distinction cannot successfully be made, then the analytical distinction is likely to prove misleading.

Second and furthermore, although one analytical strength of the neostatist and social-institutionalist arguments is their emphasis on the recurrent and enduring impact of state and societal institutional structures on market governance, this has often led to an overemphasis on *institutional* variables, conceived of as structures alternatively constraining or facilitating agents as a primary determinant of policy outcomes, as opposed to the *process* variables of political interaction and compromise. For neostatist scholars, industrial transformation is understood through institutional structures as variables, which takes insufficient account of the political *dynamics* of state–market agency interactions. Similarly, focusing on the role of intermediate business organisations in the policy-making process, social institutionalists have left virtually unexamined the ways in which social constituencies and agents become fused with and embedded in the broad structure of political power and interests.¹⁶

This overemphasis on institutional structures is thus problematic. The state–society nexus becomes a structural variable which is not properly unpacked and wherein the political content is assumed, not analysed. For society-centred and institutionalist theorists, the dynamics of development processes are reduced to a series of institutional and governance arrangements apparently separate from the market and production they are trying to influence. In this way the state–society nexus as a puzzle is in fact removed from the conceptual picture: a focus on the patterned networks of interaction sheds little light on the content of processes (interests and conflicts of agents) which lead to outcomes. The approach to be developed in this article sets itself apart by focusing on the integration of key social constituencies and their interests into the institutions of the developmental state and the resulting, integrated configurations which operationalise the market under developmental capitalism, emphasising the role of process variables over structural and/or institutional variables. Politics constitutes a two-way relationship between structures and agents in a particular institutional setting, shaping institutional structures at the same time as structures constrain the options of particular state or societal actors pursuing their preferences. Political struggles and compromises are the principal linkages between institutions and actors in the policy process; it is not institutions in and of themselves that are

important but the political processes that take place within them.¹⁷ The changing political economy of development in emerging market economies and the institutional patterns that mediate it are shaped by the political conflicts occurring through the integration of state and market agents in an ensemble of governance.

Third and finally, the neostatist and social-institutionalist approaches are correct to argue that the ability of the East Asian states to guide and manage industrial transformation stems from distinctive institutional attributes. But they tend to take these attributes largely as given without systematic efforts to explore the underlying socioeconomic forces that mould and change them. Institutions and the resulting interactions among agents are *variable*. To appreciate the changing political economy of development, it is necessary to understand the historical dynamics that shape and reshape these patterns. For example, the simple patterns of state–business relations of the early development years gave way to more complex interactions as economic agents matured and the functions of state agencies evolved, not least in relation to enhanced linkages to the global economy. The East Asian transition to democracy throughout the 1980s and 1990s also witnessed an increase in the ability of private business and popular sector forces to organise for political purposes. As the power of social constituencies grew, the institutional bases of ‘embedded autonomy’, which governed public–private interdependence, eroded. Neostatist and social-institutionalist theorists have not fully engaged this point, portraying the developmental state as the possible victim of its own success: having nurtured strong private business through its policies, the state has now faced growing demand from private market agents for greater decision-making autonomy. The challenges confronting the developmental state in an emerging democratic context more directly cry out for theories which better account for its emergence.¹⁸

In view of this critical analysis of the literature, the remainder of this article seeks to re-conceptualise the state–market relationship as the contingent political and institutional underpinning of development. The empirical analysis focuses on how the East Asian developmental states have been transformed when confronting internal and external economic pressures and how we can understand this transformation in terms of the changing state–society relationships.

The state–market condominium

The debate concerning the developmental state can be placed in the context of the broader political economy debate concerning the state–market relationship. A broad consensus among political economists argues that the state and the market are interdependent, but the relationship is typically portrayed as one of interdependent antagonism where public, political logic pulls one way and private, market-driven logic pulls the other (similar to Evans’ notion of embedded autonomy). Such an image is rooted in the 19th century divorce between economics and the other social sciences which occurred as a result of the ‘marginal revolution’ around 1870 at the end of the ‘classical’ period.¹⁹ This view is based on formulas that lack explanatory precision through empirically inaccurate analytical differentiation. To invoke ‘markets’ as an abbreviation for the structure and logic of development of contemporary economies is wide of the mark. Modern

capitalist economies are structured by firms—which internally are not markets, but power hierarchies.²⁰

Furthermore, modern economies comprise a variety of markets, among them the markets for the ‘fictitious commodities’ such as human labour, land/natural resources, money and capital.²¹ These are also essentially social power structures which yield a range of potential conflicts requiring political resolution (for example, between employers and employees, land owners and land users, creditors and debtors, investors and capital users). These are not ‘markets’ in the abstract sense but distinct or specific market *systems* as social entities. States, on the other hand, as political economists should see them, are economic *organisations* (like firms) of a peculiar, political kind and origin. They have acquired a series of ‘monopolies’ which are either directly economic (power of taxation, monopoly of money) or central to modern economic life, like the ‘monopoly of legitimate violence’ and the ‘monopoly of law’. States are in this sense the institutions which act as a forum to settle the political conflicts generated in the social domain of the market, and in these terms can be said to operationalise market processes.

This image finds its place in terms of the developmental state debate, where some scholars argue a greater role for state autonomy and others that private interests constrain developmental states in important ways. At most, development strategies are thus taming and shaping the market with a view to compensating for market failure and resolving ‘Kaldorian’ collective action problems.²² Certainly, the developmental state model explains well why private and public actor preferences frequently, though not necessarily, diverge on a number of questions and how these bargaining processes might lead to policy change. However, this formulation has a number of disadvantages in an era of global market integration.

First, the developmental state model has difficulty explaining why successful market agents do not consistently take the ‘exit option’ from the restrictive regulatory frameworks of developing political economies, given that developing country governments tend to deviate substantially from ‘competitive’ forms of capitalism. Why are ostensibly mobile private actors apparently so wedded to restrictive state–market configurations (namely, Japan, no longer a developing country at all)? Second, and in related fashion, the model does little to account for why persistent predictions of a ‘retreat of the state’²³ and race-to-the-bottom regulatory competition have failed to materialise under the pressures of global market integration, even though developing countries are weak in global bargaining processes. Third, the state–market dichotomy presents a distorted view of business strategies and the process of competition as consisting solely of the deployment of firms’ capacities in terms of relative organisation, innovation and capital. Thus *political* resources in the policy processes, the ability to shape the terms of competition in line with the preferences of private actors, are discounted as an add-on extra, good if one can have it, instead of integral to the very nature of inter-firm competition itself.

In short, the state–market dichotomy model fails to elucidate a systematic relationship between the evolution of market structures and changing forms of governance; yet explaining this relationship is supposed to be the very core of the political economy of development as a discipline. There is an underlying assumption, despite the posited interdependence of public and private actors,

that either state or market agents have somewhere to go without each other, that they each enjoy some autonomous sphere independent of the other. While private interests may identify with state protection and sponsorship in the early stages of their own development, they should abandon the constraints they ought to abhor as their preferences shift in relation to their competitive position in the market. Yet, empirically speaking, political authorities (typically states) and market processes of various configurations are never found apart in either restrictive *or* free market regulatory configurations. If they are not *found* apart, surely we should not persist in *analysing* them apart.

So we need to take the Polanyian framework and indeed political economy seriously, insisting that the market is created and enforced through the state.²⁴ We need also to conceptualise how states are embedded in wider market-based social structures; how key socioeconomic constituencies of non-state actors (usually business, sometimes labour) are integrated into the institutional processes of states and government; how the agency of these actors, through state policy institutions, are central to state development strategies *and* to the terms of competition among market agents. The claim is, then, that the political economy of the developmental state is something greater than the sum of the state–market agent parts.

As the central argument of this article, we propose that the political economy of East Asian development can be more fruitfully understood if we view states and markets as an integrated ensemble of governance, a state–market condominium.²⁵ In this discussion, we take ‘the market’ as a proxy for ‘society’—private social constituencies and agents—on the grounds that the overwhelming majority of developing economies are societies based on emerging market principles of various shades and hues. They are thus akin to Polanyi’s notion of ‘market-based society’ under construction in various forms, where the market is created and sustained through the mechanisms of the state, embedded as it is in the wider structures of market society.²⁶ Furthermore, and in a Gramscian sense, the conflicts among various institutionalised constellations of state and market agents generate the policy changes which reorient and restructure the market as a system over time. While tensions exist between specific state and market actors in policy processes, the two are integrated within specific policy domains as a form of operationalised market governance. Even as an analytical distinction, the developmental state thesis, based as it is on a state–market dichotomy, blinds us to the ways in which states are active constituents of the marketplace and the ways in which market actors and constituencies are part of the wider process of governance and the formal institutions of government, which in turn shape the societies we know. In this sense, there is a dynamic if not always linear relationship between changing forms of state/governance and changing market structures, and this dynamic relationship is a prediction of the state–market condominium model.

The case is particularly strong in the East Asian industrialisation process shaped by developmental states, where it is empirically difficult to separate out a distinct private domain of market interaction from the realm of official ‘public’ policy and institutions. Successful development processes in East Asia, as earlier in Europe, have always been based on political strategies that involve the successful

integration of a variety of active market agents into the official institutions of governance; moreover, it is understood that these institutional configurations change over time. Understanding the comparative dynamics of state–market condominiums, and their relationship to transnational market forces in an integrating global economy, is the essence of the political economy of development.

In applying the state–market condominium to the developmental state debate, the article develops its central argument along three different yet interrelated dimensions which run parallel to the three-point critique of the revisionist literature above. First, development strategies are constructed and operationalised through the integration of market agents into the institutions of the developmental state. The market is conceptualised as a realm apart from either state functions or the organised political activity of social constituencies. The market is constituted by ensembles of state and market agents, which operationalise development strategies over time, building the institutional structures of the developmental state. Understanding the political dynamics of development involves accounting for the interrelationship between political power exercised through and on behalf of state authority, on the one hand, and constituent interests and agents of the wider social whole in which states are embedded, on the other. Second, this implies that the interests of market constituencies are not found outside the ramparts of the state, except to the extent that a selective process of exclusion occurs. Private interests are integrated into the institutionalised policy processes of the state via ongoing patterns of public–private interaction. The changing patterns of development strategies are the result of not merely state strategy but of state–society interactions. Third, this implies that the state–market condominium is dynamic, not static. As privileged market agents push for change (or continuity) in a dynamic market environment, and others for inclusion, there emerges a systematic relationship between the changing form and function of the state and the dynamic structures of the market. The dynamics of these changes will remould the existing pattern of the state–society interaction, alter the institutional parameters of state and social actions, and generate new policy choices.

State–market interactions and the politics of development

The first dimension of the argument concerns situating the state itself within the state–market complex. The state, which is a key institution-as-agent at the core of the state–society complex, provides the political and institutional focus for the process of economic adjustment and social change. The politics of the state mediates between the public and private domains, among different types of social actors and at the national and international interface. While the state appears as an important decision-making forum, it is far from the only actor of consequence. Theorising the state requires that we go beyond not only the developmental state thesis, which overemphasises the independent role of the state at the expense of social forces, but also the neostatist and social-institutionalist accounts, which portray the state–society relationship as interdependent subordination or antagonism. Situating state agencies within this integrated dynamic

is a crucial point of departure for any theoretical approach seeking to unravel the political underpinnings of economic development.

This implies focusing on the nature of interactions among state and market agents in the context of governance. In this way, competition and conflict among market agents shape the politics of the state within the domestic and international contexts. State–market interactions that operate within these structures underscore the importance of paying close attention to the complex and dynamic linkages between state and societal actors in which both are mutually moulded, penetrated and empowered.²⁷ Compromises brokered and empowered by state agencies affect socioeconomic relationships in the same way as social milieu defines the essential features of the state. Although state institutions play a critical role in shaping the access of societal groups to and social influences over public policy arenas, recursive state–society relations are likely to activate particular private interests and allow penetration of these interests into the various components of states. This suggests that state autonomy and capacity are a function of the interests and constituencies which become integrated into state institutions and policies in which even relatively weak societal actors may stand a chance of affecting and shaping state structures.

In this case, states are not coherent, unitary actors making rational policy choices while avoiding social pressures. They comprise complex systems of often competing agencies which have diverse institutional histories, dissimilar bureaucratic cultures and values, different constituent bases, and divergent missions and policy objectives. Some, such as central banks, treasuries and trade ministries, are openly active in markets, leading them to diverge from social ministries and the security apparatus (which in turn depend on their economic functions). Furthermore, an array of competing coalitions of social forces is integrated into the policy processes of the state itself. This not only leads to conflicts of interests *within* states, but also blurs the line between the public and private spheres. Conflicts over policy arise not so much between states and social groups as between coalitions of some state agencies and their constituent interests against other coalitions made up in the same way, as well as between members of these networks versus the substantial number in most developing societies who are simply excluded and seek admission to the club.²⁸ Viewed in this way, state policies are likely to be ambivalent on most issues, and national development strategies are likely to result from a complex mixture of cooperative and conflictual behaviour.

This highlights the role of process variables over structural variables in understanding the political economy of development strategies. Our central claim is that political processes mediate between interests and policy outcomes in a particular institutional setting. There are two forms of structural variables to consider here: economic structural variables referring to patterns of production and the market at domestic and international levels, and structure as institutional patterns. Beginning with institutional structures, political interactions among social and state actors shape them as much as institutions shape and constrain the options of agents pursuing their political and economic interests. Likewise, social constituencies and state agents alike contest the structures of the market in line with their policy interests. They do so through the formal and informal institutions that emerge through

political interactions. It is not structures themselves but the politics that takes place within them that sets the contours and direction of economic development. The importance of political processes over structural variables thus requires that the institutional analysis of political economy be supplemented by political analysis.²⁹ A critical task here is to examine how the recurring patterns of conflict and cooperation within the state–society complex shape the political and economic institutions that in turn set the broad parameters within which various actors must operate to achieve their policy objectives.

In East Asia development policies have involved programmatic government efforts integrating state agency resources and private interests to promote industrial development. It would be difficult to account for industrialisation trajectories in such developmental states as Korea and Taiwan without considering how sector-specific state policies helped to engineer comparative advantages for domestic enterprises, configuring their relationship to external competition as well as structuring the domestic economic space. Equally, recent studies have disputed accounts which deny the role of industrial policy in the Southeast Asian industrialising economies and have demonstrated the role of strategic policy intervention.³⁰ State roles and initiatives alone, however, do not constitute a sufficient explanation of the economic policy-making process in East Asia. The changing nature of general development patterns is also a function of state officials working with and responding to private interests. What seems in many respects to have been a conscious process of state leadership is in fact the complicated interplay of state power and social forces that underpins the transformation of industrial structures and financial markets. Changes in development strategies result from state–market networks reconciling particularistic interests with broader scenarios for national economic development.³¹

In Korea and Taiwan, the essential pattern of development policies has been shaped as much by state-initiated reforms as by the alliance between state and social elites that has resulted in an interpenetration of each other's interests. The balance of power between state officials and private market agents within this alliance has been in continual flux, reflecting changes in state power as opposed to societal forces and shaping the direction of industrial and financial policies. The political dynamic of the changing state–market condominium has underpinned the major shifts in postwar development strategies—from the transition to export-led growth, the heavy industrialisation drive through to the economic restructuring process under globalisation. The contour of economic policy adopted at these crucial junctures reflects the preferences of powerful private actors as well as serving the political and economic ends of elite governing agencies. By the same token, development policies in Southeast Asia have emerged and evolved in symbiosis with competition over wealth and power that was intimately bound to the trajectory of state–market interactions. In Malaysia, for instance, what has driven socioeconomic transformations and corresponding changes in industrial and financial policies has been an ongoing political process through which inter-ethnic conflicts are reconciled. In this process the distinction between the interests of the state and the Malay social elite has become increasingly blurred, as the enhanced position of the latter has been contingent upon state largesse.³²

A similar state–market ensemble has also shaped development policies and processes in Indonesia and Thailand. For much of the postwar period, what characterised the industrialisation process in these two countries was that import-substitution remained subsidiary and parallel to export-led growth.³³ The governments promoted commodity-based exports partly because they viewed foreign trade as the main engine of growth and partly because revenues from such trade accounted for a significant part of the income of state agencies and their market allies. Thus the interests of state officials also reflected the underlying state–society relationships and preferences. The two apparently conflicting industrialisation strategies could be implemented because a political constituency made them feasible *and* legitimate.³⁴ In Indonesia and Thailand the ensuing process of economic policy reforms and neoliberal restructuring, while stimulated by external political and market pressures, was a function of the changing domestic balance of power between competing state and private interests.³⁵ As will be detailed below, the reorientation of industrial and financial policies during the 1980s and 1990s signified conflicts between the various constellations of public and private interests within the evolving state–market condominium.

Political institutions, private preferences and policy processes

To understand the politics of economic transformation constituted by the developmental state–society condominium, it is important to identify a link between actors, institutional structures and policies. That link is the self-interest of agents, whether they be individuals, formal or informal groups, corporate entities or state agencies. The relationship between individual self-interest and the collective needs of the community is the philosophical problem that inspired Adam Smith to write his classic text in political economy. To understand the state–society ‘package’ that comprises the political economy of development, we look to the institutions which are simultaneously generated by socioeconomic relationships and shape the broader political economy of distributive and other conflicts of market systems. The outcomes of conflicts of material self-interest among the key social groups, which are integrated into the ever-changing landscape of the national and global political economies, give shape to the patterns of market interaction which constitute the broader governance of the development process.

The self-interest of various political actors is reflected in their policy preferences as a function of their positions in domestic and international economic structures. Indeed, different industrial and financial sectors with contrasting economic structures and dynamics will require specific and disaggregated analysis.³⁶ A number of different strategies may be open to any one set of actors in national economies and transnational markets. National industrial and financial sectors with relatively small and domestically based firms in the early stages of development will have different preferences from sectors dominated by internationally oriented firms dependent on multinational transactions for profitability. The former might prefer the protection of national authorities; the latter is likely to prefer more liberal global economic regimes. This, of course, does not negate the role of programmatic government interests as an important causal

variable. Alliances of state authorities and domestically oriented market agents may successfully impose upon, or at least constrain sharply, the options of others.

Once material economic interests representing a range of state and non-state actors are expressed as policy preferences, their articulation within domestic institutions (both formal and informal) must be understood. Political articulation (how interests are organised and aggregated) constitutes the link between political actors, institutional structures and policy choices. The key questions concern the coherence of these coalitions and the nature of their political resources and their capacity to assert themselves, given the pattern of state and social institutions that both constrain and empower the actors involved. Unless they are well placed with institutionalised political resources, they are likely to have little impact on state policy and a commensurate impact on the institutions of the market. Equally important is the organisational structure of social groups: those groups that are not only economically powerful but also internally cohesive may prove to be a potent force in the policy-making process. Finally, these interests must be realised as successful competitive strategies of firms if they are to sustain themselves over time.

Regulatory processes are central here, representing institutionalised compromises over preferences and shaping the confines of market competition. Regulation is integral to the decision-making landscape for market agents and social constituencies, conferring advantages on some and costs on others just as some are more capable of affecting policy outcomes than others. The structures of the market are constituted as much and simultaneously by the highly political regulatory process of the state—and the political resources of the various public-private actors involved in a specific policy arena—as by the process of economic competition itself. Likewise, the political and regulatory process of the state is as much part of market governance mechanisms and corporate strategies as the game of production, investment and marketing.³⁷

In this sense, market agents and social actors enhance or protect their positions and prosperity by making simultaneous calculations through their business strategies, deploying their competitive resources in the market, and through deployment of their institutional resources in the policy processes of the state and in less formal institutional settings. This is clearly visible in the close integration of private firms into the system of bureaucratic management that characterises the East Asian political economy.³⁸ Powerful interests in society may even succeed in capturing parts of the policy-making machinery of the state, and so-called public purposes may come to serve blatant private ends. This should indicate the need to avoid the stereotypes developed in the developmental state model that tends to treat the state as a free-standing entity that is located apart from society.³⁹ That the state exists in symbiosis with social constituencies explains how private interests are integral to economic policy management even in seemingly strong states.

In East Asia, nowhere is this dynamic nexus between political institutions, private-sector preferences and development policies more clearly demonstrated than in the changing pattern of financial market governance—a crucial policy arena that both comprises and conditions development processes. The integration

of public and private interests has played a fundamental role in defining financial policies. These policies, representing a condominium of state and societal actors, have determined the terms of market entry and competition, the mode and nature of regulation and the level of openness to capital flows. In short, while state agencies sometimes differed over policy with market actors, as an integrated ensemble they have constructed the system of financial repression central to the successful developmental state.

There is ample evidence. In Korea, the institutionalised legacies of state intervention, epitomised by the alliance between financial and industrial officials and the *chaebols*, set the parameters of financial policy changes in the 1980s and 1990s. Market liberalisation, which started in the wake of the economic crisis of the early 1980s, ran a gradual and erratic course. While the non-bank financial sector developed rapidly and entry barriers were deregulated at the early stage of the reform process, interest rate liberalisation, policy loan reduction and capital decontrol was a slow and selective process. This pattern certainly reflected the interests of bureaucrats in using continued financial controls to promote industrial growth and entrench their regulatory power.⁴⁰ Yet such a claim is seriously incomplete. The powerful *chaebols*, with their symbiotic relations with the ministries of finance and industry enjoying a dominant status in the state policy-making hierarchy, opposed the removal of financial controls and the liberalisation of foreign direct investment for fear of higher interest rates, increased competition and diluted ownership. But they supported those reform measures that allowed them to own the new (non-bank) financial institutions and provided them with access to short-term, cheap foreign funds. This public–private coalition largely accounts for the selective, haphazard and inconsistent pattern of financial liberalisation in Korea which claimed such a heavy toll on financial stability in the late 1990s.⁴¹

Tightly controlled financial governance also began to change in Taiwan during the 1980s and 1990s when the domestic financial sector was gradually deregulated. Private influences over both corporate and financial policies were on the rise, as electoral politics encouraged the ruling Kuomintang (KMT) to court business groups for financial support and thus become more responsive to their demands. Cracks also began to appear in the once closely knit macroeconomic bureaucracy, as emerging factionalism within the KMT eroded the command of political leaders over state agencies and fostered inter-agency conflicts, thus creating the opportunity for private interests to infiltrate the state apparatus.⁴² While financial technocrats did not entirely lose their influence within the liberalisation process, the implementation of important reform measures was increasingly contingent on the changing relationship between state officials and business leaders. Financial authorities set high minimum capital requirements, for instance, when they decided to deregulate entry barriers to the banking sector. Under intense pressures from business groups that were keen to own financial institutions, however, the government issued 15 licences for new banks, instead of the planned six. Relatively strict supervision was exercised over commercial banks whereas largely privately owned credit cooperatives, which were periodically used to finance family businesses and local elections, were subject to lax regulation and suffered from growing non-performing assets.⁴³ Although Taiwan tided over the financial crisis of 1997–98 mainly because of abundant

international reserves,⁴⁴ the overcrowded banking sector and recurring failures of credit cooperatives posed serious threats to the long-term stability and development of the financial system.

In Southeast Asia, as in Korea and Taiwan, the interplay of state policies and market interests has played a fundamental role in shaping the process of financial governance. In Malaysia, the political underpinnings of financial policy management have been associated with the desire of state elites to foster Malay interests. One principal consequence of state promotion was the emergence of influential and well-connected private bankers and all the policy and regulatory problems that went with it. Strong government interests in advancing the inter-ethnic redistributive agenda and supporting Malay-owned institutions tended to subordinate the broad needs of industrial and financial development to the particularistic interests of the private banking community. Despite the proclaimed objectives of promoting productive investments in manufacturing, banks and finance companies constantly extended the bulk of their credit to the property, commercial and other sectors in which quick profits could be made.⁴⁵ The buoyant growth of the stock market in the 1980s also drew significant financial institution funds to share purchases. The large and growing exposure to speculative and high-risk activities, combined with a prevalent moral hazard born of state intervention and weak and fraudulent management, often landed financial institutions in deep crisis.⁴⁶ The financial market liberalisation of the 1980s and 1990s further encouraged short-term behaviour of banks and finance companies and their lending to property development and share trading, compromising prudential regulation and increasing the vulnerability of the financial system to external shocks.⁴⁷ These developments were underpinned by the integration of private preferences in the emerging policy process.

For much of the postwar period, financial sector governance in Thailand was characterised by a hands-off approach. This approach had crucial institutional and ideological correlates within the macroeconomic bureaucracy, which cherished the long-established tradition of financial conservatism and trade liberalism.⁴⁸ The social bases of the financial orthodoxy manifested themselves in the affinity between central and private bankers, created and sustained by similar economic interests, common development experiences and close institutional linkages.⁴⁹ The condominium between public and private financiers defined the nature of major financial and monetary policies.⁵⁰ The dynamics of this condominium changed during the 1980s and 1990s. As an increasing number of eminent private bankers entered the leading echelons of the economic bureaucracy against the backdrop of the ongoing transition to democratic rule, the private financial community saw its access to broader public policy improved. In the meantime, financial market liberalisation, launched in the early 1980s, undercut the ability of the Bank of Thailand (BOT) to control the behaviour of private firms and rendered central bankers increasingly dependent upon private financiers for policy support.⁵¹ These changes, coupled with the outmoded management structure and factional conflicts within the BOT,⁵² undermined the influence of central bankers in the policy community. The diminished authority of technocrats loosened their cohesion as an agent in pursuit of preferences and provided the opportunity for powerful private actors to usurp the mantle of public policy for their particularistic interests. The consequences of growing private capture were

manifest in the frustrated official attempts to transform the oligopolistic structure of the banking sector; an approach to financial de-segmentation that favoured private bankers and their affiliates over others; and, most significantly, the mismanagement of capital decontrol.⁵³ The poorly implemented process of financial liberalisation also reflected the declining regulatory capacity of the BOT. The Nukul Commission, established to investigate the causes of the financial crisis, found an increasing tendency for central bankers to exercise supervisory forbearance due to their weakened power to enforce regulatory rules in isolation from political pressures.⁵⁴

In sum, then, case material on financial market governance in East Asia reveals the important role of non-state private interests, integrated into the complex institutional fabric of the state, in shaping the direction of development policies. The politics of the state and the politics of competition and compromise among various market agents, which primarily dictate policy choices, vary with the pattern of material interests in national political economies and with the pattern of state–society interactions. The changing configuration of political and interest coalitions, mediated by state and societal institutions, sets limits on the context from which economic policies and practices emerge and by which economic development is conditioned. The pattern of political authority is likely to become more amorphous and dispersed in symbiosis with the transformation of socioeconomic settings in which such authority is embedded. This will be particularly the case where the state has progressively delegated, voluntarily or otherwise, decision-making power to private bodies against the backdrop of global market integration, though it maintains its functions in terms of domestic political legitimacy and all the tensions that entails.

Changing dynamics of the state–market condominium

If we properly understand the state–market condominium and its dynamic implications for the structure of markets, the forms and functions of the state will clearly evolve as indeed they have in the past. Institutionalists, either state-centred or society-oriented, have focused on institutional continuity or ‘stickiness’, tending thus to take institutional structures largely as givens. They are therefore unsuccessful in illuminating the underlying forces that transform these structures and link them to development outcomes. The institutional form and function of the state is likely to evolve symbiotically with the underlying patterns of state–society relations represented by the market as a form of governance. On the one hand, although successful development may initially proceed from insulated bureaucracies (although even early developmental states, such as the Park regime in Korea, relied heavily on entrepreneurial expertise for success), these very strategies are likely to lead in time to diminished state autonomy because they provide access to the state apparatus for social groups.⁵⁵ On the other hand, prior commitments to direct interventions may undermine state autonomy because the societal interests affected may mobilise for the maintenance of such commitments; strong states may turn out to be weak if they cannot extricate themselves from previous interventions.⁵⁶

More significant than the specifically institutional changes resulting from state action are changes in the nature of state–market condominiums produced by domestic- and international-level structural market transformations. These forces, such as new systems of production, new state priorities born of external economic constraints or global market integration born of a greater density of private cross-border transactions, affect patterns of perceived self-interest. They in turn affect the institutional structures that enable and constrain both official and private actors. In many emerging market countries, the move to export orientation, the growing integration of national economies with the international system and the continued democratisation process in recent decades have witnessed an increase in the capacity of private business, labour and popular sectors to organise for economic and political purposes. As their power grows and political coalitions shift, the institutional bases of previous patterns of state–market relations have been eroded and the relationship of state to social constituencies has been transformed. The implication of this observation is that the interactive relationships of the state–market ensemble vary continuously as a function of changes in the capacity and interests of state agencies and in the relationship of state bureaucracies to private market agents that result from historical dynamics.⁵⁷

Recent years have witnessed dramatic changes in the state–market condominium of market governance in East Asia. The sustained process of economic transformation has increased the weight of private business in aggregate economic activity, translating increased structural power into enhanced organisational resources effectively employed for economic and political purposes. The increasing international integration of the national economy has only reinforced 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 globalisation. Equally important, the transition to democracy across East Asia has expanded the political space for private sector actors who, by virtue of their structural and organisational capacities, have asserted themselves in parliamentary and electoral processes and more generally. These changes in the position of private business in the national political economy have transformed the pattern of state–market interaction with a significant impact upon development strategies in general and industrial policy management in particular.

In Korea, the *chaebols* integrated themselves more closely into the machinery of public policy during the democratic era, developing a command of the terms of competition in the market and drawing on state support for internationalisation.⁵⁸ When, in the midst of the early 1980s economic crisis, the government attempted to reorganise the heavy and chemical industrial sectors, the reorganisation failed to achieve its intended objectives, mainly because of foot-dragging or refusal to cooperate on the part of the *chaebols*. By contrast, state policy successfully rationalised the industrial structure through disposition of ailing firms during the mid and late 1980s, which favoured leading *chaebols* in the form of business expansion and subsidised loans. These two contrasting episodes of industrial adjustment attest to the alignment of *chaebol* preferences with the state apparatus. While the bankruptcy of the Kukje group in 1985 is often cited as the evidence of continued state control over private sector behaviour, it has been shown in recent

empirical studies to be more of a case in which political elites dissolved Kukje to reward other *chaebol* financial contributors.⁵⁹

With the *chaebols* dominating the policy-making institutions of the state, the state–market condominium deteriorated into rent-seeking networks in which powerful private interests appropriated the mantle of public policy for their own purposes. Economic strategies were increasingly aligned with *chaebol* preferences, and the state began increasingly to *think* like them. The result was inconsistent and ineffective policy reorientation. In the late 1980s and early 1990s the government moved away from industrial targeting and investment control as the *chaebols* sought greater freedom (also in response to external political pressures for neoliberal reforms); yet the state moved slowly with direct financial decontrols that threatened the interests of the *chaebols*. The oscillation between *laissez-faire* and interventionist policies contributed to the worsening of structural problems in the corporate sector that rendered the Korean economy vulnerable to the financial shocks of the late 1990s.⁶⁰

In Taiwan, as in Korea, the 1980s ushered in the gradual liberalisation of the *dirigiste* mode of industrial policy management. Selective liberalisation coincided with the enhanced integration of private business in public policy processes, challenging the once-dominant position of state agencies.⁶¹ Private preferences, particularly strong in sectoral and distributive policies, penetrated industrial reforms and adjustments. While shifts in policy remained largely state-initiated, they reflected integration of business elites and officials in state institutions. Policy reforms succeeded in areas which benefited large business groups, such as overseas investment decontrols, the removal of entry barriers to protected industries and the privatisation of state enterprises.⁶² But deregulatory initiatives had to be modified and compensation packages were needed to smooth out the reform process in some sectors, specifically agriculture and agroprocessing, where business opposition appeared irresistible.⁶³ While state agencies maintained a capacity to formulate development strategy, the transition to consolidated democratic rule and continued economic deregulation in the 1990s increasingly saw state–business interactions emerge as integrated mechanisms of governance. Such mechanisms, which took the form of a conservative alliance between the KMT, big business and local factions, drove the process of structural transformation and shaped policy responses to global market changes.⁶⁴ The alliance remained largely intact following the electoral defeat of the KMT in March 2000 and continues to underpin economic policy management in Taiwan.

The changing nature of industrial and economic policies in Southeast Asia during the 1980s and 1990s was also an important function of the realignment of institutionalised relationships between state and social elites. In Malaysia, nurtured under the protection of various policy favours, a powerful Malay business community became increasingly influential in the policy-making process during the 1980s.⁶⁵ The increased economic and political power of Malay business stemmed not so much from its entrepreneurial dynamism as from its symbiotic relationship to state elites and from the various rents such connections created. Business elites provided political leaders with financial support in return for policy largesse delivered by their political patrons,⁶⁶ a ‘state–capital alliance’

representing the significant interpenetration of public and private interests and shaping the terms of market competition internally and externally.⁶⁷

The heavy industrialisation drive went awry in the mid 1980s when Malaysia experienced a severe economic recession. This prompted the government to shift towards deregulation and liberalisation by means—among others—of privatising state enterprises, revamping the industrial investment regime and adopting a more export-oriented strategy. The more liberal line of economic policy making continued throughout the rest of the 1980s and well into the 1990s. The economic crisis and external market pressures certainly provided the impetus for policy reforms. But the direction and nature of these reforms correlated primarily with the changing configuration of the state–market condominium. Top political leaders saw reforms as an effective way to tide over the recession, get the better of the opposition and secure their political future. On the other hand, Malay business interests desired deregulation in order to gain more room for their business operations.⁶⁸ The liberalisation plan was politically feasible, because the selective way it was implemented benefited the Malay business elite.⁶⁹

In Thailand agriculture-based growth was thrown into disarray by plummeting world commodity prices during the mid and late 1970s. After a brief infatuation with industrial deepening,⁷⁰ the overall development strategy shifted towards manufacturing-export-led industrialisation in the aftermath of the economic crisis of the early 1980s.⁷¹ External market pressures aside, a group of externally oriented and labour-intensive industries outgrew the domestic market and became leading performers in the export drive of the 1970s and 1980s. Allied with them was the powerful financial community, which viewed these industries as enjoying growth potential and began to establish close ties with them. The government–business relationship became more institutionalised in the form of public–private consultative forums which, combined with the increased organisational capacity of business associations, facilitated the projection of private-sector preferences into the policy-making process. At the same time, industrial and financial conglomerates with strong interests in export-led growth found receptive technocrats who had been arguing for such reorientation for a long time. This alliance underpinned the high growth period through the early 1990s and emerged as the winner over societal actors who had a vested interest in the protectionist policy regime.⁷²

The export-oriented state–market alliance proved to be short-lived, however, as in the mid 1990s new and low-cost competitors in export markets gained a competitive edge over labour-intensive Thai products. Many Thai firms were unable to upgrade their export technologies and began to focus more on domestically based service and heavy industries.⁷³ Private financiers, infatuated with a variety of new business opportunities opened up by a financial liberalisation which they helped push, began to turn away from their export-oriented clients. Technocrats saw their state–market alliances deteriorate with the transition to democracy and gradually lost control over industrial policy management. Business people, many of whom became leading politicians and even took the helm of major economic ministries, employed their political resources, through state policies, to pursue their own particularistic interests. The result was a decline in the international competitiveness of Thai firms and the appearance of a distorted

industrial structure that constituted a crucial cause of the financial crisis in the late 1990s.⁷⁴

Conclusion

This article has argued in favour of a conceptual leap to rethink the political underpinnings of development in East Asia. The central proposition is that we should overcome the limitations of models that conceptualise antagonistic state–market relationships. Because empirically states and markets are never found apart, they constitute an analytically integrated form of public–private governance: the ways in which interests are structured, power is exercised and economic policy choices are made. While one may in some circumstances make a residual case for maintaining the analytical distinction for clarity of understanding, this article demonstrates that they are better theorised as a state–market condominium. The private agents of the market, working through the mechanisms of the state and the policy process, are as much part of governance as the formal institutions of state. There is a systematic and reciprocal relationship between changing market structures and changing forms of governance in developing countries.

The state–market condominium approach has been applied to case material on the major East Asian newly industrialising economies. In each case, the interests of market agents were integral to the political economy of successful development. This occurred asymmetrically in accordance with their structural power and organisational capacity, through their involvement in state policy-making institutions and in ongoing public–private interaction. This was particularly prevalent in industrial policy management and financial market governance, structuring the terms of market entry, the extent of foreign commercial involvement, the level of competition and the mode and nature of regulation: in short, affecting the very nature of the market itself. At different times in the postwar history of East Asian development, the integration of state officials and market actors constituted the crucial political and institutional underpinning of economic success. The ongoing process of political transition and economic liberalisation in the 1980s and 1990s, however, saw dominant private actors gradually capture public policy processes and reshape both policy and market structures. This led, to varying degrees, to institutional failures and serious problems of economic policy management in East Asia during the late 1990s.

The concept of the state–market condominium thus permits a more realistic explanation of the possibilities and constraints of the political economy of development. It leads us away from Manichean images of the state thwarting the market or *vice versa*. In the contemporary period, maintaining a politically sustainable and welfare-enhancing balance between private interests and public purposes is possible through a considerable strengthening of democratic institutions of accountability at all levels of governance, particularly in the economic domain. This is of course easier said than done and would certainly run into the fierce opposition of dominant private interests that most enjoy the rent-seeking structures which market and not-so-market relations have bestowed on them. The difficulty of restructuring the oligopolistic corporate sector and taming big business in some East Asian crisis countries has attested to such opposition. These difficulties,

however, should not diminish the potential advantages of a more inclusive state–market condominium. It is most likely that such operations would significantly reduce the scope for pursuing a narrow (sometimes anti-development) private agenda on the part of coalitions of public and private sector actors, for example, as in Indonesia. Democratic processes should be understood as functioning as much to keep private economic interests accountable to the public interest roles they perform in our market societies, as to keep politicians and governments accountable to the electorate.

Notes

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1. The paradigmatic status of the model in the international policy community is reflected in the recognition of the importance, if only partial and grudging, of the role of the state in economic development from the World Bank. See The World Bank, *The East Asian Miracle* (Oxford University Press, 1993); and *World Development Report 1997* (Oxford University Press, 1997).
2. These efforts include, among others, R. Boyd & T. W. Ngo (eds), *Asian States* (Routledge, 2005); S. Chan, C. Clark & D. Lam (eds), *Beyond the Developmental State* (Macmillan, 1998); R. Doner, ‘Limits of State Strength’, *World Politics*, Vol. 44, No. 3 (1992), pp. 398–431; Peter Evans, *Embedded Autonomy* (Princeton University Press, 1995); and Linda Weiss, *The Myth of the Powerless State* (Polity, 1998).
3. Among the many studies along the developmental state line of reasoning, those frequently cited include Alice Amsden, *Asia’s Next Giant* (Oxford University Press, 1989); Stephan Haggard, *Pathways from the Periphery* (Cornell University Press, 1990); Chalmers Johnson, *MITI and the Japanese Miracle* (Stanford University Press, 1982); and Robert Wade, *Governing the Market* (Princeton University Press, 1990).
4. See, for example, C. Clark & K. C. Roy, *Comparing Development Patterns in Asia* (Lynne Rienner, 1997); R. F. Doner & G. Hawes, ‘The political economy of growth in Southeast and Northeast Asia’, in: Manochehr Dorraj (ed.), *The Changing Political Economy of the Third World* (Lynne Rienner, 1995), pp. 145–85; C. I. Moon & R. Prasad, ‘Networks, politics, and institutions’, in: Chan *et al.*, *Beyond the Developmental State*, pp. 9–24; and M. Woo-Cumings, *The Developmental State* (Cornell University Press, 1999).
5. Our thanks to Richard Robison for this point.
6. See Evans, *Embedded Autonomy*; Weiss, *The Myth of the Powerless State*; and Linda Weiss & John Hobson, *States and Economic Development* (Polity, 1995).
7. Linda Weiss (ed.), *States in the Global Economy* (Cambridge University Press, 2003).
8. Kent Calder, *Crisis and Compromise* (Princeton University Press, 1989); and Richard Samuels, *The Business of the Japanese State* (Cornell University Press, 1987).
9. Doner, ‘Limits of State Strength’; Doner & Hawes, ‘The political economy of growth’; E. Y. Kim, ‘The Developmental State and the Politics of Business Interest Associations’, *Pacific Focus*, Vol. 8, No. 2 (1993), pp. 31–60; and D. Okimoto, *Between MITI and the Market* (Stanford University Press, 1989).
10. C. Clark & S. Chan, ‘Market, state, and society in Asian development’, in: Chan *et al.*, *Beyond the Developmental State*, pp. 25–37; and Clark & Roy, *Comparing Development Patterns in Asia*.
11. The review of the recent revisionist literature has been necessarily brief, leaving out much subtlety and variety among the perspectives discussed here. It has also neglected emerging sociological studies that attribute divergent economic outcomes in East Asia to different organisational structures that shape inter-firm interactions and industrial patterns and the sectoral approach that focuses on the organisational features of industrial sectors as a determinant of state autonomy and capacity. See M. Orrù, N. Biggart & G. Hamilton, *The Economic Organization of East Asian Capitalism* (Sage, 1997); and D. M. Shafer, *Winners and Losers* (Cornell University Press, 1994).
12. The literature is too vast to review in this article. For prominent examples, see A. Cox (ed.), *The State, Finance and Industry* (Wheatsheaf, 1986); Peter Hall, *Governing the Economy* (Oxford University Press, 1986); Peter Katzenstein, *Small States in World Markets* (Cornell University Press, 1985); Claus Offe, *Disorganised Capitalism* (MIT Press, 1985); Andrew Shonfield, *Modern Capitalism*

- (Oxford University Press, 1969); and John Zysman, *Governments, Markets and Growth* (Cornell University Press, 1983).
13. Our thanks to one of the anonymous reviewers for this point.
 14. Weiss & Hobson, *States and Economic Development*, p. 170.
 15. Weiss, *The Myth of the Powerless State*, p. 38.
 16. Gary Rodan, Kevin Hewison & Richard Robison, 'Theorising Southeast Asia's boom, bust, and recovery', in: Gary Rodan *et al.*, (eds), *The Political Economy of Southeast Asia* (Oxford University Press, 2001), p. 6.
 17. Peter Gourevitch, 'The Second Image Reversed', *International Organization*, Vol. 32, No. 4 (1978), pp. 881–912.
 18. Elsewhere this issue has been discussed more effectively. See, for example, C. Clark, 'Modernisation, democracy and the developmental state in Asia', in: J. F. Hollifield & C. Jillson (eds), *Pathways to Democracy* (Routledge, 2000); Stephan Haggard, 'Business, politics and policy in Northeast and Southeast Asia', in: A. MacIntyre (ed.), *Business and Government in Industrialising Asia* (Allen & Unwin, 1994), pp. 268–301; and I. Marsh *et al.* (eds), *Democracy, Governance, and Economic Performance* (United Nations University Press, 1999).
 19. See H. Landreth, *History of Economic Thought* (Houghton Mifflin, 1976), ch. 6.
 20. See O. Williamson, *Markets and Hierarchies* (The Free Press, 1975), who recognises the point but who does not bring it alive in political and social terms.
 21. Karl Polanyi, *The Great Transformation* (Beacon Press, 1944).
 22. See the arguments of H. Schwartz, *States versus Markets* (Macmillan, 2000), ch. 11.
 23. Such as that propounded by Susan Strange in *The Retreat of the State* (Cambridge University Press, 1996).
 24. Polanyi, *The Great Transformation*.
 25. Geoffrey Underhill, 'State, Market, and Global Political Economy', *International Affairs*, Vol. 76, No. 4 (2000), pp. 805–24; and Geoffrey Underhill, 'States, Markets and Governance for Emerging Market Economies', *International Affairs*, Vol. 79, No. 4 (2003), pp. 755–81.
 26. Polanyi, *The Great Transformation*.
 27. J. S. Migdal, 'The state in society', in: J. S. Migdal *et al.* (eds), *State Power and Social Forces* (Cambridge University Press, 1994), pp. 7–36.
 28. Michael Moran, 'Financial markets', in: J. Simmie & R. King (eds), *The State in Action* (Pinter, 1990), pp. 48–51.
 29. Moon & Prasad, 'Networks, politics, and institutions'; and Robert Wade, 'East Asia's Economic Success', *World Politics*, Vol. 44, No. 2 (1992), pp. 270–320.
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 31. Doner & Hawes, 'The political economy of growth'.
 32. E. T. Gomez & K. S. Jomo, *Malaysia's Political Economy* (Cambridge University Press, 1997), pp. 49–53; and K. S. Jomo & E. T. Gomez, 'The Malaysian development dilemma', in: M. H. Khan & K. S. Jomo (eds), *Rents, Rent-Seeking and Economic Development* (Cambridge University Press, 2000), pp. 274–303.
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 34. A. MacIntyre, *Business and Politics in Indonesia* (Allen & Unwin, 1990); and Robison, 'Structures of Power and the Industrialisation Process'.
 35. R. Doner & A. Laothamatas, 'Thailand', in: S. Haggard & S. Webb (eds), *Voting for Reform* (Oxford University Press, 1994), pp. 411–52; and Andrew Rosser, *The Politics of Liberalisation in Indonesia* (Routledge, 2003).
 36. Haggard, 'Business, politics and policy in Northeast and Southeast Asia', pp. 294–5; and H. Milner, *Resisting Protectionism* (Princeton University Press, 1988), pp. 14–17.
 37. Geoffrey Underhill, *Industrial Crisis and the Open Economy* (Macmillan, 1998), pp. 18–25.
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