Making Sense of the East Asian Development Model: an Overview of Neoliberal and Statist Accounts

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Abstract
The object of investigation of this article is a select group of East Asian countries that posted the highest growth rates in postwar economic history, and dramatically lowered poverty rates in the process. This unprecedented performance in economic development was cut short by a financial crisis in the late 1990s. This article provides an overview of neoliberal and state-centric accounts of the rise and fall of this region. The common denominator of these approaches is that they do not provide definitive accounts for either the miracle or the crisis. The roots they advance for the miracle are free-market policies, and strong states backed up by meritocratic bureaucracies respectively. The temporary unraveling of the miracle during the Asian crisis challenged these paradigms, hence the rethinking that ensued. Paradoxically, post-crisis repositioning led to a relative convergence in point of crisis explanations despite the diverging assumptions of the two paradigms.

Key words: East Asia, economic development, neoliberalism, statism

JEL classification: F62, H11, O10, O43, P47

1. Introduction
East Asian development models generally sparked extreme reactions in the Western world: delight for their overt economic performance, surprise at the differences in political and economic conception, and a desire for emulation, disapproval and recoil at the ravages of the 1997-1998 contagion, acknowledgement of their ability to rebound from the current crisis, and of their rise in the world economy (s. Stiglitz, 2002, IMF, 2010, IMF, 2011). The roots of this region’s development and the reasons behind its provisional downfall were investigated by three major schools of thought: neoliberalism, statism, and the sociocultural approach. This article presents a critical analysis of the first two approaches, insisting on the reconfigurations induced by the mutation from miracle to the 1997-1998 financial crisis. The object of our investigation is the “Asia-10” grouping, i.e. those East Asian economies that achieved the highest growth rates in the developing world in a span of three to four decades, namely, in order of successive export-oriented industrialization waves: (i) Japan; (ii) the new industrialized economies (NIE) (South Korea, Taiwan, Hong Kong, and Singapore); (iii) the ASEAN-4 group (Thailand, Malaysia, Indonesia, the Philippines); (iv) China.

1 See the gap between Western democracies and Asian authoritarian regimes, and the gap between the Japanese model of production-driven economy and the US consumer economy (Thurow, 1992).
2 See the Transatlantic takeover of Japanese quality management methods and Western studies of corporate strategies used by transnational Chinese companies (Zeng and Williamson, 2008).
3 The global recovery in 2009 was led by East Asia (IMF, 2010). According to IMF forecasts, in two decades Asia will become the world’s leading economic region, with a higher aggregate GDP than the G7 (IMF, 2011).
4 This label is used by major international economic organizations: the International Monetary Fund (IMF), the World Bank (WB), the World Trade Organization (WTO).
5 Some of these economies were at levels comparable with sub-Saharan African countries.
6 ASEAN is the acronym for the Association of Southeast Asian Nations, a political and economic organization comprising ten members that fall into three income groups (ordered from the wealthiest to the poorest): the city-state of Singapore and oil-rich Brunei; Thailand, Malaysia, Indonesia, the Philippines (the ASEAN-4 group); the newest members, i.e. Cambodia, Laos, Myanmar, and Vietnam (the CLMV group).
Furthermore, Sala-i-Martin (2007) estimated that East Asia was the best performing region in terms of lowering the poverty rate from about a third of the population in 1970 to below 2.4% in 2000. Undoubtedly, a lot of studies dwelling on East Asia (in particular those developed by Western analysts) confine themselves to stereotypes, construing the entire region at best as a monolithic block of member states, extrapolating their assertions onto the entire continent by falling back upon the broad contrast between East and West. On the other hand, inside East Asia there is a sufficient ethnic, cultural and religious heterogeneity (Beeson, 2002, Stubbs, 2002), which has induced cleavages, sometimes even tensions, undermining the coherence of the region. This may be an argument for the noteworthy absence of a region-wide group for economic integration in the context of a sheer proliferation of regional trading arrangements (RTA), and export-oriented industrialization specific to this area⁷.

This article is structured in four parts. After a brief introduction, similarities between East Asian economies are addressed, with a focus on the underlying features of this development model. The third part undertakes a comparative analysis of neoliberalism and statism in light of the miracle arguments and repositioning dilemmas in the wake of the 1997-1998 crisis. The last section concludes, correlating the two paradigms with the current financial crisis and with the new directions that are looming for the East Asian development model.

2. Similarities between Asia-10 members

Leaving behind differences between Asia-10 members mentioned in the introduction, there are, on the other hand, a number of similarities which will be briefly presented below:

(i) Similar experiences in recent history, functioning like a bridge for the countries in the region:
- Western colonization⁸. - the Japanese occupation of the 1930s and 1940s, which drew most East Asian countries into the "co-prosperity economic sphere", a misleading label postulating the superiority of Japanese colonialism over the Western one, and a symbiotic relationship between the "conqueror" and the colonized countries. In fact, Japan was counting on their generous endowment in natural resources (especially that of China and Southeast Asia) to fuel its war against the Allies. Japanese military atrocities have generated numerous frustrations across the region, although Japan attempted to remedy them subsequently through the Tanaka doctrine and its official development assistance (ODA).
- US domination after the Second World War in their endeavor to contain communism⁹, including through their involvement in the Korea and Vietnam wars;
- the return to Japanese domination from the late 1970s, when Japan became the main source of exports, investments and aid in the region, and the strengthening of its ascendancy in the late 1980s.

(ii) Some common cultural traits underlying Neo-Confucianism: loyalty to one’s family and community, quest for social harmony, strong focus on fulfillment of social duties, discipline, thrift, respect for authority, especially for the political one.

(iii) The state plays an emblematic role in economic development, and gets support in this endeavor from a series of "pilot agencies" for development¹⁰. Although these organizations have different internal structures, they function as superministries, where their mission is designing industrial policy and coordinating industrial change. Ideally speaking, they are designed as Weberian bureaucracies.

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⁷ Currently important steps are being taken in this direction, relying on the ASEAN Plus Three (APT), a relatively new alternative to earlier RTAs, ASEAN and APEC, which failed abysmally in an attempt to become a collective voice for East Asia (Stubbs, 2002).
⁸ With the exception of Thailand, who miraculously managed to maintain its independence (Doner, Ritchie, and Slater, 2005).
⁹ See their powerful economic, military, and even ideological involvement in East Asia, especially in Japan, South Korea and Taiwan (Park, 2000, Doner, Ritchie, and Slater, 2005).
(iv) A region-specific typology of capitalism ("Asian capitalism")\textsuperscript{11}, which differs broadly from Western capitalism in the following ways (Stubbs, 2002):

- The ubiquitousness of business networks, which led “Asian capitalism” to be equated with "network capitalism" or "alliance capitalism" (Rigg, 2002). Powerful regional connections were forged both through Japanese production networks and through so-called “bamboo networks” spawned by ethnic Chinese entrepreneurs across ASEAN-5\textsuperscript{12} and Greater China (Huntington, 1997);
- Close ties between government and the business milieu: in the case of ASEAN-4 and South Korea virtually the same players are bound to be encountered in both camps, which has led to the advent of "crony capitalism" (IMF, 1998, Beeson, 2002, Stud well, 2008); in other cases, such as the Japanese one, players cross from one milieu to the other as in the already classic practice referred to as amakudari (Pempel, 1998);
- Social duties and relationships of trust\textsuperscript{13} prevail over contract enforcement.

This network capitalism has led to de facto regional economic integration in the late 1980s through successive investment waves across the area, coming usually from the more developed economies (Japan and NIE) to the less developed ones (ASEAN-4 and China) (Park, 2000, Beeson, 2009). Consequently, intra-regional trade has grown to levels surpassing exports to the US and to the rest of the world before the 1997-1998 financial crisis. At the time the growth of these economic connections and the overwhelming success of the overall region constituted two key factors in the emergence of a so-called Asian conscience, identity or even an Asian Renaissance, fueling hope for a “new Asian century” (Mahbubani, 1993).

Despite the region’s heterogeneity in ethnic, cultural, religious and even economic terms, there are several common points supporting the idea of an East Asian development model, at least prior to the 1997-1998 crisis. This model is defined through a specific orientation in economic policies and through certain sociocultural features pointing to a shared historical path. By and large, economic policy choices refer to export promotion and selective protectionism, active industrial policies, concern for macroeconomic stability, education policies and social cohesion. Sociocultural similarities mainly derive from Neo-Confucian philosophy.

3. Paradigms of economic development applied to East Asia

3.1. East Asian miracle legitimation

The table below outlines the sources of economic development as envisioned by three different schools of thought:

<table>
<thead>
<tr>
<th>Paradigms of economic development</th>
<th>Source of economic development</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Neoliberalism</td>
<td>The market</td>
</tr>
<tr>
<td>(ii) Statism/Developmental state paradigm (DSP)</td>
<td>The state</td>
</tr>
<tr>
<td>(iii) Neoclassical synthesis</td>
<td>Conjunction between the state and the market</td>
</tr>
<tr>
<td>(iv) Sociocultural approach</td>
<td>Culture</td>
</tr>
</tbody>
</table>

*Source: Author’s systematization after O’Brien and Williams (2004) and Rigg (2002)*

From the beginning, several remarks are in order. Firstly, the three approaches are not totally isolated, there are analysts who embraced ideas belonging to two paradigms (for instance, the so-called "neo-classical synthesis" is mid-way between neoliberalism and statism) or even analysts who subscribed to all paradigms. Secondly, these schools of thought sought an enthusiastic rationale for the East Asian miracle; however, the Asian crisis caused theorists to backtrack to a certain extent, forcing them to rethink their positions.

\textsuperscript{11} There are different variations of "Asian capitalism". According to Perkins (1994), there are at least three Asian development models: (i) First-generation Northeast Asian model (Japan, South Korea, Taiwan), characterized by strong institutions and evolving international specialization; (ii) City-state model functioning as an entrepôt for the entire region, excelling at transport, telecommunications and financial services; (iii) The ASEAN-4 model, with a generous initial endowment in natural resources and strong dependence on foreign direct investment (FDI). Weiss (1998) differentiates between the first and third models in the following way: Northeast Asian capitalism is more mature and more resilient to exogenous shocks, whereas the Southeast Asian one is more volatile and prone to cronymism, therefore, it is more vulnerable to external pressures (s. also Beeson, 2002, Huang, Morck, and Yeung, 2004).

\textsuperscript{12} ASEAN-5 refers to a group of economies made up of Singapore and ASEAN-4.

\textsuperscript{13} This is a corollary of Neo-Confucianism and it can surface in relations between business partners, for example.
Thirdly, this revision brought about a fair convergence between neoliberalism and statism, articulated through the formulation of the Post Washington Consensus.  

3.1. Neoliberalism

Neoliberalism claims that the overwhelming success of East Asian economies was triggered by applying a set of appropriate economic policies: fiscal prudence, encouraging savings and investments, promoting the economy’s openness through export-oriented industrialization.

Export-oriented development strategies led to a better allocation of resources. This view relies on the assumption that markets function efficiently, and that the state plays a minimal role, taking on the mission to ensure political stability and an appropriate regulatory framework (Balassa, 1981). At the same time this type of strategies constituted the support of industrialization in these economies, proving their superiority over import substitution strategies. The latter were fought against fiercely because they usually presuppose huge government outlays, as a rule via debt accumulation, near-isolation from external competition, and large outlets. The collapse of Latin American economies in the 1980s triggered by soaring foreign debt, and their subsequent development strategy revision roughly coincide with the advent of neoliberal regimes in the US and the UK and their ideological leadership, incorporated by the international financial institutions (IFIs) in their development philosophy through the conditionality principle. Furthermore, transnational corporations (TNCs)’ international expansion accelerated at the time through the relocation of production: ASEAN-5 and subsequently China became favorite destinations for foreign direct investments (FDI) attracted by cheap labor, cheap resources and, last, but not least, by government incentives.

3.1.2. The DSP paradigm

The DSP paradigm is a more modern version of statism. It has been advanced by a group of political scientists and specialists in the East Asian region, extending then to Western circles.

This approach is considered an "imaginative reinvention of dirigisme" (Islam and Chowdhury, 2000) since it relies on the assumption that the state is the engine of economic growth and it argues for the efficiency of massive state intervention in the economy. This paradigm attacks neoclassicism, but firmly rejects dependency theory, the strong ally of dirigisme: for Haggard (1990) East Asia’s economic performance aptly illustrates developing countries can find “a pathways from the periphery” of the world economy. South Korea’s trajectory from a backward economy on a par with Ghana to a full OECD member by 1996 is quite telling in this regard.

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14 For some, this is a major shift equated with a paradigm shift à la Thomas Kuhn (Gore, 2000 quoted in Rigg, 2002). However, this very bold assertion calls for two remarks. Firstly, this shift was not triggered solely by the Asian financial crisis, rendered worse through inadequate IMF intervention (s. Stiglitz, 2009, Stiglitz, 2002, Stubbs, 2002, Beeson, 2002) but also by the "shock therapy" strongly recommended to Central and Eastern European countries as a recipe for market economy transition. Secondly, the Post Washington Consensus has been severely criticized for the alleged universality of its development template associated with institution building and a focus on good governance.

15 In a first stage most East Asian economies experimented with import substitution strategies then shifted to export-oriented strategies. In the case of the first-generation East Asian model, this protectionism was extended for infant industries (see the examples of Japan and South Korea) or uncompetitive ones (for instance, agriculture in Japan) (Pempel, 1998, Park, 2000).

16 For the first-tier Northeast Asian economies (Japan, South Korea, Taiwan) FDI played a minor role in their early development; neither FDI volume, nor FDI impact was critical at this stage (Park, 2000).

17 Hong Kong is the noteworthy exception here as it developed under British liberal influence.

18 The heyday of dirigisme spans the 1950s and the 1960s. This approach postulates the nation-state as the engine of economic growth, and the reliance on import substituting development strategies. Bhagwati (1988) captures the essence of its more radical version, dependency theory, through two phrases: "export pessimism" and "market failure". According to dependency theory, developing countries were doomed to stay in the world economy periphery because their exports of primary goods failed to cover imports of manufactured goods from developed countries. Consequently they developed a wide range of local industries with strong state involvement and protection from foreign competition (see here the experiences of Latin America and, partly, Central and Eastern Europe, who mostly cultivated trade exchanges with fellow socialist countries inside the Council for Mutual Economic Assistance or COMECON). This development strategy ended up in failure with the Mexican sovereign debt crisis of 1982. It wasn’t just that Latin America had incurred high foreign debt in its industrialization drive. Failure also derived from ineffective use of public funding and, at best, patchy efficiency of new home-grown industries. (Brown, 2001, Todaro and Smith, 2009).
The first and last columns in the table below encapsulate the first two approaches, while the middle one provides the equivalents detectable in East Asian reality.

Table 2: Washington Consensus, DSP paradigm and the East Asian miracle

<table>
<thead>
<tr>
<th>Washington consensus</th>
<th>“Recipe” for East Asian success</th>
<th>DSP paradigm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal discipline and austerity</td>
<td>Relatively healthy macroeconomic policies</td>
<td>Efficient public administration</td>
</tr>
<tr>
<td>Budgetary discipline</td>
<td>High levels of national savings and investments</td>
<td>Judicious government intervention</td>
</tr>
<tr>
<td>Fiscal reform</td>
<td>Investor friendly tax policies</td>
<td>Investments in human capital</td>
</tr>
<tr>
<td>Financial liberalization</td>
<td>Reliable financial system, based on intermediation, strictly regulated and monitored</td>
<td>Investments in physical capital</td>
</tr>
<tr>
<td>Exchange rate liberalization</td>
<td>Real competitive exchange rates</td>
<td></td>
</tr>
<tr>
<td>Trade liberalization</td>
<td>Export incentives</td>
<td></td>
</tr>
<tr>
<td>Foreign Direct Investments (FDI)</td>
<td>Openness to technology and foreign investments</td>
<td></td>
</tr>
<tr>
<td>Privatization</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Deregulation</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Ownership</td>
<td>Legal and regulatory environment favorable to private sector investments; guaranteeing property rights</td>
<td></td>
</tr>
</tbody>
</table>

Source: Rigg (2002)

Table 3 captures the viewpoint of Stiglitz (2002) to the positive trajectory of the East Asian region, despite its application of economic policies that jarred with the Washington Consensus. The only common denominator between the two approaches is the concern for macroeconomic stability. This radical view is yet to resonate with theorists of "mainstream" academia.

Table 3: Washington Consensus and the East Asian miracle

<table>
<thead>
<tr>
<th>Washington Consensus</th>
<th>East Asian approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>The importance of international trade liberalization</td>
<td>Export promotion and protectionism (emphasis on export promotion, not on imports facilitation)</td>
</tr>
<tr>
<td>Quick financial liberalization</td>
<td>Gradual financial liberalization</td>
</tr>
<tr>
<td>Privatization</td>
<td>Creating efficient companies</td>
</tr>
<tr>
<td>Industrial policy is a wrong orientation</td>
<td>The industrial policy-trade policy tandem is government priority</td>
</tr>
<tr>
<td>Minimizing social inequality problems</td>
<td>Social inequality issues are important for social cohesion and for the business climate</td>
</tr>
<tr>
<td><strong>Minimal</strong> role of the state in the economy (my emphasis)</td>
<td>The state contributes to <strong>market formation and surveillance</strong> (my emphasis)</td>
</tr>
</tbody>
</table>

Source: Author’s systematization after Stiglitz (2002)

3.1.3. The neo-classical synthesis

The neo-classical synthesis (Islam and Chowdhury, 2000) is an attempt to reconcile the two schools of thought presented earlier, a conjunction between the application of "good policies" ("getting the basics right", World Bank, 1993) established by the Washington Consensus and the potential big push role the state can play under certain conditions. This rapprochement between the two apparently contradictory schools of thought was generated in a first stage (Islam and Chowdhury, 2000) by the success enjoyed by the DSP paradigm, still others believe that the key factor (Rigg, 2002) was the Asian financial crisis, which led theorists to review their arguments in favor of the miracle in an attempt to rescue their own approaches.

A study belonging to this border approach is the World Bank report (1993) entitled "The East Asian Miracle: Economic Growth and Public Policy".
This study identifies eight High Performing Asian Economies (HPAEs) and an "emerging" one (East and South-East China) between the 1980s and the early 1990s: Japan; NIE; ASEAN-4 except the Philippines\textsuperscript{20}; East and South-East China\textsuperscript{21}.

If the protagonists of the "play" and its location in time and space are quite clear, the "rising action" and "climax" are not equally straightforward. This study can be easily maneuvered to support either of the two prevailing ideologies, whether neoliberal or statist. This made the report an easy target for critics who charged against its ambiguity and occasional inconsistencies (Rigg, 2002). Others, however, have read it in a key foreshadowing the shift from the Washington Consensus to the Post Washington Consensus (Weiss, 2003).

These different interpretations came not only from the academic community, but also from the media (Wade, 1996): for example, Japanese print and broadcast media brought to the fore their country’s pioneering role in promoting a "guided approach to development" (see here the flying geese metaphor, Akamatsu, 1962), considered crucial for achieving the region’s economic and social performance, while Anglophone media (US and UK) praised the neoliberal vision embodied in the Washington Consensus.

In the former approach, the state is more important than the market, while from the latter perspective, the balance of forces is changing, and government interventions are just one element of success and it is not advisable that they take too much scope, the focus must fall instead on market-oriented reforms. This implies that "the potentially important role of the state in the economy" emerges from the report’s neoliberal scaffolding, and thus legitimates the DSP paradigm’s rise. Subsequent World Bank studies reinforce this idea ("the Asian Way"), focusing on the nation-states’ role in the development process in general, and on the management of government-private sector relations in particular.

**Figure 1: A Functional Approach to Growth**

<table>
<thead>
<tr>
<th>Policy Choices</th>
<th>Growth functions</th>
<th>Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fundamentals</strong></td>
<td>Accumulation</td>
<td>Rapid and sustained growth</td>
</tr>
<tr>
<td>- Stable macroeconomy</td>
<td>- Increasing human capital</td>
<td>- Rapid growth of exports</td>
</tr>
<tr>
<td>- High human capital</td>
<td>- High savings</td>
<td>- Rapid demographic transition</td>
</tr>
<tr>
<td>- Effective and secure financial systems</td>
<td>- High investments</td>
<td>- Rapid agricultural transformation</td>
</tr>
<tr>
<td>- Limiting price distortions</td>
<td></td>
<td>- Rapid industrialization</td>
</tr>
<tr>
<td>- Agricultural development policies</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Selective interventions</strong></td>
<td>Allocation</td>
<td></td>
</tr>
<tr>
<td>- Export push</td>
<td>- Effective use of human capital</td>
<td>- Equal income distribution</td>
</tr>
<tr>
<td>- Financial repression</td>
<td></td>
<td>- Improving social indicators</td>
</tr>
<tr>
<td>- Directed credit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Selective promotion</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Institutions</strong></td>
<td>Productivity change</td>
<td></td>
</tr>
<tr>
<td>- Technocratic insulation</td>
<td>- Productivity-based catching up</td>
<td>- Rapid technological change</td>
</tr>
<tr>
<td>- High-quality civil services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Monitoring</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Competitive discipline</strong></td>
<td>Rapid and sustained growth</td>
<td></td>
</tr>
<tr>
<td>- Market-based</td>
<td>- Rapid growth of exports</td>
<td></td>
</tr>
<tr>
<td>- Export competition</td>
<td>- Rapid demographic transition</td>
<td></td>
</tr>
<tr>
<td>- Domestic competition</td>
<td>- Rapid agricultural transformation</td>
<td></td>
</tr>
<tr>
<td>- Information exchange</td>
<td>- Rapid industrialization</td>
<td></td>
</tr>
<tr>
<td>- Export credit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Investment coordination</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Figure 1 captures the report’s two reasoning paths. The first column contains the East Asian governments’ two dimensions for policy options: those associated with the neoclassical approach (basic macroeconomic elements or “fundamentals”) and those associated with the statist approach (selective interventions). The development and implementation of public policies depended on an institutional back-up: in the East Asian case, a series of institutional arrangements (associated with the DSP paradigm) revolving around elite staff made up of technocrats insulated from interest group pressure (Olson, 1982, Evans, 1995, Weiss, 1998).

\textsuperscript{20} At the time this economy was removed from other analyses as well (Keizer and Kenigswald, 1996) because corruption and political instability sapped economic growth. For example, its average GDP growth rate amounted to just 1% in the 1980s compared to an average of 6.3% for the other ASEAN-4 countries (see World Bank statistics).

\textsuperscript{21} These Chinese regions captured the overwhelming majority of FDI inflows through the opening of the first five special economic zones (SEZ) and fourteen open cities by integrating with the global economy through trade processing. Although the authorities subsequently resorted to incentives to address this asymmetry between FDI-poor and FDI-rich provinces, development gaps deterred foreign investors from the hinterland.
The second column notes that these economic policy options are mapped against a competitive business environment. Discipline in the competition area becomes apparent from two points of view: market competition (influence of neoclassical thought) and competition for state rewards (influence of statism). One can easily illustrate from the experience of South Korea and China. In the first case, under Park’s military regime those industries and companies considered strategic, which met the criteria set by the flagship development agency, were granted state rewards. For example, these companies could benefit from loans from the banking system which had been nationalized. Likewise, China used rewards to encourage companies that met certain export quotas. Initially, in the late 1970s, when economic reform began under Deng Xiaoping, exporting companies had to hand over to the state part of their hard currency earnings, then top priority industries were allowed to retain a staggering 70% of total earnings going up to the full amount of their earnings (for light industry, and especially for textile industry).

From the interaction of columns 1 (policy options) and 2 (competitive discipline) several quantifiable growth functions emerge, i.e. accumulation, allocation and distribution functions. The fourth column features outcomes, consisting essentially of “rapid and sustainable growth” and avoiding high income inequality.

To conclude on the neoclassical synthesis, it is obvious that this World Bank study includes the DSP paradigm and partly legitimizes it, nevertheless it shows reservations on the effectiveness of an active industrial policy, with one noteworthy exception, i.e. export incentives.

### 2.3.2. Post-crisis revision of theoretical positions

Both schools of thought were facing a dilemma after the Asian financial crisis as they were compelled to think their arguments through after "exacerbating" the miracle.

#### 2.3.2.1 Neoliberalism

In the beginning the camp of Washington Consensus supporters (the well-known triptych, i.e. the U.S. administration, the IMF and the WB, and much of the Western media) focused on the negative traits of Asian capitalism. Even Stiglitz (2002) refers to the derogatory and even hypocritical discourse against "rotten governments" in East Asia, which had been previously praised for their success. And yet, there is a kernel of truth in these diagnoses. For example, although strongly integrated with the regional economy through its "entrepôt economy" status, Singapore was relatively less damaged by the crisis, a fact attributed to "its good governance" (Huang, Morck, and Yeung, 2004), a true antidote to external shocks of high magnitude (see its favorable ranking in Transparency International, Rigg, 2002)

Subsequently, neoliberals refined their arguments claiming the major reasons behind the crisis were not connected to pro-market policies, but rather to insufficient regulation and incorrect sequencing of reforms applied by East Asian establishments. These countries’ abrupt financial liberalization, and in particular capital account liberalization, were responsible for the crisis (Weiss, 1998).

#### 2.3.2.2 The developmental state paradigm (DSP)

Somewhat paradoxically, the state-centric approach resorts to the same argument as the neoliberals, pointing to incorrect sequencing of reform implementation, but shifts its emphasis to the DSP role. More specifically, state intervention was deemed legitimate and even salutary in order to catch up with the West (see the late industrialization model postulated by Gerschenkron, 1962, Amsden, 1989, and Weiss, 1998). The rise of East Asia in the pyramid of economic development needed to have signaled a shift for the state to assume a lighter role or even to withdraw from the "commanding heights" of the economy. If massive interventionism in the economy was deemed appropriate during the "miracle", starting with the mid 1990s, it began to play a negative role because it degenerated into "crony capitalism" by forging close relationships with the business community. Maturing networks (see Okimoto’s theory, 1989) bring about corruption and a race to the bottom.

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22 Instead, the crisis-stricken economies, i.e. South Korea and ASEAN-4, were ranked way below the city-state in 1999: Malaysia was ranked 31st, South Korea was 50th, and the Philippines, Thailand and Indonesia were 54th, 68th and 96th respectively. (Rigg, 2002).
Table 4: Interpretation of the Asian financial crisis: neoliberalism vs. DSP paradigm

<table>
<thead>
<tr>
<th>Approach</th>
<th>Neoliberalism</th>
<th>DSP Paradigm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Causes</td>
<td>Crony capitalism, lack of transparency</td>
<td>Fast liberalization, low regulatory capacity of the state</td>
</tr>
<tr>
<td>Major problems</td>
<td>Corruption, absence of liberal economic practices</td>
<td>Clash between Anglo-Saxon model of development and the East Asian one</td>
</tr>
<tr>
<td>Lessons</td>
<td>Improving transparency and adopting ‘good practices’ in developing countries</td>
<td>Limitation of financial speculation through public policies</td>
</tr>
</tbody>
</table>

Source: Adapted after O’Brien and Williams (2004)

Essentially, both schools of thought checked their initial enthusiasm, adjusting their theoretical approach post-crisis. This did not amount however to the "total abandonment of their paradigms, but rather the refinement of them" (Rigg, 2002).

4. Conclusions

Despite the East Asian region’s diversity on multiple levels (ethnic, cultural, religious and even economic), there are certain features that support, at least prior to the 1997-1998 crisis, the idea of an East Asian development model. This model is powered by a toolkit of specific economic policies: export promotion strategies and selective protectionism, active industrial policies, concern for macroeconomic stability, education policies and social cohesion. At the same time the model rests on some sociocultural traits derived mainly from Neo-Confucian philosophy. Regarding the paradigms applicable to East Asia, their accounts of miracle and crisis are not flawless. These schools of thought tend to favor one success trajectory as if it held true regardless of a chosen time frame. Thus, if postwar interventionism of East Asian states led to bridging or diminishing the gap vis a vis advanced countries, at different intervals in time, depending on the start of export-oriented industrialization, they no longer appeared apt to further development in the globalization era.

Liberalization and deregulation haven’t always been accompanied by an appropriate set of public policies: there is an overt difference between the globalization-bent crisis-stricken states, i.e. ASEAN-4 and Korea, and the countries that acted cautiously, like China and India, in an attempt to 'manage globalization', and seek to maximize its positive effects and minimize the negative ones. There are other possible explanations: 'big push' projects lose their relevance by interfering with free markets; on the other hand, establishments become captured by the business milieu by financing or facilitating ineffective arrangements, as the Asian contagion suggests.

Instead the current global crisis calls into question the obsolescence of nation-states and of their associated big push projects, neoliberal rhetoric, the international financial architecture, and the financial economy’s modus operandi. Provisional loss of legitimacy of neoliberalism and western economies contrasts with the rise of emerging economies, including those in East Asia, their early crisis performance notwithstanding. Paradoxically, this new reconfiguration of growth sources in the world economy recommends China as a model for the developing countries. This paradox is related not just to its economy and political system typology, but also to China’s structural vulnerabilities.

The evolution of the current crisis and of its protagonists will shape not just economic theories - and the debate surrounding the eternal rivalry between states and markets - but also public policy orientations and development benchmarks. The East Asian development model will show its sustainability when it reduces its export and investment dependency vis a vis the West either through a shift towards domestic and regional demand, where the ASEAN Plus Three (APT) can play a crucial role, or by strengthening its South-South connections or else through a combination of the two.
Selected References


Why did interventions in East Asia, regardless of the quarrel over its effectiveness, not result in ruinous rent-seeking activities as elsewhere? Claiming either 2) the degree of intervention was less than that of elsewhere, or 3) the interventions did neither harm nor good, does not really address the issue though. The model usually starts with given endowment, while development should entail changing endowment. Like other neoclassical theories, growth is not endogenized in the trade model, and hence cannot be explained by trade either. Shifting from being a closed economy to free trade will bring only one-time gain, but no growth effects. Asian Tigers, Bayesian, Byrne Hobart, development, East Asia, Latin America, Tyler Cowen.

The history of East Asian economic growth in the last half of the twentieth century is a history of academics and the World Bank insisting that their policies couldn’t possibly work, followed by decades and decades of torrid growth. The last half of the 20th century is a long time. Expert opinion began moving toward the neoliberal model, aka the ‘Washington Consensus’. But when I was studying economics in the 1970s, the debate was between the relatively statist Latin American model and the relatively market-oriented East Asian model. Later many other developmental statistics including Amsden and Wade further developed Johnson’s theory using other East Asian countries including South Korea as their cases studies. However, after the 1990s another set of developmental state theorists appeared who, whilst criticising the neoliberal agenda of the World Bank, went one step further and argued that the South Korean developmental state should be used as a model for other developing countries.