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**DEVELOPMENTAL STATES IN THE 21st CENTURY:
ANALYTICAL STRUCTURE OF A NEW APPROACH**

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Developmental states in the 21st century:
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Developmental states in the 21st century: Analytical structure of a new approach¹

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Abstract

The financial and economic crisis of 2008-9 and the following difficulties have brought back the analysis of active state involvement in the economy to the research agenda of economists, and a new renaissance of developmental state (DS) approach can be observed. The aim of our paper is to draw up a new approach of DS in the twenty-first century by reviewing most recent literature. In our analysis we argue that to construct a new DS concept one has to break up with the historical and geographical limitation of the classic DS paradigm and the ideological debate around it. Meanwhile one has to build upon most recent results of new institutional, political and development economics' analysis as well as the more than half century long experiences of classic DS. While presenting the structure and main elements of the new DS approach we aim to highlight those questions and areas of analysis, where consensus seems to emerge in literature.

JEL: F63, O20, P11

Keywords: developmental state, globalization, inclusive development

Introduction

Following the financial and economic crisis of 2008-9 and in the light of the prolonged economic recovery afterwards, we can observe different types of active state interventions and growing state involvement to reduce the effects of the crisis and to revive economic growth and development throughout the world. The economic and

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developmental role of the state has been brought back to the centre of economic debate. Simultaneously with this shift in the practice of economic policy-making, we can witness the renaissance of *developmental state literature*. However in our paper we argue, that this new strand of literature is not the revival of the old or classic paradigm of developmental states (Woo-Cumings, 1999; Ricz, 2015), but a new developmental state concept is emerging (though the breakthrough of a new paradigm has not occurred yet).

The starting point for our analysis is the statement, that by the end of the last century, with changes in the specific (and unique) context of the successful (North-)East-Asian developmental states, the fall of the classic developmental state paradigm was inevitable. For constructing a new developmental state concept we have to go beyond the geographical and temporal limitations of the classic paradigm, and we have to deeper embed it in modern economic theories (see Evans, 2010, 2014). We also have to leave behind the ideologically overloaded debates (based on the antithesis and disagreement of the revisionist school³ and the neoliberals) that have characterized the old developmental state approach and also its demise.

Meanwhile we do not aim to build a new developmental state model that could be applied or emulated without limitations, as we are convinced that development strategies are environment-specific, and are only valid in their own context in time and space (Fosu, 2013). At the same time based on the theoretical and practical experiences of developmental states over more the half century and taking into account the new challenges of the twenty-first century (Williams, 2014) we can sketch the main cornerstones of a new developmentalist approach, a new conceptual framework that can structure common thinking (and debates) on the role of state in development to help to reveal differences and commonalities, and to draw up some guiding principles. We are convinced that this provides a fertile ground to actively get involved in international

³ In the twentieth century the adherers of Chalmers Johnson and the classic DS argumentation were called the revisionists, or the revisionist school, who have extended the original Japanese DS model and applied it to other countries of the East-Asian region (see also WB, 1993).

debates on developmental states⁴, while we also aim to re-start or at least intensify similar debates within our country (Hungary)⁵.

The paper is in three main parts. After this short introduction we present most important characteristics of the new developmental state approach structured around three main points: first we clarify the new interpretation of developmental states, then we present the new context shaped by the new challenges of the twenty-first century, and finally we draw up the new analytical structure for developmental states. The second main part of our paper is also divided into three subchapters while we present the most important points, regarding which there seems to emerge consensus in economic literature according to the new analytical structure (presented in the first part). Thus we analyse the requirements for twenty-first century's developmental states on the level of socio-economic alliances and political settlements; the level of institutionalization and policy-making; and finally on the level of economic policies. We close our paper with formulating some concluding remarks.

1. New developmental state approach: new interpretation, new challenges and new analytical structure

The need for re-thinking the analytical concept for developmental states can be verified on the one hand with the fall of the classic paradigm of DS, on the other hand with new challenges emerging in the twenty-first century and presenting new circumstances (possibilities and limits) for governments to formulate and realise their main socio-economic developmental objectives.

To construct a new DS concept two main ways are straightforward: first, relying on the synthesis of most recent theoretical results and second, 'streamlining' latest experiences of states or groups of states revealed as development success and looking at their economic policy practices. The theoretical starting point shall be the new paradigm of development (according to Amartya Sen, 1999) embedded in theories of new

⁴ For this I have had a good opportunity by presenting this paper on the First New Developmentalism Workshop organized by the Centre of New Developmentalism of the São Paulo School of Economics – Getulio Vargas Foundation – in Sao Paulo in Brazil (July 25-26, 2016).

⁵ To just mention a few Hungarian authors dealing most recently with the DS approach see Csáki (2008, 2009), Vigvári (2012), Muraközy (2015, 2016), Szalavetz (2015), Ricz (2015).

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development economics, but also in modern growth theories as well as in new political economics and the new institutional economic school. For more concrete theoretical underpinnings see also the new developmentalist approach shaped by the work of Bresser Pereira (2011, 2015)⁶. While relating to the other way to construct the new concept, the latest experiences of new DS, the most recent experiences of East-Asian countries⁷ (not only in Northeast, but also or even more so in Southeast Asian countries, and according to some analysts also the particular development paths of China and India) might offer some lessons as well as the experiences of the most recent Latin American developmentalist experiments⁸ and also of some quickly growing African economies⁹ have to be taken into account.

We are convinced that the approaches based on theoretical results and practical experiences show into the same directions and alloying both might prove to be fertile for constructing a new DS concept. In this paper however we have a much less ambitious objective: synthesizing most recent academic literature on developmental states we aim to present a common analytical structure for developmental states in the twenty-first century and to reveal some areas, where consensus seems to emerge on content-related questions.

1.1. The old and the new definition of developmental states: continuities and changes

In newspaper articles, in political statements, but also in academic publications we might often encounter with the term *developmental state* without being precisely defined, what is meant, or being used implicitly as a synonym or substitute for *active state involvement*.

The classic school of developmental state literature applied the definition laid down by Chalmers Johnson (1982) in his book on Japan, and then extended it to other, mainly

⁶ The term was first by the Brazilian economist Luiz Carlos Bresser-Pereira in 2003, and caught up during the last decade first by other Brazilian scholars, and later it also started to enter into international development discourse.

⁷ Raquiza (2012) and Hua – Hu (2015)

⁸ Kingstone (2011) and Wylde (2012)

⁹ Routley (2014) and Booth (2015a,b)

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Northeast-Asian countries¹⁰. With the words of Meredith Woo-Cumings (1999:1) the developmental state „*is a shorthand for the seamless web of political, bureaucratic and moneyed influences, that structures economic life in capitalist Northeast-Asia*”.

Developmental states have of course existed and flourished in other regions of the world and also before the seminal work of Johnson. In Latin America the development-oriented (developmentalist) approach has long and extensive historical traditions and also the term developmental state appeared before the 1980s¹¹, however this interpretation differed substantially from the Northeast-Asian developmental state model. The term developmental state was also often used in the twentieth century for a few European countries (such as Ireland, Finland or even France), for some emerging countries (such as India or China, but even Brazil or South Africa could be mentioned), while most recently it has a new renaissance to label some quickly-growing African countries as developmental (for example Botswana, Rwanda or Ethiopia)¹².

In this vein one could agree with Mark Beeson (2007:120) claiming, that “*the developmental state has become a generic term to describe governments which try to ‘intervene’ actively in economic processes and direct the course of development, rather than relying on market forces*”. We could also refer to Laura Routley (2014:159), who argues that “*the concept of a developmental state therefore often works less as a model and more as a ‘buzzword’ with its own uses and effects*”.

We are convinced that in order to prevent the misuse and even the “hollowing out” of the term developmental state, it is inevitable to re-define or revisit it in the twenty-first century.

We are convinced that main defining characteristics of the classic developmental state definition according to Johnson (1982) are still valid. Thus the developmental state

¹⁰ Besides Japan, South-Korea, Taiwan, Hong Kong and Singapore are also mostly labelled as the classic DS. The main characteristics of the extended version of the classic DS model are also valid (with some limitations, of course) for the second generation of the newly industrializing countries in Southeast-Asia (such as Malaysia, Thailand, Philippines, and Indonesia).

¹¹ Fernando Henrique Cardoso and Enzo Faletto (1979:143-148) made the first reference to “developmentalist states” in Latin America (with the original, Spanish version of their book being published in 1971, and containing an entire section on the developmental state). Schneider (1999:278) also mentions Gláucio Ary Dillon Soares (1975) using more explicitly the term “desenvolvimentista state” to describe many Latin American states in the postwar period (and to distinguish them from other, classic minimal and welfare states).

¹² Routley (2012:11-12) provides a good overview on a states discussed more recently as developmental.

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refers to a *capitalist, plan-rational model*, with a *long term commitment to the developmental-oriented approach*, and *active state interventionism* in order to achieve main socio-economic objectives. It is also tenable that for building or maintaining a developmental state some kind of *social consensus* is needed regarding the *central role of state in development*, as well as *on the content of the main socio-economic objectives*.

The classic developmental state paradigm has been focusing on the special case of the *late-comers to development*, and has put *economic catching up* at top of its priorities, more precisely *maximizing economic growth*. Due to the specific and unique Northeast-Asian context it was achieved in a way, that economic growth served the wellbeing of a wide social base, but this *shared character* of economic growth was rather an unintended by-product and less the result of conscious economic policies or political intention. Any developmental state theory in the twenty-first century has to go beyond this old approach focusing solely on economic growth, and under the concept of widely defined development and the so called human-capabilities approach (according to Amartya Sen, 1999) beside the economic dimension of development, new DS models also have to focus on human development (the social dimension), as well as taking into account political and environmental aspects, and the spatial, gender and generational issues of development.

The classic DS concept has analysed the structural transformation of backward, mainly agrarian economies within the specific context of late-development, thus mainly focused on the process of industrialization. The new economic transformation dating back to the end of the twentieth century has resulted a shift towards the knowledge and service sector, as being the main driving forces behind economic growth. The new, bifurcated service sector (Evans, 2014:229) consists of a well-paying business and financial subsector providing employment opportunity for a small minority of service-sector workers, and of a low paid – underestimated and underrewarded – subsector of interpersonal services. This results in basically different distributional and welfare implications, as the industrialization did in the twentieth century. One of the most visible consequences are the increasing social inequalities. Against this background today we have to go beyond the special cases of late-development and industrialization, and we need a general theoretical framework to analyse the structural processes of

economies at any stage of development (and being in line with the new paradigm in development economics).

This broader approach also implies, that the geographical focus, that once used to be concentrating on (North-)East-Asia, shall not be interchanged for a new Africa-focus, but the new developmental state concept should be extended also in its geographical relevance (as well as in its developmental objective, as described above).

The immaturity of the new developmental state concept can easily be illustrated by the diversity of economic literature published in recent years. These often use different labels for the developmental states, emphasizing its catalyst, or enabling role, or describing it as a facilitator. Mariana Mazzucato (2013:21) even goes further in her book on *entrepreneurial states*, deriving from experiences of more developed economies, mainly the United States, and argues, that a so called “*hidden developmental state*”¹³ has played an important and active role in their economic successes. In her argumentation the state (of the US) has went well beyond Keynesian type macroeconomic interventions, or even the passive financing of R&D activities, and has performed entrepreneurial activities in Schumpeterian vein, such as actively overtaking market risks or creating new markets.

All in all, we might conclude that the label *developmental state* is not by all means a favoured or precisely defined one in the twenty-first century, we are convinced however, that re-defining the term DS and revisiting the DS concept in the twenty-first century according to past experiences and future challenges, might offer useful lessons for states with developmental aspirations.

1.2. The new context of the twenty-first century and its significance for the new DS concept

At the latest by the end of the twentieth century changes in the external and internal context of classic developmental states has led to the fall of the classic paradigm of DS (Woo-Cumings 1999; Beeson 2004; Benczes 2002; Williams, 2014; Ricz 2015). At the

¹³ For a longer discussion on the *hidden developmental state* see the original article of Block (2008) or the review article of Szalavetz (2015).

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beginning of the twenty-first century we (and all the “to-be-developmental states”) face new challenges, that significantly differ from circumstances and conditions given at the time of the emergence of classic developmental states by the mid of the last century. These new challenges urge for the revision of the development-oriented interventions of the states.

First we present four challenges according to Michelle Williams (2014) that basically determine the new context of developmental states in the twenty-first century, and then we add a further aspect, that cannot be ignored by any government in today’s globalized world economy.

The first challenge is the *new economic re-structuring*, referring to the shift from manufacturing to the knowledge and service sectors, the so called bit-driven or new economy based on knowledge and innovation. In this new economy besides the physical capital human capabilities, the spread of information and investments expanding these new factors (like education, health and legal infrastructure) play an ever larger role. The economy is more and more driven by knowledge, innovation as well as by business and financial services, and this in a stark contrast with the twentieth century and the dominance of manufacturing. This shift however requires different type of activities from both the state and the private sector (the entrepreneurial sector). The state remains important in its traditional activities, but these have to be complemented with new activities supporting the creation and spread of knowledge and innovation, and related to new, entrepreneurial roles, such as risk-taking and market-creating functions. At the same time traditional networks between the state and the business sector have to be revised as well, in order to create symbiotic relationship rather than a parasitic one (Mazzucato, 2013:23).

The second challenge relates to *changes in political context* of the twenty-first century’s developmental states. Changes in domestic politics, namely the move from authoritarian regimes towards democracies is going hand in hand with the above mentioned spread of new information and communication technologies. The emergence of a new bit-driven economy has its direct and indirect consequences also for the society and politics. The appreciation of knowledge and human capabilities, a new “enlightenment” is taking place, provoking changes social needs, norms and values. As

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long as the specific context of classic DS was determined by the late-development, the mobilisation for war, the external threat of the cold war and economic nationalism (and due to all these factors the societies of the classic DS were willing to undertake some sacrifices – such as accept repressive authoritarian regimes), today any “to-be-developmental state” government must create and build up a new legitimacy base under the new circumstances of the twenty-first century. Within this new political context community priorities and the developmental agenda has to be set up based on a new alliance between the state and society. In most cases these changes imply the move from authoritarian regimes towards more democratic ones, where the embeddedness of the political subsystem into the society, the political freedom, participation and the involvement of the civic society and the collective determination of the main priorities of the community. According to Amartya Sen (1999) a democratic political system based on representative, deliberative political participation is not just a mean for achieving widely defined development but its goal in itself.

The third challenge in Williams’ list (2014:18) is related to *epistemic changes* in the meaning of development and its interpretation. The expansion of the meaning of *development* is a unequivocal move away from the “economic growth centred” thinking of the last century, towards the “development as freedom” interpretation according to Sen (1999) or also called human-capabilities approach. Thus the promotion of development does not equal any more with the “technical problematic” of economic growth that “simply” requires economic knowledge, but a development-oriented approach ever more considered as a political problematic, as social welfare is a function of different non-economic factors (besides of course economic growth), such as social justice, poverty, inequalities or social participation and perception.

The last challenge mentioned by the above cited author (Williams, 2014:20) is the ecological one: *environmental limits*, including the new challenges posed by the *climate change* and the aspects of environmental justice. By now it is beyond any doubt, that the resource-intensive development path of the last century based predominantly on fossil-fuels cannot be maintained in the twenty-first century on a global level. This inherently leads to inevitable changes in existing consumption and production patterns and habits, while existing structures and infrastructures also have to be revised and altered. In the

light of market failures and externalities the state has to play a central role in the realisation of a green development path. At the same time according to Mazzucato's (2013) argumentation environmental limits also offer the possibility for governments to revise their development strategies, and consider green technology developments as engines for economic growth, employment and innovation on the long run (and to realise an environmentally sustainable development trajectory).

In the light of the past experiences of developmental states besides the environmental aspects greater attention to the spatial dimension of development, and consequently a larger focus on rural areas and the role of agrarian development could be verified.

The list of the four challenge mentioned above could be extended with a further urging pressure that is significantly altering possibilities and the room for manoeuvre of the twenty-first century's developmental states: *the financial globalization and the experiences and effects of recent financial and economic crises*. Due to these the centrality of effective resource allocation is appreciating, while the financial viability of nation-based development interventions is deteriorating. In order to understand the logic of development-oriented interventions in the light of financial globalization one has to distinguish between productive and speculative investments. While in the case of the former it might be a declared and accepted objective to support the generation of employment or the expansion of human capabilities, in the case of the latter state regulation might be needed not least to decrease the financial vulnerability.

1.3. Towards a new developmental state concept: the analytical structure

In economic historical scale we can date the most recent generation in developmental state literature back to the Millennium, however following the global financial crisis in 2008-9 we can observe a so called renaissance of the developmental state approach. The newest works on DS tend to build on the intellectual traditions of the classic DS literature, however also deviate from it in several ways (such as in its geographical focus, or in mixing the institutional and economic policy approach). It is out of the scope of this paper to go into detail with the presentation of the newest DS literature (for this see Williams 2014; Wade 2014; Routley 2014; Ricz, 2015), instead we aim to draw up a

new analytical framework, that can structure the thinking on developmental states and related academic debates in the twenty-first century. For identifying main levels of this new structure we rely on the *development regime theory* elaborated originally by T.J. Pempel (1998, 1999), and then applied by Christopher Wylde (2012) on Latin America, and in a somewhat modified version by David Booth (2015a,b) on today's African developmental experiments.

The above mentioned authors argue that in the new Millennium it would be more accurate to speak about *developmental regimes*¹⁴ (DR), to explicitly distinguish today's development-oriented approach on the one hand from that of the classic developmental states with a very long term time horizon (which more often than not were evaluated and labelled as DS ex post, in the perspective of 20-30, not rarely 50 years). On the other hand the term developmental regime is also verified with the current aim to go beyond the very short term perspective of strong (charismatic or hard-handed) leaders, development-oriented governments not overarching political cycles. Thus the DR theory aims to serve as a concept applicable on the medium term, such as in a time perspective of 5-15 years. In our paper however we will use the terms developmental state and developmental regime interchangeably, and if needed we will always note whether we refer to the classic paradigm of DS or the new approach of DR.

The new developmental regime approach can be structured around the following three levels: 1. political settlements, and socio-economic alliances (or the resulting social contract); 2. the institutionalization of the development-oriented approach (the functioning of political and economic institutions) and the process and quality of policy-making; 3. the content of related public policies.

1. Table: Analytical levels of the new developmental regime concept

Pempel [1998, 1999]	Booth [2015a,b]
1. socio-economic alliances	1. political settlements
2. political, economic institutions	2. process of policy-making
3. profile of public policies	3. content of relevant public policies

Source: own construction based on Pempel (1998, 1999) and Booth (2015a,b)

¹⁴ The term *regime* is not used here in its classic interpretation in international relations theories or in international political economy (Pempel, 1998; Vigvári, 2012).

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The two authors, Pempel and Booth differ to some extent in their definitions of the analytical levels, but we will see, that these differences lie mainly in the fact, the former one puts emphasis on institutions and structures, while the latter focuses more on processes and their outcomes.

A further difference between the two authors is, that Pempel in his original DR concept implicitly emphasizes the primacy of policies¹⁵, while in the case of Booth – who explicitly builds on Khan (2010) and North et al. (2009) – subordinates the content of public policies to the institutional design and the process of policy-making as well as the political settlements, while he argues for the primacy of the latter, the bargaining process between the state and the society.

We start our analysis on the highest level, the socio-economic alliances, that represent the main legitimacy base for any developmental regime, and emerge as a result of the interactions between the main state institutions, the society and economic sectors. Socio-economic alliances are most often structured around some main commonly agreed basic principles (as developmentalist approach, the consensus on the central role of state in development), that also influence the public policy profile and vica versa). At the same time a DR can also be based on a narrowly or more widely defined legitimacy base, such as the voting power of the working class, or the power of the police, or the confidence of the capitalist class, or the different combinations of these (Pempel, 1999:156). However the DR approach implicitly pre-supposes, that certain elements of the state and society subsystems are reinforcing each other.

On the highest level of the hierarchy Booth (2015a:33) speaks of political settlements (or often also referred to as elite bargain), a tacit agreement among the most powerful members of the society, the so called national elites, often having competing interests. Political settlements are influenced beside formal institutions by non-institutional factors, such as the distribution of political power among main groups of the national elite, and the informal procedures of their conflict-resolution, negotiations and compromise-searching and building.

¹⁵ To highlight the critical role/significance of public policies Pempel (1998:30) compares these to Durkheim's "social facts" or the Gramscian 'hegemonic projects' and argues that the bias in public policies embody the development-oriented approach.

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The original interpretation of political settlements is however wider than that of Booth's, and is going back to Khan (1995, 2010), who has analysed the distribution and balance of power between social groups and classes, so besides the competition between the elite groups, the elite and non-elite bargains, as well as the within groups' rivalry was taken into consideration. This original interpretation of political settlements is very close to Pempel's approach who analyses at this level the socio-economic alliances.

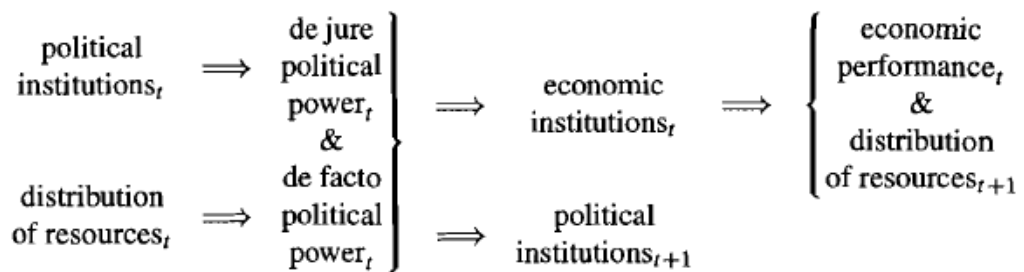
In the original DR concept of Pempel (1998:30) the next level of the analytical structure consists of the *political and economic institutions* that are – according to the new institutional school and Douglass North (1991) – those formal and informal rules originating from the society and influencing the interactions of the society and politics. In contrast to this approach Booth (2015a) highlights the *quality of the policy-making process*, as he argues that formal and informal rules have not to be regarded in their own, but looking at their results and the “how” of the policymaking process. According to Booth (2015b) those political processes have to be analysed, that lead to the focusing on urging problems and the resulting policy choices. The institutionalization of development-oriented policies is of key significance for a developmental regime to survive on the medium term (and thus overarching political cycles).

The third element of the tripod structure is made up by both authors of the content of relevant economic policies that by definitions have to provide certain benefits for the supporters of the regime. The development-oriented approach appears in the emphasis and bias of public policies, and also in their interrelations. At the same time the resulting economic policy mix sustains, strengthens or shapes dominant socio-economic power relations as well as the complexity of political and economic institutions (Pempel, 1998:21).

To sum up the presented three elements of the analytical structure of new DS (the socio-economic alliances, the economic and political institutions and the economic policy mix) are strongly interrelated and their institutionalization is not only vital for the continuity of the regime, but also because this embodies the development-oriented approach in their every-day interactions.

Finally we highlight that this new tripod structure to analyse developmental states and the dynamic relations between the three levels complies well with the famous model of Acemoglu, Johnson and Robinson (2005), the AJR model (Table 2), in which long term economic growth (development) is determined by political and economic institutions. In the AJR model economic institutions shaping economic performance are the result of the decisions of groups consisting of political power, while the distribution of political power is determined by the distribution of resources and political institutions. Central significance to political institutions is given in this dynamic model by the fact, that the (de facto and de jure) distribution of the political power is determining not only the economic performance of the given period but also the political institutions of the following period. It is straightforward to see how the new developmental regime concept fits into the analytical framework of the new institutional economics, and in fact can be regarded as the application of the AJR model on developmental states.

Table 2: The AJR model of long term economic development



Source: Acemoglu – Johnson – Robinson, 2005: 392

Finally we can argue that the new developmentalist approach can be paralleled with the argumentation of the new political economic and institutional analysis, regarding which main driving force behind long term socio-economic development is the mutually complementary system of appropriate formal and informal institutions and supporting policies. The widely defined formal and informal institutions, social order and habits shape (formal or tacit) political agreements that determine the possibilities of countries, shape the quality of the policy-making process, and contribute to the resulting public policy mix.

2. The essence of the emerging new developmental state concept

Main elements of the new DS concept of the twenty-first century in our presentation are mostly compared to the classic DS paradigm that serves as base of reference. Doing this we aim to reveal most important continuities and changes while drawing up the main cornerstones of the new DS concept.

The starting point remains the new paradigm in development economics, the development as freedom approach and the most recent structural change of the economy (the knowledge economy gaining weight) resulting that expanding human choices and capabilities becomes primary goal and mean of development.

According to the new paradigm of development (and the economic and political changes – as presented in the subchapter on new challenges – and the resulting socio-economic alliances and the social contract – as presented in the previous subchapter) new developmental state have to prioritize socially (sustainable) equitable and inclusive development. Successful “to-be-developmental states” have to dispose of a concrete (well determined) developmental vision that according to Mazzucato (2013) goes beyond the commitment to development-oriented approach and consists of given (even sectoral) priorities. This developmental agenda is however in an ideal case determined with the inclusion and consensus of diverse social and economic actors (interest groups).

2.1. The level of political settlements and socio-economic alliances

In Khan’s (2010) interpretation the main characteristic of development-oriented political settlements is that it decreases the political pressure on the acting governments to patronize certain interest groups and to apply a short term view (for a more detailed explanation see Booth, 2015b:34). One of the main specificities of developmental states is thus, that by building up balanced socio-economic alliances, these can lessen the role and share of discretionally distributed rents for buying the support, loyalty of certain elite or interest groups and at the same time make it possible for governments to apply a

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long term development-oriented approach and implement their long term developmental vision¹⁶.

With all this background Pempel (1999:158) argues that all (post-)modern developmental regimes have to consist of the following key characteristics if it wishes to actively and successfully promote economic and social development:

1. it has to support the creation of a socio-economic coalition that is stronger (in terms of disposing or owning more politically relevant resources) than any other coalition of the opposition;
2. it has to be able to set main priorities in politics and thus put forward a national development agenda;
3. it has to be able to articulate a legitimate ideology that implicitly presents the interest of its supporters as the nation's common interest;
4. it must be able to reward its supporters with sufficient benefits, in order to secure the sustainability of their support and thus of the regime itself.

Mazzucato (2013) even goes further when she argues that only a developmental (entrepreneurial) state having a clear and well-determined (and well-articulated) developmental vision, can be an equal partner to the private sector, and thus only such a self-confident state can avoid of getting captured by certain interest groups. Such an entrepreneurial state can play a leading, guiding role in the economy, and build up a symbiotic relationship with the business sphere (while focusing on such activities that are not taken up by the private sector because this latter is too short-termist and risk-averse).

In the new DS approach the main difference compared to the classic paradigm lies in the inclusion of wider sectors of the society (such as new relations with the labour class, that used to be repressed by the old DS). It explicitly aims to build new networks of state and society that are based on social participation, deliberation and consensus and at the same time cover wide parts of the society (a so called new – inclusive – social contract).

¹⁶ With Olson's words (1993, 2000) this means that political settlements and alliances are needed in a way that supports the transformation from roving bandits focusing on short term profit maximizing towards stationary bandits taking into account longer term aspects. In the classic DS literature Evans (1989) emphasized the institutionalized relations to the economic elite and the meritocratic bureaucracy, as these are central to prevent the state from becoming predatory.

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Wylde (2012:81) highlights that this new DR approach differs significantly from the classic DS theories, as these latter ones were mainly focusing on the relations between the state and the industrial capitalist class (see for example Evans' (1995) embedded autonomy theory). For building up a new legitimacy base for the twenty-first century's developmental regimes much wider segments of the society must be included. This means a much more complicated task for the new development-oriented governments (compared to their old parties), however most groups of the society share the common interest of expanding human choices and capabilities, the only task is to raise the public awareness on these issues and build up support for related investment decisions (Evans, 2014:234).

2.2. The process of policy-making

By reviewing most recent works related to the new developmental state approach (such as Wylde, 2012; Fosu, 2013a,b; Routley, 2014; Wade, 2014; Williams; Booth, 2015b) a consensus seems to emerge that the only lesson to draw from successful development-oriented experiments regarding the process of policy-making is the primacy of pragmatic, problem-driven and iterative approach.

The term pragmatism means here, that successful East-Asian countries did not aim to implement any grand(iose) plan, but political leaders and technocrats of the bureaucracy searched for the best adequate answers for most pressing problems, while relying on the trial and error principle and going through a "learning-by-doing" process (Routley, 2014).

Building on experiences of developing and emerging countries Andrews et al. (2013) also highlight this problem-driven and iterative learning process as the key factor lying behind their good policy choices and adequate institutional architecture. In this vein they emphasize that the common characteristic regarding the process of policy-making for "to-be-developmental states" is the problem-driven iterative adaptation (PDIA) process. Thus in the area of policy-making the "one-size-fits-all" approach¹⁷ is not

¹⁷ It was a long way for this solution-based approach to enter into the developmental discourse of the international financial institutions, however Ilene Grabel (2011) analysing the activities of the

applicable, and while learning from other's development successes and failures, one has to search for own solutions in the light of the given (and perceived) pressing problem and its unique context.

Similar consequences are formulated by Fosu (2013b:7) building on the experiences of 18 developing countries, when he argues that both orthodox and heterodox policies might be successful depending on the specific circumstances. Accordingly the main difference between successful and less successful countries can be drawn back to the application of pragmatic approach to economic reforms, the nature of reforms and the capability of countries to take advantage of market forces. At the same time there lies a main difference while choosing between orthodox or heterodox policies, the latter one namely builds on a much broader set of active state interventions, and thus requires a much more capable government with a much higher quality public bureaucracy (see for example the classic cases of East-Asian developmental states).

In the capability approach to development the only way to determine social and economic development objective is the democratic reconciliation process. As among the human capabilities one of the most important is the capability to making choices, the process of participation is not only mean, but also end of development in itself (Sen, 1999:291). At the same time according to the argumentation of Rodrik (1999:19) participatory political institutions have to be regarded as intermediary institutions that help to elicit and aggregate local knowledge and thus result in an institutional learning process through which it might become more effective to build and operate better institutions of other types as well (see also Evans, 2014:234).

2.3. A development-oriented public policy mix

Relying on theoretical and practical experiences of more than a half century today it constitutes to be a common knowledge that development strategies are environment-specific, and are valid in time and space. Thus as a rule these cannot be emulated (without adaptation) under different circumstances. Still we argue in line with Fosu (2013a,b) that on the level of economic policies there are sufficient commonalities

International Monetary Fund argued already a few years ago, that the old approach on „one-size-fits-all”, or as she calls it the *neoliberal coherence* was displaced by the era of *productive incoherence*.

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across countries that are successful regarding some components of development to articulate some guiding principles for other, less successful, countries that share some similar characteristics. Looking also at a wider range of the academic literature there seems to emerge a certain package of economic policies that can be considered as a general compass if applied flexible enough, adapted to the local conditions and circumstances. In the following subsections we mainly synthesize the results of most recent developmental state literature, while also drawing upon the results of our former research (Ricz, 2009, 2015).

2.3.1. Human development: social policies and investments aiming at expanding human capabilities

We have presented throughout this paper that both the capability approach to development and the newest restructuring of the economy (towards a bit-driven and service-based 'new economy') result in the appreciation of the role of human capabilities, as these become the main driving forces behind development in the twenty-first century. With this investments in upgrading human resources and investments in legal (and physical) infrastructure providing access to information and knowledge gain central importance in development policies and strategies.

Investments in expanding human capabilities tend to remain below the socially optimal level due to the market logic (due to the difference between social and private returns, higher risk and longer return period). With Evans' (2014:230) words: "*Public investment is the only plausible route to optimal levels of investment in human capabilities.*" Thus we cite his argumentation as one of the most important *raison d'être* of the twenty-first century's developmental state.

It could be argued that the provision of services aiming at expanding human capabilities (such as education and health) used to be a traditional central role by any (not only development-oriented) state. According to Evans (2014) and Mazzucato (2013) however the effective delivery of capability-expanding services and investments has to be carried out aggressively (by entrepreneurial public institutions), and shall be placed at the top of the growth (development) strategy, while the public awareness on its immediate distributional and welfare effects has to be raised significantly (Evans, 2014:231).

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Socially the only sustainable development path in the twenty-first century is the accomplishment of an equitable, inclusive and long term development agenda. In developing countries coping in the most cases with high (not rarely extreme) social inequalities the provision of a limited minimum income level on a targeted way and with limited cost implications, might be useful to effectively mobilize the majority of the society in favour of the development objectives (to build up a legitimacy base). At the same time according to the wide definition of social policies and the productive inclusion approach (or as Thandika Mkandawire (2007) calls it the transformative social policies) special emphasis should be based on economic incentives that facilitate the poor households to leave the self-sufficiency sector and to be able to productively get involved in the market-based economic sector¹⁸.

2.3.2. Promoting economic growth: infrastructural investments and industrial policy

In the previous section we have highlighted the central role of investments in the expansion of human capabilities. However in the case of developing countries besides the need for human capital development, other infrastructural bottlenecks often pose important constraints to development. At the same time private actors can often capture the returns of public investment, and the best example for this is exactly the case of the relatively mobile human capital¹⁹. To avoid this risk a solution might be to improve (by increased public investments) the complementary business environment (which in turn might increase the derived demand on the human capital). According to this logic Fosu (2013b) sheds light on the importance of the balance between human and other, more traditional (such as physical, economic and legal) infrastructural investments in order to improve complementary business environment and thus to provide incentives for the better equipped them to stay. An appropriate balance²⁰ of the different (human, economic, institutional and physical) infrastructural investments might not just decrease the exit-incentives for human capital, but often also acts as magnet to attract or

¹⁸ See for example the works of Banerjee and Duflo (2011, 2007) on the economic lives of the poor or the most recent magnum opus of Martin Ravallion (2016) with the title 'The economics of poverty'.

¹⁹ To illustrate this one only has to refer to the classic work of Hirschman (1970) on the "exit options" of human capital.

²⁰ See for example Kimura's (2013) analysis in the Fosu (2013a) volume on a new interpretation of the Japanese development success. He argues that though social infrastructural expenditures did play an important role, their share remained below 30 % of the total infrastructural expenditure, and economic infrastructural investments played comparatively a larger role.

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maintain foreign direct investment (FDI), and in an ideal case might lead to the diversification of economic activities and technological development.

In the case of the twentieth century developmental states (at least in their classic interpretation) industrial policy played a central role. In the most recent developmentalist approach industrial policy has come back to the development agenda, however in the light of the reviewed literature (Fine et al., 2013; Mazzucato, 2013; Wade, 2014; Szalavetz, 2015) it is easy to see that this renaissance of industrial policy is much more a science, technological and innovation (STI) policy. At the same time it is worth to note that in most cases the classic DS have not only financed investments of location and equipment (physical infrastructure), but they also facilitated the access of local companies to information, knowledge and technologies, and the creation of networks, while also encouraged the companies to move towards economic activities that create new knowledge (thus to gradually move up the value chain)²¹.

Regarding their industrial structure developing countries in today's technology induced global economy cannot flourish without a knowledge-based development strategy, though certainly different focal points are needed in the case of a predominantly agrarian backward economy, as in the case of an industrialized middle-income country. An important consequence of the new technologies and the most recent economic structural change is that today certain stages of industrial modernization can be leapfrogged²². At the same time according to Wade (2014:781) price changes on the market facilitate gradual, step-by-step development, and thus these might impede in the case of innovations and economic diversification larger changes. To make these changes possible active state interventions are needed, and this is the second argument in favour of the *raison d'être of the twenty-first century's developmental state*.

This "old-new" ²³ industrial policy role of governments is still subject to heavy academic debates in economics, though authors of the modern DS literature mostly

²¹ Evans (2014:232) mentions China as a typical example where the state resisted to overprotect the monopolized ideas of the (mainly northern and more developed) corporations and thus "supported" the access to productive ideas of its citizens and companies.

²² Thus in this regard the classic stages approach of Balassa (1981) is outdated.

²³ Mazzucato (2013:21) argues that these are not new industrial policy interventions, but have happened already back in time, and describes how the state of the US has played a central role in developing new technologies, supporting new industries, but did this in a *hidden* way. Similarly Szalavetz (2015) writes,

argue for a pro-active, entrepreneurial state and mostly oppose the conventional mainstream view, which has a much more sector-neutral stand, and stands for the improvement of the general business environment and institutional infrastructure to attract productive private capital and to decrease the risk of out-migration of the (state-financed) human capital. In contrast to this mainstream views Mazzucato (2013) and Wade (2014) argue that in our innovation led economy the state has to undertake risky innovative activities that are not performed by the private sector (incl. the venture capital). In their logic the state has to go beyond the (long term, committed 'patient') financing of basic and applied research (activities that are even admitted and highlighted by mainstream economists).

2.3.3. Financing development

Financing development used to be a neuralgic point in classic developmental state literature. As long as in the case of the classic, Northeast-Asian DS a very specific and unique context (financial development aid from the US and Japan, traditionally high domestic saving rates, relatively closed economic systems, and repressed domestic financial markets) contributed to the financial viability of a national development model, the financial difficulties (not least signalled by the debt crisis of the 1980s) of the developmentalist experiments of the Latin American counterparts in the last century just provide the antithesis.

Taking into account the current stage of financial globalization and most recent experiences of global financial (and economic) crises, we can state the DS in the twenty-first century have a much narrower room for manoeuvre to finance their (much broader) economic growth (development) agenda, as did their classic antecedents in the mid of the last century.

In our financially globalized world economy securing macroeconomic stability becomes central, as a solid macroeconomic position might build up good business confidence and thus encourage investors and attract FDI. Though in the short run and only temporarily today's developing countries also might rely on external sources (besides FDI, foreign aid and credit) during the implementation of their development

that industrial policies after the 2008-9 crisis are not new, but old industrial policy practices have been revived.

strategies, on the longer run a more balanced development budget is needed, and the role of domestic resources cannot be overrated. Incentives for domestic savings, rationalization of government expenditures, the system of national taxes as well as the government's abilities to collect those taxes become central issues to development.

2.3.4. Outward orientation

By the twenty-first century it became clearly evident that the Keynesian state-led development model is outdated, and the outward oriented development strategies are superior to any other nationalistic and delinking economic strategies. Experiences of the classic (Northeast-Asian) developmental states have also shown into this direction, as they have proved the benefits of an outward-oriented development strategy for long term economic growth and development. In the classic cases export-orientation has implicitly presumed that bureaucratic guidelines have been in line with the international market forces (Johnson, 1982; Amsden, 1989; Wade, 1990). Thus taking into account and relying on international market incentives was at the heart of the classic DS model.

In the twenty-first century however we have to go beyond the articulation of the outward oriented economic strategy and in order to achieve export-driven economic growth the role of domestic institutions, and their upgrading is inevitable. With Fosu's (2013a:11) words outward orientation has to go hand in hand with increasing competition in the domestic market and with *building domestic institutional capabilities* (improving macroeconomic stability and strengthening institutional and human infrastructures). In the light of the most recent global financial and economic crises economic diversification (not only in terms of export products but also in export markets) is not only crucial for long term economic growth, but plays an important role for securing economic stability (or with other words for decreasing economic vulnerability). Outward orientation (and economic diversification) plays a complementary role to (and does not substitute for) the development of the domestic market. Most recent experiences of successful large emerging markets (such as China) underline the need for this complementary approach, while some less successful cases (such as Brazil) provide a cautionary tale of overly relying on the domestic alternative.

2.3.5. *Public sector reform*

Social changes of the twentieth century, globalization and the following changes in domestic politics have led to the appreciation of the role of the capabilities and capacities of political institutions to effectively define developmental goals. This not only presumes a new type, bottom up relationship between the state and society, but also highlights the role of spreading, collecting, and processing information, and also appreciates the capabilities and capacities of the public sector to fulfil with these new tasks (Evans, 2014:222). The meritocratic, well-educated, competent, well-paid and from political power relatively insulated (but still embedded) bureaucracy was a central element of the classic paradigm of DS. In the new DS approach however not only technocratic qualities are needed, but also other, more political qualities are inevitable on the one hand to collect, screen and process information in the knowledge economy and society, and on the other hand also to define collective objectives on a participatory and consultative manner and to reorganize the relations with the business and civil sector.

Mazzucato (2013:5-6) goes even further when analysing the R&D and innovative activities of the state, and argues that the public sector should not be regarded as the social version or imitator of the private sector²⁴, but its tasks and role in development should be totally reconsidered. Socio-economic challenges of the twenty-first century require a proactive (development-oriented) state with entrepreneurial qualities.

The argumentation of Mazzucato (2013) and Evans (2014) goes into the same direction, as both emphasize the need for aggressive, effective and entrepreneurial public institutions to be able to secure the optimal level of investments for human capability expansion and for the spread of information and knowledge. At the same time capable and coherent bureaucracy is necessary but not sufficient for building successful developmental states in the twenty-first century (see for example the arguments of Evans in his earlier (1995) and later (2014) works).

²⁴ Mazzucato (ibid) also highlights that this does not only alter the cooperative relations between the public and private sector, but also changes the expected returns to the state, the scale of the reward justified by the state interventions, that is a central issue for all 'to-be-developmental states' in the globalized world economy to be able to finance their development-oriented activities.

To sum up we argue that a special economic policy mix can be outlined for constructing a new DS concept in the twenty-first century, and this at least contains investments into the expansion of human capabilities, the widely defined transformative social policies (incl. investments into education and health services and labour market reforms), and public sector reforms as well as macroeconomic and industrial (or STI) policies, but also extends to trade and tax policies.

Concluding remarks

In this paper we have presented a new analytical structure for developmental states of the twenty-first century. We have argued that economic policies are at the heart of the new DS concept, as these basically determine the relations of state and society, state and the market (and the business sphere), and last but not least the relation of the state with the rest of the world. At the same time economic policies come to work through the given economic and political institutions, which are in turn determined by the political power structure and the resulting political settlements and socio-economic alliances. Thus we have argued that developmental states should be analysed in a tripod structure, as this comprehensive approach might contribute to the extension of the relevance of the new DS concept (both regarding its content and geographical scope).

In the following part we sum up along the above mentioned dichotomies (of the state and the society; state and the market; and state and the rest of the world) the main characteristics of the new DS approach compared to the classic paradigm, and we argue that we have to go beyond the tripod alliance of the nation state, the domestic and the international capital, that has characterized the classic developmental states.

Regarding the state and the market dichotomy, the developmentalist approach, the active and positive role of the state in development represents the main continuity between the old and new DS concepts. This is manifested for example in the significance of macroeconomic stability and stable investment environment, or in the reliance on active industrial policy. Behind these major guiding principles however there are numerous changes and differences partly related to the types of interventions, but even

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deeper discontinuities can be highlighted: due to advancements in financial globalization and the liberalization of the capital flows the effective distribution of resources became a sine qua non for “to-be-developmental states”, while the need to decrease financial and economic vulnerability, or the transformation of traditional industrial policy interventions represent also main discontinuities.

The relation between the state and society has been undoubtedly and fundamentally changed: while the old, classic DS have achieved their economic success along the repression and political exclusion of wide segments (the majority) of their societies, in the case of twenty-first century’s DS the state-society relations are much more harmonious and shall be based on more equitable, inclusive and participatory processes. The new approach builds upon the inclusion of the needs and interests of diverse social groups into domestic politics and prefers policy responsiveness and a balanced approach to these very diverse social needs. The formation of new socio-economic alliances is however shaped by the political institutional architecture, the distribution of political power and the bargain mechanisms. These differ however not only from the classic solutions of the old DS of the last century, but most recent successful experiments show also wide-ranging possibilities and diverse patterns.

Finally regarding the relations between the state and the rest of the world in the era of advanced economic (and financial) globalization outward orientation (export diversification both in products and markets) has to be placed on a new footing (reforms of domestic institutions), and the effectiveness of resource allocation has to occupy a central place in any development-oriented model. As long as in the golden age of DS during the mid of the last century nationalistic and nation-based development strategies were viable and most successful East-Asian DS were connected to the world economy mainly through the trade of goods (and their export-oriented economic strategies), today outward oriented strategies are much more complex. Taking into account international processes and changes in the twenty-first century is inevitable as these shape those (changing) development opportunities and constraints that determine the political (and economic) room for manoeuvre for modern states (with developmentalist aspirations).

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We must add however that though we have focused in our analysis on the national state level, the new DR approach has to be applied also in subnational (regional and local) levels, as these play an ever more important role in providing human capability expanding services (such as education and health), and also in deepening democratic participatory mechanisms.

Agreeing with Wylde (2012:80) we highlight two important insights based on the analysis of the new DR approach. First, in line with the new institutional economics' approach the national political elite can contribute positively and effectively (via the process of policy-making and the implementation of the public policy mix with a special developmentalist bias) to widely defined development. Second, political representatives can essentially shape economic processes, and embedded in appropriate institutional settings might think in longer term developmental perspective.

Finally we have presented that the new DS approach reflecting the new challenges of the twenty-first century is fundamentally a *market-friendly approach*, in which however the state has an active (but compared to the classic theories) re-defined and revisited role in promoting widely defined development. At the same time "to-be-developmental states" have to build upon the developmental experiences (of both the more and less advanced countries) of the last century (Fosu, 2013a,b), while going beyond their late development context. One has to break away with the geographical focus on East Asia (Booth, 2015a,b), but also with the special case interpretation concentrating on the global South, or the cases of developing countries (Williams, 2014), thus for a new DS approach both the territorial and the thematic focus has to be widened.

While presenting main cornerstones of the new DS concept we have argued that on the one hand on the levels of public policies and the policy-making process some kind of convergence can be captured looking at the developments successes (at least regarding some components or dimensions of development) in the past or currently. On the other hand on the level of political (and economic) institutional settings diversity prevails and seems to flourish even in the twenty-first century. Looking at the level of public policies and their developmental bias we have argued that consensus seems to emerge in literature building both on newest theoretical results and past experiences development successes. Such a development-oriented public policy mix in the twenty-first century as

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a minimum contains the following elements: prudent and sound fiscal and monetary policies supporting good macroeconomic management and macroeconomic stability; transformative social policies aiming at decreasing poverty and inequalities (incl. education and health policies to expand human capabilities); physical, institutional and human infrastructural investments (in a mutually complementary manner, and in a balanced way); new industrial (STI) policies aiming at supporting technological learning and innovative activities; entrepreneurial public institutions; strong, technocratic and meritocratic central administration; and last but not least some innovative forms of financing widely defined development.

These elements of a development-oriented public policy mix have to be taken together, as a package, as they are mutually reinforcing, with spillover effects to strengthen (or lessen) one another area. All this underlines the argument that is almost a cliché or banality in modern economics: it is not so much the volume of the state expenditures that matters, but rather its structure. Furthermore long term economic growth and development presumes a long term commitment to socio-economic goals and the consistency of development-oriented public policies (not only on rhetorical level, but also in the light of the implemented economic policies).

The new DS concept, revisited and redefined in the tripod structure and along the guidelines as presented above, is much less a practical reality, and much more an opportunity, too often overlooked and ignored by the governments (Mazzucato, 2013:12). A developmental state aspirant government in the twenty-first century can be described by the following main characteristics: flexible and pragmatic approach; good networking and bureaucratic capabilities; ability to coordinate diverse interests of different social classes; and if needed possessing abilities not only to promote but even to implement and realise incubation and innovation related activities. This new approach to DS not only presumes technical capacities and proficiency (as was the case by the old DS), but also presumes the methods to define normative and political objectives, and thus the proactive promotion of development becomes in the twenty-first century more than a “simple” technical problem of economic growth, it becomes a central issue in domestic politics.

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