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**NEW DEVELOPMENTALISM IN THE 21<sup>st</sup> CENTURY :  
TOWARDS A NEW RESEARCH AGENDA**

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New developmentalism in the 21<sup>st</sup> century:  
towards a new research agenda

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## New developmentalism in the 21<sup>st</sup> century: towards a new research agenda<sup>1</sup>

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### Abstract

*Two important trends can be observed during the last years (at the latest since the 2008-9 Global Financial Crisis) in the global political economy scene: state involvement in the economy has been on the rise worldwide and democracy has been backsliding globally. The rise of new developmentalism in some large emerging economies dates back even earlier, but by 2018 the ongoing tendencies show towards rising illiberalism both in the political and economic realms all around the world. Along with the rise of political populism, we can observe a tendency towards heterodox economic policy answers, revealing unique specificities and characteristics in different countries, demonstrating however a common tendency towards attacking institutional checks and balances, restraining the autonomy and independence of core agencies and institutions.*

*We are convinced that the current rise of state capitalism in emerging economies can be analysed via the systemic approach – and thus a research program for analysing the varieties of state capitalism is highly in place. In this paper (which shall be followed by a series of country case studies), we merely aim to provide the analytical framework for such a research agenda, by reviewing existing theoretical approaches, highlighting some potential cornerstones of analysis and finally by formulating research questions and hypotheses.*

**JEL Codes:** B4, O1, P5

**Keywords:** new developmentalism, state capitalism, emerging economies, developmental states, varieties of capitalism, system paradigm

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## **Introduction**

Two important trends can be observed during the last years (at the latest since the 2008-9 Global Financial Crisis - GFC) in the global political economy scene: state involvement in the economy has been on the rise worldwide and democracy has been backsliding globally. In the economic realm most analysts speak about the rise of state capitalism (Bremmer, 2010; Kurlantzick, 2013; Musacchio – Lazzarini, 2014; Nölke, 2014; Naughton – Tsai, 2015), while in the political sphere the retreat of democracy (Freedom House, 2018<sup>3</sup>), also referred to as reverse wave of democratization in Huntingtonian sense (Huntington, 1991) is the dominant tendency (see also Rodrik, 2011; Kurlantzick, 2013; Kornai, 2016; Bermeo, 2016). These coinciding or potentially associated (?) processes contradict the famous Fukuyama (1992) prophecy on the triumph of liberal democracies by envisioning the “end of history” (and proposing the global spread of market economies and liberal democratic systems).

Contemporary changes in the economic and political spheres are well documented, however more often than not these are analysed separately. Thus we aim to look at both subsystems simultaneously, to reveal systemic interactions. For this aim, our analytical starting point is János Kornai’s idea of the system paradigm (Kornai, 2000, 2016). Accordingly we aim to conceptualise the modern version of state capitalism, leading to changes both in political and economic realms applying the political economy perspective, which highlights that the economy and political system are closely interwoven, and should be studied simultaneously and taking into account their interactions, which might mutually reinforce each other.

As long as in more developed countries the recent rise of state interventionism was directly linked to the crisis management afterwards the 2008-9 GFC, and remained mostly a cyclical phenomenon, in the emerging markets and in the post-socialist world the extensive state involvement in the economy seemed to be a more entrenched characteristic (and not a transitional phenomenon) with long historical roots. In some emerging countries the recent rise of statism dates back to the late 1990s and early 2000s, while in others it has been revived in the post-GFC era. However in most late

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<sup>3</sup> <https://freedomhouse.org/report/freedom-world/freedom-world-2018>

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developers the state has traditionally played a more active role, and is historically more embedded in institutional and social memories (at least according to the path dependence views). Its current rise also seems to be less of cyclical characteristic, even though it is also shaped by the new political-ideological turn globally towards populism, nationalism and patriotism. In the focus of the current analysis are the countries outside the core of the world economy, mainly emerging economies, the post-socialist bloc and less developed economies all which are considered as late-late developers by development economists.

The increased role of the state in these countries seems to be a steady feature. Forms of more permanent state activity range from state ownership and indirect forms of influencing micro level decisions, through active structural policies, meddling with prices to paternalism and business-politics entanglement, and finally to increased corruption (as a systemic feature). Rising state activism in the economy goes however more often than not hand in hand with changes in the political realm. Along the democratic backsliding we see tendencies towards autocratic governance style, personalistic ruling, attacking checks and balances of political power and hurting independent agencies. In many cases this extended role of the state has some historic parallels of modernization and catching-up. Therefore activist state can claim substantial social and political support. This is often expressed in deliberate confrontations with the neoliberal political and economic agenda of the Great Moderation period (in the political realm the most often used label is "illiberal" state, while in the economic sphere unorthodox or heterodox approach became the new catchword).

Finally beyond our natural interest on better understanding currently ongoing tendencies in the world, the question might arise why to look at contemporary forms of state capitalism?

With the recent rise of emerging economies a multipolar world economy has emerged. Economic growth rates of emerging economies are outpacing that of the more advanced countries, and the rise of the Global South is taking place not just in economic terms, but leads also to important geopolitical and -strategical consequences. The ways these statist economic systems are organized and coordinated got into the focus of

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political and academic interest recently, however the emergence and operational logic of contemporary state capitalism still lacks a systematic exploration and explanation.

Several aspects of rising statism have been thoroughly analyzed recently, such as the role of emerging markets multinationals (EMNE) and the role of state-owned enterprises, para-statal in global capital markets, etc. These nuances, slices of the reality are however not yet put together as a mosaic to reveal the great picture. Thus we are convinced that a better understanding of state capitalism is needed both on a higher abstraction level, both on the level of the nation states, to explore national varieties of state capitalism.

The term of state capitalism has made a hit since 2010, and became almost a buzzword (Unwort), overused and differently interpreted by almost all authors both in the media and academia. In a simple Google search we can find more than 55 million results within 0,4 seconds<sup>4</sup>. With this background we think that a conceptual clarification is highly in need, as it could serve as a starting point for our further research.

All in all the main aim of the proposed research effort is to describe systemic features of the current version of state capitalism, which is often referred to as the third wave of state capitalism, or state capitalism 3.0 (Nölke, 2014) while having a much broader understanding of state capitalism (beyond state ownership) and linking the changes in the economic sphere explicitly to the changes in the political realm. The main research question may be formulated like „Is state capitalism a special mixture of socialist and capitalist concepts, or is it a hybrid solution with own values: a new type?“ To test this main hypothesis a series of country case studies will follow, this paper however only aims to provide the analytical framework, by explaining the methodological starting point, reviewing existing literature, highlighting some potential cornerstones of analysis and finally by formulating some research questions and hypotheses.

The preliminary insights of the paper are based on our former research results, as presented in the successive annual conferences of the Institute of World Economy at

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<sup>4</sup>[https://www.google.hu/search?source=hp&ei=8jJYW5jCBIfwAKoyJPIAw&q=state+capitalism&oq=state+capitalism&gs\\_l=psyab.3..0j0i22i30k1i9.521.2645.0.3001.17.14.0.2.2.0.151.1574.0j14.14.0....0...1c.1.64.psy-ab..1.16.1647.0..0i131k1j0i10k1.0.n50PH-HAxrI](https://www.google.hu/search?source=hp&ei=8jJYW5jCBIfwAKoyJPIAw&q=state+capitalism&oq=state+capitalism&gs_l=psyab.3..0j0i22i30k1i9.521.2645.0.3001.17.14.0.2.2.0.151.1574.0j14.14.0....0...1c.1.64.psy-ab..1.16.1647.0..0i131k1j0i10k1.0.n50PH-HAxrI) Search conducted: 10.00 25.07.2018

CERS HAS under the acronym SVOC (the role of State in Varieties of Capitalism), and edited volumes such as Szanyi (forthcoming by CEU Press) and Szanyi – Gerócs (forthcoming by Palgrave Macmillan), such as my own postdoctoral research on the revision of the developmental states concept (Ricz, 2016, 2017), and some other discussions and common thinking on current changes globally and also in the domestic context.

### **Origins of the term state capitalism and its different interpretations**

Over the last few years in line with the changes in economic and political spheres a broad popular debate has started (both in media and in academic circles) around the steady and rising state involvement (new developmentalism) and democratic backsliding affecting all economies over the world, but especially outstanding in emerging economies. These current tendencies have received extensive media coverage. The list of examples is long, but mostly referred articles were published in leading Western media, such as *The Economist* (special report, 2012) but successive articles also in *Time*, *Businessweek* and *Reuters* have followed suit. Academic interest also became vigorous, as different authors applying different definitions and interpretations started to analyse contemporary state capitalist tendencies from different angles (Bremmer, 2010; Kurlantzick, 2016; Musacchio – Lazzarini, 2014; Nölke, 2014; Naughton – Tsai, 2015).

We are aware that the term *state capitalism* is probably not the best term to use to cover recent tendencies of rising state involvement, however we decided to swim along the emerging “global tide” and stick to it (at least at this early stage of the research project), even if we think it became almost an overused “catchword” in recent economic literature.

Before expanding on different recent interpretations of state capitalism, we have to refer to the origins of the term, as it also explains, why the term has become ideologically charged, and often used in derogatory manner or even with pejorative overtones (Naughton – Tsai, 2015:12). The term has its origins in the Marxist tradition, as Lenin described his New Economic Policy in 1918 by referring to it as state capitalism. The term was taken over by socialist critics and later popularized by other

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Sovietologists. Some Marxist thinkers however trace back the term state capitalism to the end of the nineteenth century, by citing the works of Friedrich Engels (1880) and Wilhelm Liebknecht (1896).

We do not aim to follow however this tradition. As we have shown that the term state capitalism has gone through a renaissance in the post-GFC period, and this contemporary resurgence is a much more descriptive, positive terminology, a less value-laden typology. It is in this ideologically more neutral approach we use the term state capitalism in this paper.

Before we extend on our definition/explanation on SC, it is worth to provide an overview on different interpretations in the literature (even though we admit, that we are rather selective and do not aim to provide a full overview of every author using and defining the term, rather we highlight those ones, upon which we aim to build and rely, while formulating our own interpretation).

Among the firsts to write about the distinctive characteristic of the resurgence of state activism in developing countries (and contrasting it with the crisis management type of state interventionism in the developed world), we recall Ian Bremmer (2009). According to him in less developed and emerging economies the *“state’s heavy hand in the economy is signaling a strategic rejection of free-market doctrine”* (Bremmer, 2009:40). He goes further by defining state capitalism as *“a system in which the state functions as the leading economic actor and uses markets primarily for political gains”* (Bremmer, 2009:41). Bremmer looks at state capitalism as a new economic model emerging in the era of globalization, and *“with the injection of politics into economic decision-making, an entirely different set of winners and losers is emerging”* (ibid). New and rising state interventionism (in which state officials make – politically motivated – economic decisions over strategic investments, state ownership and regulation) can be observed throughout the emerging world, from Saudi Arabia, Turkey, China, Brazil, Mexico, Russia and India, with enough similar characteristics to deserve a new label: state(-managed) capitalism. Bremmer (2009:42) mentions four primary actors of this new economic model (called state capitalism): national oil companies, state-owned enterprises (SOEs), privately owned national champions and sovereign wealth funds (SWFs). Whereas national oil giants and SOEs in other strategic sectors (such as power



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generation, steel production, transportation, the auto industry and heavy machinery, telecommunications, aviation and the military industry) are rather traditional actors, the emergence of privately-owned national champions, which rely heavily on government support (in the form of credit, contracts, and subsidies) represents a rather new trend. Profitability of these national champions depends heavily on their relations with their government and has led to the emergence of a new layer (rather small group) of oligarchs with good personal relations to the government. In the absence of (domestic or global) competition and/or with weak disciplinary power of the state the productivity or innovative capacities of these national champions might remain below “expected” levels, as returns are maximized not only in economic but also in political forms. Finally SWFs are coming into the picture as new actors to finance these new national champions, which is in most emerging economic beyond the capacities of the state budgets.

As second we recall Musacchio – Lazzarini’s (2014:2) concept of state capitalism, who define it as “*the widespread influence of the government in the economy, either by owning majority or minority equity positions in companies or by providing subsidized credit and/or other privileges to private companies*”. In their excellent book the authors present the varieties of state capitalism as alternative models of organization ranging from the Leviathan<sup>5</sup> as entrepreneur (full state control and state ownership of SOEs), through the Leviathan as majority investor (partially privatized firms with majority state control and state –owned holding companies – SOHCs) and Leviathan as minority investor (partially privatized firms with residual, minority state equity; minority stakes under SOHC; firms receiving loans and equity from state-owned and development banks; firms with investments by sovereign wealth funds – SWFs – or other state controlled funds) to privately owned firms (2014:8).

The main argument of Musacchio and Lazzarini (2014) is that these different ownership types not just depict a historical evolution, but also might reveal some sectoral differences and might even coexist in any contemporary economy. Their efficiency at any point of time depends on a host of conditions, such as the prevalence of

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<sup>5</sup> The use of the word Leviathan is not explained explicitly in the book, however it is worth to recall, that according to its original meaning, it is a sea monster referenced in the Hebrew Bible, while in the Old Testament it embodied the forces of destruction, and in a more metaphorical way it is often used for giant fearful objects.

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externalities requiring economic coordination, the development level of local capital markets, additional institutional features, but even political, ideological and historical factors might play a role.

Even from this short overview it is straightforward to see, that in this rather narrow interpretation of state capitalism, as Musacchio and Lazzarini are mainly speaking about different (alternative) models of organization of the economy related to different ownership (and financing) structures and put heavy emphasis on the analysis of the SOE sector.

While analyzing the Chinese case Naughton and Tsai (2015:2) define contemporary state capitalism as a *“renewed emphasis on the desirability of maintaining a strong and robust state sector for the long term”* as according to their argumentation this term captures well the *“combination of a predominantly market economy, emerging capital markets, and large and important government-owned corporations”* and reveals a *“nationalistic connotation”*. They also treat this contemporary form of state capitalism as a distinct variety of the possible political-economic systems, and not merely as a transitional stage while moving from state socialism towards market capitalism. Beyond retaining control over strategic sector (via state-ownership), the state is active in the industrial policy front, and holds dominant position in the banking sector and equity markets. Even though China has developed a very unique variety of contemporary state capitalism it still reveals sufficient common elements with other contemporary statist systems, such as with Russia or Brazil, so that to apply the label contemporary state capitalist to all of these (thus to extend the label of state capitalism beyond China).

Naughton and Tsai (2015: 3-4) draw attention to the sectoral component of the evolutionary path of state firms. Pearson (2015, in the same volume of Naughton and Tsai) differentiates between three tiers of the overall economy, which are characterized by different patterns of regulatory institutions and capacities. The top tier consists of natural monopolies and other strategic sectors, where state ownership is pervasive, firms are managed directly by the central government and regulatory institutions are weak and redundant. Examples for the top tier sectors range from oil and petrochemicals, electricity and telecommunications to the military industry. In the

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middle tier are sectors, where no immediate national interest is at stake, entry barriers are modest and firms are exposed to global competition, leading to technological dynamism. As production is efficient at lower than gigantic scale, state ownership is less dominant in these sectors, and regulation is light (with regulatory institutions almost non-existent). As middle tier sectors the authors mention the auto industry, construction machinery and machine tools, as each of these reveal dynamism and mixed ownership forms. While in the top tier the state mostly exercises control over hierarchical channels (commands), budgeting and financial tools and planning targets, the middle tier is the level of industrial policy interventions, which generally provides all types of support to strategic emerging industries (such as electronics, machinery, new energy and others). The rather light regulation efforts are counterweighted by direct governmental guidance, with selective support for state as well as private firms exposed however to competitive pressures. The bottom tier is dominated by private forms, mainly small and medium sized enterprises, active in consumer-and/or export oriented sectors, such as light manufacturing.

This sectoral approach of the Chinese system however reveals a lot of commonalities and can thus be paralleled with the above mentioned varieties of organizational models of the economy, applied by Musacchio and Lazzarini (who mainly focused their empirical analysis on Brazil).

Kurlantzick (2016:9) in contrast to the above mentioned authors gives a rather exact definition and identifies *“state capitalists, as countries whose government has a ownership stake in or significant influence over more than one-third of the five hundred largest companies, by revenue”*. He further extends, that *“in these state capitalist countries the government sees itself as having a direct role in managing the economy and guiding the corporate sector”* (ibid).

Among the biggest economies of the world the following ones qualify according to this definition as state capitalists: China, Brazil, India, Russia, Indonesia, Saudi Arabia, Argentina, Norway, Iran, Thailand, United Arab Emirates, Malaysia, Singapore, Egypt, Kazakhstan, Algeria, Qatar, Venezuela, Vietnam, Kuwait (Kurlantzick, 2016:14).

This one-third level of government ownership of companies by revenue might seem somewhat arbitrary, but on an intuitive basis it seems to be reasonable, as it disqualifies

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many developed economies, such as France, where the economy is determined primarily by market forces, even though the state plays a significant (but not decisive) role in the economy. Modern state capitalist economies are thus not only characterized by an active state and state interventionism, but by *excessive* state interventions in the economy, by the intention to micromanage the economy and the corporate sector and to do this as a long term development strategy. As an only exception, from the club of developed economies, Norway qualifies as state capitalist according to the above measure (one-third level of government ownership of companies by revenue), which is however a very unique case, and is mostly highlighted as a positive example but an outlier case in the state capitalism literature.

Even though Kurlantzick defines state capitalists according to the state-ownership levels over the corporate sector, he also goes further to examine some other ways of state control and state guidance. Levers of economic control include state spending on infrastructure, state social welfare spending, lending strategies of state-owned banks, etc.

Instead of further presenting the nuances of the Kurlantzick book, which with its very informative and illustrative stories from all over the world is worth to read on its own, we aim to highlight a further aspect, which we see is the main added value of the book: Kurlantzick (2016:27) goes further than analyzing different forms of state ownership and identifying different channels of state interventions in the twenty-first century, as by looking at the varieties of contemporary state capitalist systems he also looks at the politico-governmental forms and economic efficiency. Taking first the political dimension, among contemporary state capitalist systems we can find autocratic<sup>6</sup>, democratic ones, as well as a range of others falling in between on the political spectrum. By looking at economic efficiency (measured mainly by economic freedom and competitiveness) state capitalists are grouped into more and less efficient categories, with a countries arrayed along this spectrum.

Looking at the following figures we can see that most autocratic state capitalists tend to be the least efficient economically on the long run (such as Saudi Arabia, Kazakhstan,

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<sup>6</sup> The term autocracy/autocratic is however used by Kurlantzick (2016) with a different meaning, as by Kornai (2016), to whom we will refer later. Here autocracy is the end point of the political spectrum, which in most political science literature is rather referred to as authoritarian regime or dictatorship.

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Uzbekistan, Egypt, Iran, Algeria or Russia). While more democratic state capitalists (or the ones which are at least near the middle of the democratic/autocratic continuum) tend to be economically more efficient (even though being the most democratic does not necessarily lead to most economic efficiency, however some degree of political openness and relative responsiveness to popular sentiment is needed to make state capitalism economically efficient).

Except for Norway (which we have already mentioned as an outlier), we can highlight Singapore, Malaysia, Thailand as the most efficient and at least partially politically open and responsive countries. While some of the most democratic state capitalists, such as India, Brazil, Indonesia, South Africa, Argentina and Turkey (at least until the most recent changes) have achieved at least moderate economic efficiency. A note is however in place here, as these figures reveal a snapshot-like static picture on the situation around 2014 or 2015, thus they do not provide us with any information on the dynamics of the changes (furthermore a snapshot in 2018 would also show a somewhat different picture taking into account the recent democratic backsliding and economic crisis in some countries, such as Turkey, Brazil, or South Africa). We will come back later in this paper to the need to consider tendencies, and the direction of changes rather than snapshot or absolute measures in any discrete point of time.

**Figure 1:** Varieties of state capitalism along the politico-governmental forms (on the left) and according to economic efficiency (on the right)

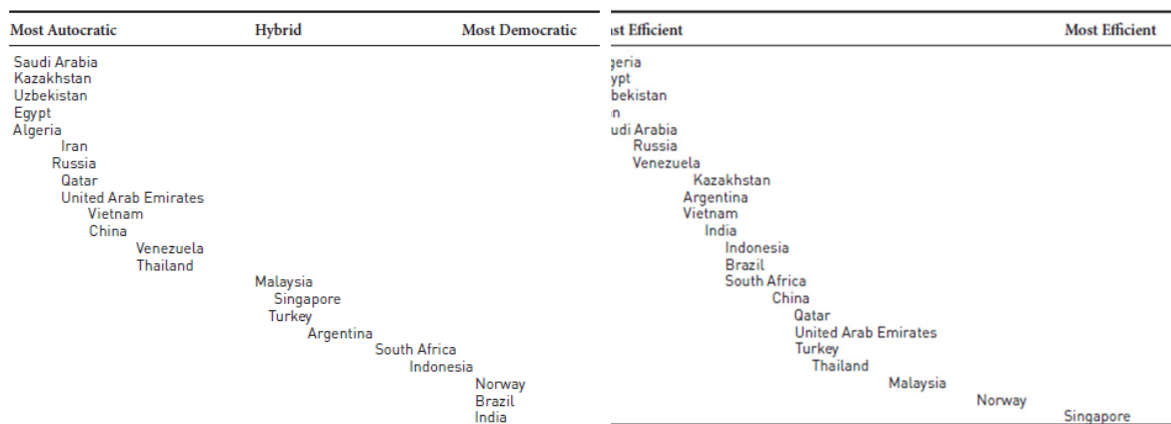


FIGURE 2.1. Autocrats vs. Democrats in State Capitalism, with Countries Arrayed along This Spectrum the Major State Capitalists' Continuum.  
Sources: Freedom House, Bertelsmann Foundation, Economist Intelligence Unit.

FIGURE 2.2. Efficient vs. Inefficient in State Capitalism, with Countries Arrayed along This Spectrum.  
Sources: Heritage Foundation Index of Economic Freedom, World Economic Forum, World Bank.

Source: Kurlantzick, 2016:28-29

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In a somewhat different vein, Acemoglu and Robinson (2012b) call attention to the inherent logic of state capitalism, by claiming that it is “*not about efficient allocation of economic resources, but about maximizing political control over society and the economy*”. Based on historical examples they argue, that an ever-growing political control of the economy generally becomes problematic, because states (and the elites running them) aim primarily to consolidate their own political power, and are rarely “*benevolent or omnipotent*” (thus more often than not have other priorities, than social welfare or optimal resource allocation in mind).

To reveal the logic, operational spirit of state capitalist regimes, we need to differentiate between extractive and inclusive economic institutions (Acemoglu – Robinson, 2012a). As extractive institutions create a non-level playing field, most rents and benefits concentrate in the hands of a few, those with political power and connections. In contrast inclusive institutions by creating a level playing field give incentives and opportunities to the masses of people. However, inclusive institutions require a powerful private sector, which is able to counterbalance and check the state. Extensive (and rising) state ownership (or indirect state influence) tends to weaken this important pillar of an inclusive society and this explains why contemporary state capitalists show an inherent tendency towards authoritarian practices and extractive political institutions, and finally leading to increased and entrenched corruption.

Successful state capitalists in East Asia have emerged and were sustained for given time periods, because they managed to sustain the existing power structure and keep political elites in place, while at the same time improving the allocation of resources (and promoting socially inclusive development). According to this argumentation state capitalism will ultimately persist as long as leading political elites can preserve their political power and benefit from it, irrespectively from economic or wider development outcomes. On the longer term however sustainable economic development rests upon inclusive institutions, as these drive innovation, the major source of contemporary economic growth. According to this logic, at early stages (and lower levels) of development state capitalism, and extractive institutions in more general terms might support economic growth (such as in the case of East Asian developmental states in the second half of the twentieth century). However as the easy to exploit resources of

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growth are exhausted, countries, even contemporary state capitalists “*will be forced to choose between the economic and social freedom, innovation and instability that only inclusive institutions can underpin and continued economic, political, and social control in the service of the elites who control the state*” (Acemoglu – Robinson, 2012b).

Finally after this (rather subjective) overview of existing definitions and interpretations we aim to highlight some aspects of our own views on state capitalism as embedded in the political economy approach, thus by looking simultaneously at the political and economic realms, or to put it differently along Kornai’s systemic approach.

In line with the forthcoming methodological and theoretical considerations we interpret state capitalism as a rather broad category (situated somewhere in the continuum between the two big types of capitalism and socialism) to depict contemporary changes in the rising role of state in economy, politics and society.

Even if we admit that it is very difficult to provide an exact definition or even description at this early stage of the research we remain by saying that in our broad understanding state capitalism refers to overarching and growing state influence (both in direct and indirect forms, including active structural policies, centralization of decision-making, rising paternalism and business-politics entanglement) in the economy with the aim to actively influence the long term development path of the country (with ultimate aim being however the consolidation of political power over the long term).

Our suspect is however, that these changes in the economic sphere go hand in hand with the awake of illiberalism in the political realm (attacking checks and balances of political power, weakening the rule of law and rise of unconventional, discretionary measures – along with a tendency towards personalistic ruling – hurting general democratic values), the rise of autocracy in Kornai’s typology. (We will try to operationalize and elaborate on potential building blocks of our SC concept more in detail in the last section). Before however presenting our methodological starting point, the system paradigm, a short historical overview is in place.

## **Historical cyclicity: three waves of state capitalism**

In order to better understand contemporary state capitalism, first we have to look at the past. State intervention into the economic development is not unprecedented in history, as all economies have intervened into their economies to certain degrees. Without going into detailed historical analysis into the emergence of modern nation states and their interventions, which at latest started with seventeenth and eighteenth century's mercantilism, we rather refer to three waves of modern state capitalism. This shortcut however is rather justified by the time and space limitations of this paper as Acemoglu and Robinson (2012b) convincingly argue that in order to understand the logic of state capitalism in general it is useful to recall some early, historical examples from ancient civilizations. As according to them "*state capitalism has been independently invented many times in world history*" (ibid).

Looking back at modern economic history different waves of protectionist and more liberal periods have been alternating, and depending on different definitions and interpretations at least three waves of state capitalism can be distinguished. In the following short overview we roughly follow Nölke's (2014:3-4) periodization.

The *first wave* of statism dates back to the mid- to late nineteenth century and was mainly characterized by trade protectionism. The United States, Germany, some Scandinavian economies and later Japan (mainly inspired by List (1841)) aimed at developing their domestic industries by using tariffs and the establishment of various state infrastructures.

In the early twentieth century decades of liberalism followed and it was only after the Great Depression, when in the United States, Europe and the Soviet Union the role of state in the economy has been strongly increased and the *second wave* of developmentalism started. The rise of the East Asian Developmental states started somewhat later, after the Second World War (though with important historical antecedents, especially in the case of Japan). State intervention at this stage was much more comprehensive compared to the first wave. Even though trade protectionism was replaced by incremental liberalization, a much broader set of (new) instruments emerged to protect domestic industries and steer industrial development towards



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strategic sectors. State capitalism 2.0 (as called by Nölke, 2014 and referring to national variations such as the New Deal in the US, the Swedish model, the Soviet variant or the East Asian developmental states making for 2.1, 2.2 etc.) has always included a certain degree of central economic planning and state interventionism has for several decades characterized the industrialization efforts of the latecomers.

At the latest by the 80s and 90s the winds of ideological changes have turned towards prioritizing market forces and the rise of neoliberalism became the dominant tendency, mainly driven by the Reagan and Thatcher governments, and the decline of the East Asian developmental states. Finally the *third wave* of state capitalism started around the late 90s and early 2000s in emerging economies (such as China, Brazil and India), and reveals significant differences from its earlier versions<sup>7</sup>. First it is a much more multifaceted institutional construct based “*on a variety of formal and informal cooperative relationships between various public authorities and individual companies*” (ten Brink –Nölke, 2013:26 cited in Nölke, 2014:3), thus a different pattern of business-government relations emerges. Second, it is integrated into an intensively globalized world economic system, and thus the strategic and selective use of inward and outward foreign direct investment became an important instrument to foster national economic development. Related, but mentioned as a third distinctive aspect Nölke (2014) look at specific public policies and more general structural issues that closely interlink the state and multinationals in emerging markets. These include changing forms of state ownership and exerted (indirect) state influence, financial support provided by development banks or other state-owned or parastatal institutions (such as pension funds or SWFs) or some regulatory measures. More structural issues emerge for example from the rising significance of (formal or informal) interpersonal networks between state officials and private firms, or the meddling with prices (of strategic inputs, such as energy or even labor), but even monetary policy issues or international trade and FDI agreements might be mentioned here.

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<sup>7</sup> To reveal the striking differences between the second and third wave of state capitalism it is straight forward to compare the classic East Asian developmental state model, with its current Chinese variant, given the proximity of the two cases both in time and space (for such an attempt see Boltho-Weber, 2015).

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From a development economics perspective we can sum up by claiming that successful latecomers have always more heavily relied on the state in driving their modernization than the first industrializer Great Britain, or even the United States. The need to catch up with these more advanced liberal economies has led to a more organized and coordinated version of capitalist system, with however important national varieties depending on historical, institutional and other factors, such as the timing of their integration into the world economy. This argumentation goes back to Gerschenkron (1962), and even to the views of List (1841), however taking into account strong institutional path dependences it is even more strikingly valid for the last generation of successful state capitalists (the late-latecomers, such as Brazil, India or China).

Without however going into more detailed historical overview or deeper analysis of history of economic theories, we turn our attention towards the analysis of the third wave of state capitalism, as we are especially interested in its current model and its varieties.

Finally having in mind that in emerging (late-late developing) economies the current wave of rising state interventionism goes back to the late 1990s and early 2000s, we can formulate a preliminary hypothesis as follows: contemporary state capitalism in emerging and late developing economies seems to be a steady and stable model variant, and not a merely transitional feature, but a new type/category with its own value and surviving specificities. This hypothesis (if proved) would entail, that in the current state capitalist model mutually reinforcing political and economic institutions interact with each other, providing certain stability for the model over time and sustaining it at least for a certain time period in certain places (whereas we presume that sustainability of these regimes is not necessarily linked to economic efficiency, as we can find examples of good or bad economic performance see e.g. Kurlantzick, 2016).

## **Contemporary state capitalism in comparative context: the VOC and DS framework**

We aim to place our analysis of the contemporary state capitalism within the context of two broad strands of economic literature, which provide the theoretical background for our analysis. The first drawing primarily upon the experiences of more advanced industrialized economies of the Western Hemisphere, is the *comparative capitalism research*, including the Varieties of Capitalism (VOC) school. The second strand was inspired by the successful catching up stories of the newly industrializing economies in East Asia, and is called the *developmental state school*. These two provide the background against which we aim to place and outline our concept of contemporary SC<sup>8</sup>, as we are convinced (or to put it more academically: we hypothesize and aim to prove), that neither of this two encompasses state capitalism in its current version and totality, thus it deserves a new label and further research efforts to systematically explore it.

The comparative capitalism research agenda has been revived and popularized by the seminal work of Hall and Soskice (2001) on the Varieties of Capitalism, even though its intellectual roots go back to comparative system theory, with antecedents, such as List (1841) and Gerschenkron (1962). These comparative capitalism studies grew out of the observation that the development patterns and capitalism models of the late-developing economies have diverged significantly from the classic (liberal market economy) model that emerged in England in the eighteenth century. Following this tradition an extensive literature has emerged analysing different varieties of capitalism (VoC) mainly in more advanced economies, which can be structured into four generations.

The first generation of works, called the *classic school of VoC*, mostly relates to Hall and Soskice's work (see also Amable, 2003) and the differentiation of the liberal market

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<sup>8</sup> The same theoretical background was used by Naughton and Tsai (2015) in the introductory chapter, which has also inspired us, while we have also extensive research history in both areas. However Tsai and Naughton in their analysis concentrate solely on China, which is in our understanding a very unique and special variety of contemporary state capitalism: a communist (though less ideologically loaded and more pragmatic) party managed, authoritarian SC. Our aim in contrast is to use the term state capitalism in a broader sense, transcending beyond China, and including other, both authoritarian (such as Egypt, Iran, Russia, Vietnam) and democratic (such as India, Brazil, Indonesia, South Africa) state capitalists and a range of cases in between the authoritarian-democratic spectrum (such as Malaysia, Singapore, Turkey, and potentially also Hungary and Poland) (as explained in the first part of this paper, see also Kurlantzick, 2016).

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economies (LME) (such as the USA, UK, Canada, Australia, New Zealand, Ireland) and the coordinated market economies (CME) (such as Germany, Japan, Sweden, Austria). The second generation is generally labelled as *post-VoC* literature and aims at developing further types of capitalist models, mainly related to different regions or groups of countries. In this regard, the dependent market economy model (Nölke – Vliegenthart, 2009) of the Visegrád countries, or the hierarchical market economy model (Schneider, 2009, 2013) of the Spanish speaking Latin American economies can be highlighted. While – also because of their Hungarian relevance – we also draw attention to the work of Bohle and Greskovits (2007, 2012) and Beáta Farkas (2011, 2016), who analysed the Central and Eastern European (CEE) countries within the VoC framework. The third generation of VoC literature is called *critical comparative capitalism* (CC) and mainly deals with more critical, global approaches, and most current issues such as international economic integration (e.g. Eurozone crisis) and tries to incorporate the demand side of the analysis (see e.g. Ebenau – Bruff – May, 2015; Nölke, 2016; Farkas, 2016). A fourth generation of VoC research is currently emerging, although this differentiation is made still rather on a speculative basis. There are some works and signs showing that VoC analysis has recently (during the last two-three years) moved towards intertemporal (instead of international) comparisons aiming to define and characterise historical phases, rather than simply building valid models for certain countries or world regions.<sup>9</sup>

While the intellectual forerunners of the VoC research have emphasized state policies and state-society relations lying beyond the different development patterns, Hall and Soskice (2001), as well as a range of successive studies since then, have focused on *institutional complementarities* and took a much more *firm-focused view*. This firm-eye view entails, that the focus was on the strategic interaction of firms to resolve coordination problems in the following five areas: *industrial relation, education and training, corporate finance, interfirm relations and corporate governance*. According to

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<sup>9</sup> Andreas Nölke draw attention to these most recent developments in VoC research in his presentation at the international conference on “The Role of State in Varieties of Capitalism (SVOC) Achievements and challenges for Central and Eastern Europe and the emerging markets”, organised by the Institute of World Economics (IWE), Centre for Economic and Regional Studies (Hungarian Academy of Sciences) and the Center for EU Enlargement Studies (GENS, Central European University) on 26-27 November 2015, Budapest.

this analysis LMEs and CMEs differ significantly in their mode of operation as well as in their development outcomes. In LMEs firms tend to coordinate their activities through internal hierarchies and competitive market arrangements, which in turn foster radical innovation, however are also associated with higher levels of unemployment. In contrast firms in CMEs tend to engage more actively in extensive, non-market contracting relationships, which generally facilitate greater investments in sector-specific training leading to lower levels of unemployment, however encouraging rather incremental innovation.

The idea of institutional complementarities was based on the observation, that the different capitalism models seemed to prevail on the longer term, and there was no convergence between them. Thus the main argument was that the different institutional arrangements as discussed above in different parts of the economy and government reinforce each other (with other words related institutions create increasing returns in the presence of the others), and tend to create stable institutional types, with long-standing differences between different types, thus a certain degree of path dependency prevails.

We are convinced that the VoC approach is a good starting point to think about the conceptualization of contemporary state capitalism, even though it has received plenty of critics (and is probably going out of fashion more lately). What will be important for us is that most of the VoC research has focused on the *core countries of the world economy* (the Western democratic market economies), and countries of the Global South have only rarely been analysed. A most recent research attempt looked at large emerging economies, such as Brazil, India, China and South Africa (so called BICS), and tried to construct the state-permeated market economy model (Nölke et al., 2015). Contemporary state capitalism is emerging mainly in these and other emerging countries, typically in late-late developing economies (even though in some more advanced countries some similar trends can be observed, this however could be the subject of a different research). With the rise of China and other large emerging economies, not only a new world order is emerging, but also the former almost exclusive focus of analysis of Western politico-economic systems is fading away, and there is a

need to systematically analyse the rather different politico-economic organizational forms and patterns of the Global South.

Another line of critic might refer to the fact, that at least the first and second generation of VoC research has mainly focused on creating static models of capitalism, and has not shed light on institutional changes over time, has not considered the dynamics of changes. We will try to argue later that if analysing the rise of contemporary state capitalism the need to reveal ongoing tendencies, directions of changes and in more general terms the evolution of (both formal and informal) institutional arrangements will be crucial.

Beyond these mainly conceptual issues, we also have to draw attention to a further limitation of the VoC approach, and this lies primarily in its firm-centric approach, obscuring fundamentally the role of state influencing heavily the firms and other actors within any country. Knowing that even same or similar state interventions might have different economic, social and political implications in different countries mainly due to different institutional (social, economic and political) structures, we argue that it is highly relevant to go back to the roots of comparative capitalism research, and revive the focus on state policies and state-society relations<sup>10</sup>. If analysing contemporary state capitalism one has to admit, that strategic interactions of firms are important, but significantly affected (constrained or shaped) by the actions of the state and its actors, and market mechanisms are often distorted or even switched off by different coordination mechanisms of the state. To put it short in order to systematically analyse the contemporary versions of state capitalism, we have to bring back the state into the VoC approach, as a main actor and institution.

This argumentation on the need to look at the state brings us to the other strand of literature, which also provides an important theoretical background for our research on contemporary state capitalism: the so called *developmental state* (DS) *school*.

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<sup>10</sup> In our institute (Institute of World Economics in the Centre for Economic and Regional Studies) the analysis of the role of state in economy and development has long traditions. To just recall one of the most recent related research project, we refer to the research project "Varieties of Capitalism - varieties of direct economic interventions of the state" (K-112069, supported by the National Research, Development and Innovation Office – NKFIH) and a series of Annual Conferences organized by our Institute (in collaboration with the Center for European Neighborhood Studies of the Central European University) on The Role of State in Varieties of Capitalism (SVOC).

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Sometimes also regarded as a forerunner of the variety of capitalism literature, dating back to the 1980s and 1990s, the *developmental state school* has intensively analysed the special East Asian variety of capitalism. The first milestone in this line of research was Chalmers Johnson's (1982) book on the Japanese economic miracle (1925-75), in which the Japanese model of development was described as a capitalist plan-rational developmental state (DS). With this distinction Johnson's main aim was to go beyond the contemporary dichotomous thinking paved by the confrontation of the American and Soviet economies, the capitalist versus socialist way of development. Johnson basically wanted to draw attention to the differences between the capitalist systems of the United States and Britain on the one hand, and Japan and its East Asian followers on the other hand (Johnson, 1999:32).

As the core features of the Japanese DS Johnson emphasized the following four elements: 1. existence of a small, inexpensive, but elite state bureaucracy; 2. political system giving the bureaucracy sufficient scope to take initiative and operate effectively; 3. perfection of market-conforming methods of state intervention; 4. A pilot organization, like Ministry of International Trade and Industry, called MITI (Johnson, 1982: 315-320). The logic (in a nutshell) beyond the Japanese model was that the state (via the elite bureaucracy and the MITI) has relied on administrative guidance (selective industrial policies, subsidized credit, fiscal incentives and trade policies to promote exports, etc.) rather than on rigid regulatory schemes or direct state ownership. The Japanese DS has actively (and selectively) promoted external competitiveness and economic growth through a wide variety of (market conforming) tools, but at the same time it aimed at maintaining market competition to as high a degree as it was compatible with its priorities, though more towards the external markets, than in the domestic sphere.

During the following decades the DS concept of Johnson has been applied and expanded by the so called revisionists to some other countries: first to first generation of newly industrializing countries (NICs) mainly in Northeast Asia, such as South Korea, Taiwan, Singapore (which was the only Southeast Asian country to get into the first generation of DS), and then to other Southeast Asian countries, including Malaysia, Thailand, the Philippines and Indonesia (the second-generation NICs). Even though the

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common label of DS is mostly used to all the above mentioned Asian countries, there were significant differences in both their economic structures and strategies (for a detailed analysis on the commonalities and differences see Pempel, 1999). However all these countries have applied similar market-conforming tools of state interventions in the economy, whereas the key features were bureaucratic discipline (Amsden, 1989), governing market processes in order to direct investment into selected strategic sectors (Wade, 1990) and embedded autonomy in state-society relations (Evans, 1995).

Various scholars have questioned the centrality of the role of state in the East Asian economic successes and have instead provided a neoclassical explanation to it, focusing mainly on macroeconomic stability, export-orientation, structural change and human capital accumulation (such as Balassa, 1981; Bhagwati, 1978; Hughes, 1988; Krueger, 1985; Little, 1982; and Krugman, 1994, 1997), and an intensive (ideologically and emotionally loaded) debate between these mainstream views and the developmental state approach has evolved (Stubbs, 2009). At the same time even the World Bank, by that time the acropolis of neoclassical thinking, has admitted that “*in most of these economies, in one form or another, the government intervened – systematically and through multiple channels – to foster development, and in some cases the development of specific industries*” (World Bank, 1993:5). And “*that in a few economies, mainly in Northeast Asia, in some instances, government interventions resulted in higher and more equal growth than otherwise would have occurred*” (World Bank, 1993:6).

At the same time the classic model of DS was undoubtedly embedded in its *situational imperatives* and *situational nationalism* (to use the words of Johnson, 1982:307). Various authors have noted that a historical interplay of political, economic, ideational, social, regional and security forces has contributed to the East Asian economic miracle, part of these were time-related, while others were geographically-determined and more region-specific<sup>11</sup>. This unique set of special conditions has made the model non-transferable and not-repeatable in other times and other places, and the change of these contextual factors even within East Asia has led to the demise of this classic DS model, which was

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<sup>11</sup> See also Doner, Ritchie and Slater's (2005) argumentation on the interactive conditions of systemic vulnerability, that were present in the case of Northeast Asian DS, but the lack of these led to much less ambitious state-building efforts and thus much less outstanding development outcomes in the Southeast Asian countries



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signalled at the latest by the Asian Financial Crisis in 1997-99 (for a more detailed description on the changes leading to the fall of the classic DS see Benczes, 2000, 2002; Ricz, 2017 and forthcoming).

To put it short, though significant changes took place in East Asian developmental states as well as in other emerging countries, still after the years and decades of market-oriented and structural reforms, the state in most late-late developer continues to play a significant (albeit mostly altered and transformed) role, and certain continuities with the past prevail. And even more so, as 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. Simultaneously with this shift in the practice of economic policy-making, the economic and developmental role of the state has been brought back to the centre of economic debate and we can witness the renaissance of *developmental state approach* in economics (Mazzucato, 2013; Wade, 2014; Williams, 2014, Wylde, 2017). Though we have argued elsewhere, that this new stream of literature is not the revival of the old or classic paradigm of developmental states, but a new statist concept is emerging (though the breakthrough of a new paradigm has not occurred yet) (Ricz, 2016).

Finally we have shown, that in the VoC literature a firm's eye view prevails and the role of state in the economy was rather neglected, thus to analyse contemporary models of state capitalism its analytical approach needs to be modified or at least widened. On the other hand, the developmental state school is also undergoing significant changes recently, as it has to adapt itself to profound changes in the global economic, political and societal changes driven by technological advances and spreading globalization. The old (classic) developmental state paradigm has fallen, and a new one has not broken through yet. Thus to analyse current state-led developmentalist experiments might add up to this strand of literature, which is famous for its applied economics approach. As highlighted by Williams (2014) the starting point for the developmental state school was the observation of practical experiences of developmental states, and using comparative analysis the aim was to search for commonalities and generalizable lessons on higher abstraction levels. We aim to follow this approach of inductive reasoning and to start

with observing the reality, try to work backwards to identify main forms and features of contemporary state capitalism.

## **The system paradigm approach**

In the previous section we have highlighted the limitations of the VOC and DS frameworks if aiming at conceptualizing contemporary state capitalism, and to overcome these shortcomings we propose to rely on the systemic approach as presented by the Hungarian economist, János Kornai<sup>12</sup>. We are convinced that the SP might be helpful for the comparative analysis of contemporary state capitalism, even though it was mostly applied by Kornai and his students, followers on the post-socialist transition process. Thus we consider the application of the SP for a new phenomenon in a basically new geographical context as a novelty, or at least a new test for its robustness.

We extend on this methodological background on a rather detailed way, as the main aim of this preliminary study is to serve as a general guideline for successive analysis on the contemporary models of state capitalism within the framework of a larger research program.

To recall the main attributes of the system paradigm we rely on the original concept as elaborated by Kornai first in 2000<sup>13</sup> (pp. 121-134): 1. focus on “*the system as a whole*”; 2. analysis embedded in general and comprehensive *social sciences*; 3. focus on *institutions* with a crucial differentiation between the *system-specific characteristics* of a system, and other attributes, which are rather consequences of other circumstances; 4. a *historical perspective* to understand current organization forms of economy, society and politics; 5. the *individual preferences* are embedded in and shaped by the system; 6. focus on the *constantly changing society*, interest in *big changes* and *big transformations*; 7. focus on *intrinsic dysfunctional characteristics* of a system, which cannot be eliminated

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<sup>12</sup> Even though the work of János Kornai has been an integral part of my economic studies and thinking ever since I started to study at the University of Debrecen (and for this I am very grateful to László Muraközy, by then dean of the Faculty of Economics and Business Administration, and his course on economic policy). My current thinking and commitment to this approach was strengthened and reinforced by successive events organized by the Corvinus University Budapest in Winter 2018 to commemorate his 90<sup>th</sup> birthday.

<sup>13</sup> Its Hungarian version was published in 1999, while it was revised and extended in 2016.

only alleviated within the boundaries of the system; 8. qualitative and quantitative *comparative analysis*.

As an additional feature (which we aim to emphasize in the light of the currently ongoing global debates on the methodological front in economics, see e.g. Rodrik, 2015; Csaba, 2016) we have to highlight, that the methodology of the SP in particular (but we could also add that of the political economic analysis in more general terms) is much *softer*, than that of the mainstream economics relying on mathematical models. As this latter operates on a high abstraction level, and thus looks only at a narrow slice of the reality, while the SP aims to analyse the system in its entirety, to capture the reality in the most possible comprehensive way, and for this sake "*it is prepared to make heavy concessions in rigor and exactitude*" (Kornai, 2000:124).

There are several difficulties which derive from the application of the SP approach. We will see that this soft methodology does not only materialize in the *multidisciplinary characteristic* of the analysis, but also in its *vocabulary*. We will rather rely on speaking about *dominant features* or dominance, instead of precisely define exact threshold for one or other aspect (as these precise measures might be very different according to historical, geographical, cultural or other specificities of the given countries). Our aim will be more to reveal tendencies, and not necessarily quantify specific levels or quantities of something, as we are interested more in the *dynamics and directions of changes*, than in the static picture.

Finally Kornai has systematically explored the two great systems in the economic realms: the capitalist and socialist system, as two theoretical types of existing socio-political formation (or ideal types using Max Weber's terminology). While admitting that actual, individual historical varieties of both capitalism and socialism have existed in different countries, and different time periods, his aim was to identify characteristics distinguishing the two types on the one hand, and to draw attention to commonalities beyond the many individual specificities occurring in each country belonging to the same type, on the other hand. For this sake *primary, system-specific characteristics* are identified, which determine the system as a whole, and which constitute to be *necessary* and *sufficient* for the appearance of the *secondary characteristics*. Thus there is a *hierarchical relation* between the primary (decisive) characteristics and the secondary

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(reactive) ones, however this relation is not necessarily a deterministic one. Even if primary characteristics are regarded as some kind of *minimum conditions* for the existence of either the capitalist or the socialist system, and it is straight forward to start the analysis of any system by exploring these in detail, still primary characteristics do not always generate all the secondary characteristics. As according to Kornai (2016: 554) the effect is rather *stochastic*. However by first identifying and analyzing the primary characteristics of a system or its country-specific variety, makes it easier to determine the secondary ones.

As we will aim to place our analysis on contemporary state capitalism in the same analytical structure, it is useful to recall the comparative analysis of the capitalist and socialist systems by Kornai (2016:553). The three main (primary) aspects along which the capitalist and socialist systems are distinguished: 1. the relation of the political sphere to property forms and coordination mechanisms; 2. the dominant form of property; and 3. the dominant coordination mechanism. Finally these main characteristics lead to differences in the following six underlying aspects (secondary characteristics): 1. the power relations between the two sides of the market for goods and services; 2. the power relations between the two sides of the labor market; 3. the speed and qualitative features of technical progress (innovation); 4. the resulting income distribution; 5. the softness/hardness of the budget constraint for firms; and finally 6. the main direction of corruption.

Turning towards the big categories in the political realm. In the already cited 2016 article Kornai distinguishes three types: the two traditional politico-governmental forms, democracy and dictatorship, and a third form, called autocracy. However with Kornai's words (2016:566) "*autocracy, in this paradigm, is no blurred "middle way" between democracy and dictatorship, but a sharply identifiable type in the sense Max Weber termed an "ideal type". It is a theoretical construct that in my approach is distinct from two other types: democracy and dictatorship*".

In the political realm four primary characteristics are necessary to make the clear cut distinction between the three forms of democracy, autocracy and dictatorship. These are the following ones: 1. the possibility of removing the government through peaceful and civilized procedure; 2. the existence and strength of institutions which jointly guarantee

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the conditions of removing the government; 3. the existence of legal parliamentary opposition and multi-party system; 4. the existence of terror and/or other means of coercion applied against political adversaries. While the first two would be necessary and sufficient to distinguish democracy from autocracy, all four are needed to differentiate autocracy from dictatorship (Kornai, 2016:564).

On the background of these main attributes the following six areas have to be analysed as secondary characteristics: 1. the use of repressive means against parliamentary opposition; 2. strength and independence of institutions functioning as checks and balances on the political power; 3. dominance of appointive practices of the ruling political group; 4. strength of civil society and legal constraints against civil protest; 5. levels and practices of participation (in decision-making); 6. freedom of the press legally and in practice.

It is maybe somewhat surprising that the responsiveness to the popular will does not appear in the list above, however Kornai (2016:566) explains this, by the explicit aim to describe existing systems and not any desirable attributes (thus to remain in the positive realm of the analysis, and not slid into the normative one). However plenty of historical examples would also confirm this, as there are democracies which do not necessarily express the will of the entire populace, while some autocratic leaders, even dictators have enjoyed (for at least certain time periods) the support of the masses.

It is worth to highlight once again the dominance of qualitative analysis. The aim is to differentiate between strong and weak possibilities to remove the government, or between formal and informal institutions, between varieties of forms of coercion, between the frequency of their use ranging from occasionally to large scale dimensions. Thus we have to consider the three types as lying on the continuum of the political spectrum, democracy and dictatorship on the two endpoints, and autocracy somewhere in between.

Finally Kornai has applied the system paradigm to thoroughly analyse the post-socialist transition (which is basically over as the capitalist system has been established in almost all former socialist countries), he has also offered a wide research agenda for further applications of the SP, including the following four puzzles: 1. the transformation of China, Vietnam, Cuba and North Korea; 2. the analysis of alternatives within the

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capitalist system (the varieties of capitalism approach); 3. the analysis of certain segments (subsystems) within the capitalist system – such as the health or education system; 4. the analysis of the global, historical transformation of the ‘great’ capitalist system – such as looking at historical model varieties in different time periods in the past.

As we have shown in the previous section offering the theoretical context for our research, our analysis might be related to the second or fourth puzzle in the above list. If state capitalism does not prove to be a distinct category, it might be a special variety of capitalism, thus our research becomes part of the second research program. If however it proves to be a steady and distinct model variant, different from previous capitalist models existing in history, it might also become part of the last research line, by analyzing the contemporary model of state capitalism.

At the same time, we are somewhat more ambitious than that. From the above presented summary on the system paradigm and its revision even on a strict theoretical basis the question might arise: if there is a third, hybrid category in the political spectrum, it would be straight forward to look at the spectrum in the economic realm, whether there is a third variant between the two great forms of economic systems, the capitalist and the socialist system. Whether it is worth to speak about state capitalism on its own right as a hybrid but steady form (not a transitional phenomenon in between). (This might be the theoretical validation, *raison d’être* of our proposed research on contemporary forms of state capitalism).

While being aware of the high abstraction level and static nature of putting one country in a certain time period into one or other category, we aim to explore changes and direction of changes in time (reveal tendencies). The dynamics of the analysis is however not only materializing by looking at changes in time, but also by looking at interactions between the economic and political realm. Even though at first sight a naïve spectator or commentator would surely connect the capitalist system with democracy and socialism with dictatorship, history has shown us that the relation between the typology of economic and political systems is much more complex: capitalism is feasible even without democracy, under autocratic regime or even under dictatorship, while democracy cannot operate without capitalism (Kornai, 2016:569). At the same time we

will try to go beyond this “simplistic” categorization, by revealing changes within and between the presented categories. There is a need to look at qualitative measures, as existing democracies differ from each other in several aspects on the one hand, while the direction of changes might show towards sliding into another category (such as from democracy into autocracy) – even if a certain threshold is not necessarily passed yet. To reveal these changes by qualitative analysis will be important for us, as we have a suspect (yet to be proved) that the two processes of autocratic political changes and the rise of state capitalism are interwoven, and might mutually reinforce each other.

Finally to put it short the above outlined research niche is, where we aim to step in and conceptualize contemporary state capitalism along its main (primary and secondary) characteristics by taking into account both the political and economic realms (while relying on Kornai’s system paradigm approach).

### **Analytical framework to explore contemporary state capitalism and its varieties**

In order to conceptualize contemporary state capitalism, our starting point will be the analysis of different country cases following in fact the German historical school’s tradition, which claimed that the only meaningful analytical level is that of the nation state. However we will depart from this tradition, as following the comparative analysis of the country cases, on a higher abstraction level we will search for some general characteristics to define contemporary state capitalism (in line with the presented VoC and DS frameworks). As a further research objective, beyond looking at commonalities and decisive features to define state capitalism, we are also especially interested in its national varieties. Inspired by the VoC school, we might call this new research agenda varieties of state capitalism (VoSC).

We have argued that in emerging (and late-late developing) economies the role of state used to play traditionally a more entrenched role in the economy, and important path dependences prevail. Thus it is inevitable to look at historical tendencies of state interventions in the separate country case studies, as these might significantly impact their current variety of (state) capitalism. The description of historic trends of efforts for

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modernization and catching up, as well as to reveal the impact of the neoliberal agenda in the country is also essential to explore whether these had some long lasting effect in politics, society or economy – as these might result in social support for ruling political groups or strong leaders offering different approaches to development.

We have also argued that in order to resolve the usual state – market dichotomy and to be able to say something about the socio-economic outcomes of the different regime types, we need to look at economic and political institutions, and we have to differentiate between extractive and inclusive economic institutions (as proposed by Acemoglu and Robinson, 2012a). Thus (and in line with the system paradigm) the historical perspective and institutional analysis shall be at the heart of our approach.

At the same time we are convinced that there is also a need to look at the socio-economic outcomes of contemporary state capitalism regimes, to be able to say something on their economic competitiveness, social inclusiveness (inequalities), but is also essential to include structural changes and other measures. By this we do not aim to provide deep-running analysis on their historical and current developmental path, but to provide a snapshot of their level of development and recent tendencies, lately achieved results/outcomes in line with Kurlantzick (2016) categorization on economically more and less efficient state capitalists.

We have argued throughout this paper, that according to our presumption contemporary state capitalism is sufficiently different from earlier statist experiments (such as the East Asian developmental state model), but also differs from other existing categories in varieties of capitalism literature (such as the coordinated, dependent or hierarchical models). Thus it requires a fuller analysis of its defining features.

To apply the systemic approach as presented earlier, we aim to identify primary (systemic) characteristics and secondary ones, which relate to each other in hierarchical order. At this stage of the research however we only aim to present a rather broad list of aspects, which come out from our preliminary empirical observations and former theoretical considerations, as these seem to be crucial in determining distinctive features of contemporary state capitalist models.



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In line with Kornai's suggestion, we propose to start the analysis with the three main elements of the system paradigm: 1. the qualities of the political system; 2. the dominant form of property and 3. the dominant mechanisms of coordination.

First it has to be explored whether the *dominant political group ensures the dominance of private or public property and of market or bureaucratic coordination*. We hypothesize that in current state capitalist regimes the ruling political groups aim at consolidating its own political power by all means and costs. Accordingly the first aspect to analyse is the *political system*. Qualitative analysis might reveal changes and tendencies in terms of political pluralism and participation; voice, accountability and transparency; civil liberties, rule of law; existing checks and balances; independence of institutions and agencies; freedom of the press, etc. For the country case study besides revealing country specificities via qualitative analysis, we propose to also look at the Freedom House's Freedom in the World indexes, the World Bank's World Governance Indicators and the Bertelsmann Stiftung's Transformation Index might also provide information on the quality of democracy, and its changes in time (and will make to some extent easier to comparative analysis as a second step in the research).

Second, as we have argued that the political ruling group in most state capitalist regimes relies on rising state involvement in the economy (for the sake of consolidating its own political power), the analysis of these multifaceted forms of state involvements lies at the heart of the research. It includes direct and indirect forms of state ownership – ranging from state as entrepreneur, to majority and/or minority shareholder models, or interference via development banks, pension funds or sovereign wealth funds –, but also forced or hidden forms of nationalization and other legal or even informal forms. It is very difficult to give an exhaustive list covering all potential government practices to own, guide or even micro-manage the economy, as applied measure might differ from case to case, thus a qualitative case study analysis is needed. However to make comparative analysis easier in time and place we suggest to complement the qualitative analysis with looking at the Economic Freedom Indexes of the Heritage Foundation and the Fraser Institute.

The third aspect to explore is the dominance of coordination mechanisms, which might range from market to bureaucratic, but even ethic and forced mechanisms of

coordination might prevail. Acknowledging that all of these coordination mechanisms might exist in any system side by side, we look for the dominant characteristic. According to our hypothesis most state capitalist regimes show an inherent tendency towards rising formal and informal state (political) control over the economy, which leads to distorting, constraining market forces, and opening ways to other types of coordination mechanisms. It is rather difficult to categorize which exact measures provide information on this aspect, but without claiming to be exhaustive, the followings might be mentioned: industrial policies, state-business entanglements, in particular meddling with prices, creating formal or informal entry barriers, applying selective and discretionary measures to provide or constrain competitive advantages of certain actors/sectors, such as building strategic alliances with selected private enterprises (to co-opt them with discretionary tolls via direct support – such as tax exemptions – or via indirect methods – such as public procurement practices, etc.).

To sum up we hypothesize that in current state capitalist regime the ruling political group aims to raise exclusive and discretionary power to decide upon ownership forms (even forced nationalizations, restructuring might happen in selected sectors on a discriminatory manner) and upon the mixes (boundaries) of market and bureaucratic coordination.

After looking at the presented three primary areas, it might be worth to recall Kornai's comparative table on the capitalist and socialist systems (Kornai, 2016: 553, 565), especially its second part. According to this we should be able to say something on the economic consequences of state capitalism, while we are convinced that it might not be relevant to cover all those aspects, we might say something on inequalities, on the pace of the technical progress, and on the budget constraints of SOEs or strategic firms, as well as on the level and extent of corruption.

But for now, we merely aim to reveal some decisive characteristics of contemporary state capitalism, whereas it is still too early to make any presumption, whether these will prove to be system-specific or will rather be of secondary significance in defining contemporary SC (or even prove to be irrelevant in some cases, while constituting to be only characterising a national variant of state capitalism, but not all SC regimes).

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- rising state control over selected, strategic sectors (exercised through various forms of ownership);
- rising political control transcending over more and more aspects of the social and economic life, including the institutional system, hurting the independence different branches of power (politicization of judiciary, central bank, public administration and regulatory institutions and specialized agencies, media and even educational system);
- tendencies of overarching centralization of political power and decision-making;
- gaining legitimacy not via free and fair electoral process in a level political playing field, but from other sources;
- ultimately hurting social cohesion, by artificially strengthening old and creating new social cleavages, destroying traditional channels of social assistance and mobility (via civil organizations, bottom up initiatives, etc.), by creating a sense of “who is not with us – is against us” atmosphere via manipulative media coverage, hate and discrediting campaigns;
- moving away from fact- and rule based decision-making as the dominance of politics, political interests and aims might overwrite everything – even creating a parallel, distorted interpretation of reality besides fact-based realities;
- decisive deviation of formal institutions and informal practices, as the former often serve the role to pretend to the international community and organization the compliance with some generally accepted (democratic and liberal) rule and values, while the informal practices in fact show different tendencies, and serve particular political interests.

It is straight forward to see, that all of these tendencies hurt the principles of good governance, transparency and accountability, which according to both mainstream economic thinking and also to development economics literature would encourage political and economic competition and thus drive innovation and ultimately lead to economic development on the longer term. This is however not the ultimate aim of current state capitalists (even though some misleading rhetoric might pretend this), as their promise is much more to offer security instead of stability (this latter was prioritized by former statist regimes). Existing and “perceived/created” sources of (economic and political) insecurity and the resulting need for strong nationalistic

leaders range from the migration crisis and its interpretation to terrorism, and the “re-invented” threat of the imperialism of the liberal supremacy.

The creation and emphatic communication of these sometimes real, but often imaginary external threats also serves as legitimacy source for current state capitalist regimes, as in the light of constrained political competition, non-level political laying field, these tend to lack social legitimacy. (In the case of the East Asian developmental states the mostly autocratic regimes gained their legitimacy by offering outstanding growth rates and an increasing well-being for the whole society – an inclusive developmental path, which was made possible by inclusive economic institutions. Extractive political and economic institutions however make this source of legitimacy unavailable for current state capitalist systems.)

To sum up we aim to highlight some cornerstones, which constitute to be the minimum elements in order to analyse economic coordination mechanisms’ role in shaping social and political processes in contemporary state capitalist regimes:

- the return of the state as designer of economic development (active role in shaping economic structure, industrial policy);
- corruption (rent-seeking, patronage and cronyism) treated as embedded social phenomenon, a special tool of economic coordination;
- entanglements of business and polity: the problem of state/business capture and socially expected paternalism.

Throughout the paper we argued in favor of the systemic approach, so the country case studies cannot avoid providing an analysis on changes in the political realm. Some of these tendencies were already (if only partially) covered above, it might be still worth to recall major aspects according to Kornai (2016:565). Looking at the political spectrum it has to be analysed whether 1. the state capitalist governments can be removed through peaceful and civilized procedure; 2. institutions to guarantee the conditions of removing the government exist (are operational or formal); 3. legal parliamentary opposition and multiple party system exists; 4. open terror or other means of coercion is used against political adversaries. Looking at secondary characteristics also some already mentioned aspects become visible, such as the tendency towards destroying checks and balances, appointive practices to virtually all

offices, the tendency towards weakening civil society, even by applying legal constraints and the legal frameworks for participation (either informally bypassed or formally under attack).

### **Varieties of state capitalism: towards a new research agenda**

We have shown in this paper that state capitalism is most often associated with rising role of state ownership and companies or the rising role of state sector in more general terms (Kurlantzick, 2016; Musacchio – Lazzarini, 2014; Naughton – Tsai, 2015). Our aim in this paper was to propose a broader concept, which takes into account the characteristics in both the economic and political sphere, and thus are in line with the political economy approach. We have argued in our paper that neither the VoC framework, nor the classic DS approach is appropriate to systematically analyse the new developmentalist experiments of the twenty-first century. Thus to analyse the contemporary rise of state capitalism we aim to rely on Kornai's system paradigm (which was applied by him and his followers mainly on the post-socialist transition), and try to define contemporary SC and its varieties within the structure proposed by this concept.

In this paper by referring to state capitalism we have meant a robust and rising role of the state sector in the economy with a long term perspective (with the ultimate aim to consolidate political power of the ruling elite). Thus in our understanding state capitalism goes beyond state ownership, and shall be regarded as a distinct type of politico-economic organizational form, in which the state aims to take the leading role in economic and political sphere, while maintaining (at least not fully eliminating) basic tenets of capitalism, such as a certain degree of market coordination and private property. Thus we have raised the question, whether it can be conceptualized as a hybrid category beside the two great systems, the capitalist and socialist system as defined by Kornai (2000, 2016).

We cannot emphasize enough that we explicitly aim to be descriptive and positive, starting our analysis from the observation of the reality and thus to provide a non-value-laden, ideologically neutral analysis of a contemporary phenomenon of rising state interference in the economy. At the same time we have argued that the case studies

should reveal more a qualitative description of changes and tendencies, while of course complementing these with quantitative analysis (if possible) to support our country stories<sup>14</sup> with data, however do not aim to precisely define categories in numerous terms, above/below which one country qualifies as SC or not.

We have also argued that we consider the category of state capitalism as a continuum (Kurlantzick, 2016:7) ranging from one extreme to the other (as different varieties of state capitalism exist), just as free-market capitalism runs from Anglo-Saxon type liberal market economies (the extreme *laissez faire* endpoint) to the German, French or Scandinavian type coordinated market economies (highly regulated end point). To look at state capitalism as a continuum, also entails the possibility to differentiate between varieties of state capitalism, a new research agenda, we called VoSC.

Finally to sum up we can formulate the following three research questions for our larger research initiative, which will follow this study:

First we ask whether state capitalism, as outlined in this paper can be regarded as a distinct type of the two big economic system categories along Kornai (2000, 2016) – the socialist and capitalist system –, or is it “merely” a new subcategory, within the varieties of capitalism (Hall-Soskice, 2001; Amable, 2003; Nölke-Vliegenthart, 2009; Schneider, 2009;) and deserves a place along the labels of liberal and coordinated, dependent, hierarchical market economies, as for example Nölke et al. (2015) propose in their analysis of the state-permeated market economy model based on the analysis of the largest emerging economies (the so called BICS economies – Brazil, India, China and South Africa).

The second research question regards the relating changes in the political sphere, and asks, whether the rising role of state in the economy is inherently linked to autocratic tendencies in politics. We hypothesize that if some preconditions are met (young/fragile democracies, weak institutions), then rising statism in the economy goes hand in hand with a tendency hurting democratic institutions and values, thus leads to autocratic changes.

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<sup>14</sup> We deliberately use the word “stories” here, as we are convinced, that informal practices, implementation procedures and often hidden transactions matter more (are more decisive), than to look just on formal changes and legal decisions, as these often hide the real changes and tendencies.

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Our third and final hypothesis is that the contemporary model of state capitalism is reasonably stable (as we assume/perceive), and rests upon mutually reinforcing political and economic institutions and their complementarities. This proposition has two main consequences, the first is the need to look at the global trends, as well as the country cases in a historical perspective, to reveal path dependences. The second is to need to look at institutional complementarities and efficiency consequences, in order to be able propose any views on the sustainability of the SC (to resolve the puzzle of being merely a transitional phenomenon or a new steady type with its own value).

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