

## **China as a follower of Developmental State: Reexamining the role of state.**

**By**

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### **Abstract**

The Developmental State has been acclaimed widely as the most noted factor behind the expeditious and inexplicable economic development of East Asian Nations. It shifts the international economic order towards the 'east', hence providing a paradigm shift to engage oriental attachments to the concept of development which was earlier observed from western outlook. The inception of globalization often questions the viability of the state in the development process; however, The Developmental State has been proved an exemplar behind the rapid and remarkable growth of East Asian nations. In the words of Johnson The Developmental State, "is a short-hand for the seamless web of political, bureaucratic, and moneyed influences that structures economic life in capitalist Northeast Asia"(cited in Bolesta, A, 2007 :165). While examining the role of state, The Developmental State model stands as an exception to socialist countries where state led development is based on planning and command economy; whereas former is strongly footed on particular type of industrial policy conducive for expeditious growth. Developmental state model provides a rational structure of industrial policy at domestic level which paves the way to international competitiveness. The market forces are inexplicable part of rational industrial policy and determine the state action or changes in the industrial strategies; however, state continues to play central role. Hence, Developmental State is an amalgamation of state, market and private enterprises that firmly adheres to the strategy of cooperation and reciprocity.

After liberation, during the nation building process Chinese state proved very efficient to provide human resource development. During 1960s, China's growth rate was not as high as compared to Korean economy but it surpassed Korea in terms of reducing child mortality. As an observation made by Dreze and Sen (2002) and Pranab Bardhan(2010), China well regulated its capability enhancing collective good and organizational reform leading the way to land reform during 1960-80 before it ushered to industrialization drive. Therefore, China

was not a classic example of Developmental State but molded the development strategy as it suits the Chinese reality. Bagchi(2003) noted that China's economic development was consistent and sustainable, during China's regional financial crises or global financial setbacks. China's development strategy proved victorious in meeting global challenges. China underwent structural reform to take the route of Developmental State strategy; the foremost amongst these was to transfer labor from agriculture to the other sectors. Secondly, reform was centered on the need for the diversification of trade to meet the global demands of competitiveness. Finally, China under the planned economy and state led development prioritized public sector, therefore it needed privatization of trade and commerce (Knight and Ding,2012 :22). This research paper is an attempt to observe the peculiarity of Chinese developmental strategy that makes it different, yet exemplar of developmental state.

China is highly acclaimed as authoritarian state with strict bureaucratic control along the party lines but if we closely examine the nature and role of state in development, one can observe its highly decentralized nature. The role of decentralized units and local populace during the early phase of development and rural reform delineates the institutional capacity. However decentralized units are not autonomous, they substantiate and adhere to the central policies. Furthermore, they were controlled by central authority; hence critics termed it as 'regionally decentralized authoritarianism'. Therefore, Chinese state is perceived in two frameworks; first it divulges the cellular nature of state and at the second place it examines state-society relation under the deep decentralized structure. China's state led economy and transition to semi-feudal society to that of a modern nation under the banner of socialism has been configured under the tradition of 'voluntarism' and 'overdeterminism'.

**Key Words:** Developmental State, socialism, state, decentralization, industrial strategy, planned economy, economic reform, Development, authoritarianism, overdeterminism.

## **Introduction**

The concept of developmental state is centered on development model of East Asian Nations that adopted unique model of development which is amalgamation of state led economy and capitalism. Through this research paper an attempt has been made to observe the nature of developmental state model and how China adopted it to suit its developmental strategy. There were many structural constrains and institutional hurdles, yet China maintained consistent and sustainable economic growth. Therefore, an observation has been made on the miraculous economic growth of China as an exemplar of developmental state. Secondly, China is acclaimed as highly centralized state with authoritarian and coercive state structure; therefore, an attempt is made to observe the nature of Chinese state that how it molded the state structure to make it conducive for development.

## **China as a Follower of Developmental State Model.**

Development State persistently disseminates the strong role of state. It regulates economy and planning system to formulate rational industrial policy that leads to vicious circle of growth and investment in the economy. Chalmers Johnson (1982) was the pioneer to coin the term developmental state and his observation is based on the development experience of Japan. Furthermore, he adhered that developmental state is the third categorization apart from liberalism and socialism. As observed by Johnson, western model of development is based on 'market rational system' but Japanese model was closer to 'plan rational model', here industrial policy is designed under the guidance of state (Johnson, 1982:19). Ben Fine observed that developmental state strategy looks into two connotations, firstly political factor that ensures state led development strategy, Secondly, economic considerations are crucial for formulating rational industrial policy (Fine, 2006:2). Linda Weiss recounts the economic development of South Korea as a model of developmental state; she concludes that nation's development strategy was strongly footed on higher level of institutional capacity that conforms to alliance between political elite and capitalist class. Furthermore, state played a pivotal role to implement long term developmental plans (Weiss, 2003:246).

In the last decade China has achieved remarkable growth as an epitome of developmental

state. The economic transformation and reform set an example that even in the market based economy the state has a significant role to play. After liberation China became embodiment of socialist transformation and state ledplanned economy. China caught the attention at international front after the economic reform and adopting market economy but even after reform she continued to be labeled as socialist state unlike Taiwan and South Korea. China's economic reform and market temper grew 'with in a social integument' therefore China is rightly labeled as 'socialist developmental state'. Hence, analysis of China as follower of developmental state needs areappraisal because China doesn't fit into developmental capitalist state but continued the developmental strategy in socialist tradition. In 1990s China fulfills the requirement to be framed as embedded economy. As observed by Linda Chelan Li, "The embeddedness of the state in society is vindicated in its being constituted in the domestic as well as international community" (Linda, 2009:2).China's phenomenal growth pattern near to developmental state has instigated the scholars to critically inquire the development strategy in post reform era.

Beeson, while comparing the Chinese economic performance with Japan has discerned certain commonalities between two Asian giants. In a pursuit to follow Japanese tradition of planed rational strategy of industrial development China has made miraculous growth in her own economy. In the reform era China has to face certain limitations being a closed economy and having socialist outlook, whereas japan interacted well at international level to endorse its industrial policy. He adheres that if any scaling has to be done for following developmental state model the state deserves a pivotal role for implementation of public policy, besides this rigid policies and bureaucratic structure is not that significant. While comparing these two nations he noted that, "China's profound developmental challenges and unpromising socialist heritage, interventionist public policies have played an important role in underpinning its remarkable recent economic development-despite inferior state capacity and a less permissive external environment. While there is much in common with Japan's high growth phase in terms of overall policy orientation and developmental intention, 'socialist' China must negotiate ideological constraints that Japan did not"(Beeson,2009 :7).

In a harmonious view, Andrzej Bolesta observed that socialist state under the strict

bureaucratic structure and party command had to make some structural changes and institutional arrangement before taking their flight for developmental state model in comparison to other states that already adhered to capitalist economy. Socialist countries lack institutional capacity and infrastructure, he termed it as 'transformational vulnerability', and hence follower of developmental state model is engaged in creating organizational structure to be in harmony with capitalist environment. Generally, heavy industrialization plays a vital role in the socialist transformation and creating vicious circle of investment needed for egalitarian society. China too encountered similar situation, hence post socialist development state has to reorganize industry on the similar lines of developmental state to imbibe growth strategy. Therefore, China's route to developmental state has manybizarre as compared to capitalist and other post socialist developmental states (Bolesta, 2015:11).

It's a much common understanding that Chinese state is bound with cellular feature and authoritative structure. Therefore, state established pattern of heavy industry and brought it under public ownership. Initially China replicated the Soviet model of planning and heavy industrialism but during 1960s China changed its strategy. China achieved sizable growth rate and savings however unlike other developmental states she controlled the investment therefore state made a preference in investing heavy industry. China initiated liberalization process because nation needs structural reform in the economy. During reform era nation was losing its political legitimacy because of economic stagnation hence in order to strengthen the roots of state and enhancing political legitimacy economy had to be molded for growth. Secondly, prosperity of western countries was on rise along with this miraculous growth rate of East Asian nations propelled China to bring reform in her own economy. China had to inculcate certain structural changes before economic reform; firstly, nation needed to exterminate weakness in the leadership. Secondly, rigidity in the bureaucratic structure had to be smoothed and repudiate vested interest.

China announced its economic reform but initially it was confined to agriculture sector, consequently there was magnificent increase in the investments that led to rapid growth in the agrarian sector. The reform in the rural area initiated that led to peasant power, earlier it was not organized but controlled by state. Initially, investment in the agriculture was confined to

the household and peasants were benefitted as they got high income, social security and sufficient time. The deepening of the market economy and privatization in the rural economy coincided with 'cumulative causation' that led to the flourishing of institutional structure like rural local markets for credit, labor and manufacturing goods.

The milestone that China has achieved in her way to reform was the establishment of 'special economic zones'. In the beginning it was state controlled but later market reforms unleashed the state control and autonomy was given to the industrial units. Therefore, investment policies and subsidies accelerated the growth that created a vicious circle of investment in other sectors that motivated the investors to reach out targets of growth. Hence, China did not replicated the development experience of any of the East Asian nation but its structural improvement and investment policies accelerated the growth, beyond this even in the market economy state continued to play a viable role.

### **Reexamining the role of state in China's Development Strategy.**

The roots of becoming a strong state as observed by Dingxin Zhao (2015) could be traced in the western Zhou dynasty (1045 BC) to western Han dynasty (50 BC). As per his analysis China went ahead with establishing harmonious capital corporate structure pretty earlier to western nations. Further, he observed that as perceived widely China necessarily has bureaucratic structure and coercive control through army is partially true, but strong role of state deeply embedded into cultural, social and ideological ramifications. The ideological foundation is deeply manifested in Confucian philosophy, here cultural and organizational structure continue to provide strong framework (Zhao, 2015:56).

In contradiction with above view Sun (1993) made an observation about the cellular nature of Chinese state during Mao Zedong's rule in the system of danwei (work unit system). This system authorizes state to mobilize entire society for the purpose of development. After liberation, when Chinese nation started the nation building process under the guidance of state led development, Chinese Communist Party changed the earlier nexus of 'state-society-masses' to 'state-masses' (Sun, 1993: 190-92).

Xiaoqin Guo asserted that China has a 'top down' democratic transition; the economic development was done by party command and bureaucratic structure rather than 'bottom-up'

initiated by societal forces and masses. He explained three determinants that elucidate 'top-down' structure and cellular nature of state. Firstly, Confucianism assigned 'mandate of heaven' to the ruler and empowered state to use coercive power that denied 'self-evident' in rights for individuals. Secondly, the influence of Marxism-Leninism in the economic transition and socialist transformation discouraged the flourishing of civil society which was crucial for bottom-up transition. Finally, in the development process state has a firm role to play, therefore state exercised its hegemony over society by establishing strong developmental state to undertake task of development and maintain stability (Guo, 2003:3).

From the above views, it depicts China is widely acclaimed as authoritarian state with coercion and often termed as 'unique hybrid institutional case'. However, this research paper made a deep insight that China succeeded as a developmental state because it is deeply rooted in decentralization. The role of decentralized units in rural transformation was commendable and affirms to its institutional capability. However, decentralized units lack autonomy and adhered to central policies and were under the supreme authority of Chinese state. Therefore, critics describe this phenomenon as 'regionally decentralized authoritarianism' (Xu, 2011: 1078).

Xu highlighted the fact China achieved its great economic transformation by unleashing central control over local economic units that enhanced the town and village business units. Considering China's huge size and population it became inevitable for her to provide economic and administrative responsibilities to these decentralized units. Therefore, China had to go through decentralization process at the level of village, provinces cities and counties. However, delegation of power to these units has created complexity to the principal-agent approach, where Chinese state acted as principal agent and all federal units were its agents.

Zhou(2010) observed that local officers were making collusions at different level of bureaucracy to gain rewards, personal incentives and promotions. However, despite these narrow sectarian interest local and regional units fulfilled growth targets set by state and immensely contributed to economic power of China. Local and regional units also received sizable extra budgetary revenue and fiscal responsibility that improved the income and



consumption level of local populace that further accelerated the process of growth pattern. Hence fiscal decentralism reached its zenith in reform era and extra budgetary allocations proved crucial for growth (Lin and Liu, 2000:2). Besides this local units were also given 'power of patronage', in the beginning these units were involved in the decision making therefore these managers were allotted patronage powers within the hierarchical bureaucratic structure on contract basis.

As observed above, China has a choice between centralism and decentralism. China's transition to modern economy delineates role of deep rooted decentralized unit that accentuates the role of masses; further decentralization has invigorated local initiatives and incentives. However, these local units were controlled from above in order to maintain state hegemony. The proliferation of rural industry and fiscal autonomy of decentralized units along with state-society relation in the collective production units depicts the institutional capacity of the state. China maintained robust economic growth even during the domestic and global financial crisis, but here it is noteworthy China did not blindly follow the growth strategy of the other East Asian developmental states but molded the cultural, economic and political condition as it suited to Chinese realities.

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