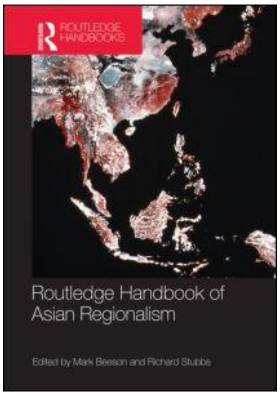

Routledge Handbook of Asian Regionalism

Mark Beeson, Richard Stubbs

The Developmental State and Asian Regionalism

Publication details
https://www.routledgehandbooks.com/doi/10.4324/9780203803608.ch7
Richard Stubbs
Published online on: 28 Nov 2011

7

The developmental state and Asian regionalism

Richard Stubbs

The developmental state emerged as a central feature of many of the societies of East Asia (Northeast and Southeast Asia) in the decades after the Second World War. Although the nature of the developmental state's institutions and policies varied from society to society there were enough similarities to identify them as a distinct, and very successful, East Asian phenomenon. Moreover, the general outlines of the developmental states were maintained for more than a quarter of a century and became thoroughly entrenched in the region. Even when internal domestic pressures resulting from economic success and external pressures created by the end of the Cold War and the advent of globalization began to erode some aspects of the traditional developmental state, key elements remained. The argument of this chapter is that the similarities in the developmental state's institutions and policies, and the common problems that governments around the East Asian region faced in adapting the extremely successful developmental state approach in the face of domestic and global challenges, provided a significant, common set of experiences from which to embark on region-building initiatives.

Common historical context

The sequence of events that shaped East Asia in the wake of the Second World War provided a unique set of circumstances that promoted the rise of the Asian developmental state. By the early 1950s various wars – the Second World War, the Civil War in China, the Korean War and the various guerrilla wars around the region in places such as Malaya, the Philippines and Vietnam – had left the region in turmoil. Key elements of the physical and economic infrastructure such as bridges, railways, ports and so forth were in ruins and much of the social fabric that had provided continuity and stability was torn apart. The onset of the Cold War produced a gradual reversal of fortunes. The United States, in order to contain the growing threat from Asian communism, channelled enormous amounts of military and economic aid into Japan, South Korea and Taiwan. US aid, as well as US technological, administrative and organizational knowledge, combined with fragmented and weak societies, provided the basis for the development of relatively strong military, police and bureaucratic state structures. This strengthening of the coercive and civil elements of the state apparatus, juxtaposed to a weak, fragmented society, allowed for the centralization of political power (Dower 1979; Bowen 1984; Gold 1986; Woo 1991).

US involvement in East Asia also rejuvenated the destitute economies of the region. Land reform was introduced and new technologies applied to agricultural production. As a result labour was freed up and moved to the urban areas, where industrialization was supported in part through the surplus from developments in the agricultural sector and in part through the injection of capital and new manufacturing techniques supplied by the US in the form of aid. Once the economies of its key allies in the region – Japan, South Korea and Taiwan – were back on track, the US used the leverage it gained from providing aid to push for a re-orientation from import-substitution industrialization to a greater reliance on labour-intensive, export-oriented industrialization (Ho 1978; Jacobs 1985; Amsden 1989; Wade 1990; Stubbs 2005).

The imperatives of keeping communism at bay during the Cold War, and the heightened sense of menace that led to America's intervention in Vietnam from 1965 to 1973, maintained Washington's military and economic commitment to its East Asian allies. Massive amounts of military and economic aid continued to flow into the region, bolstering both the coercive and civil sides of the state. In addition, US economic aid as well as Washington's spending in the region to fight the war in Vietnam gave a considerable boost to the various fledgling export-manufacturing industries in South Korea, Taiwan and Singapore. Just as importantly, the US opened its war-fuelled, rapidly-expanding domestic market to goods from its Asian allies as a means of ensuring that the region's economies stayed strong in the face of the communist threat.

The end of the war in Vietnam in 1975 brought changes to East Asia's regional political economy. The US continued to provide a nuclear 'shield' for its allies but its general commitment to the region was weakened by the dispiriting experiences of the fighting in Vietnam. Bases were closed in Thailand and annual military and economic aid to the region was cut by more than half. Yet US multinational corporations began to invest in the region both in terms of resource extraction and export-manufacturing. The most significant development, however, was the rapid rise in Japanese commitment to its neighbours and its investment in the region.

The substantial influx of Japanese aid and foreign direct investment into non-communist East Asia from the late 1970s onwards was layered on top of the already considerable American economic and military investment and further boosted both the expansion of state capacity and economic development in the region. Japan's move into East Asia was shaped by the Cold War. The old linkages to China and North Korea had been blocked by the Americans as trade with communist countries was embargoed following the outbreak of the Korean War. Japan, therefore, developed aid, trade and investment links with non-communist East Asia and in the process underwrote the region's continuing prosperity. Most notable was the period after the 1985 Plaza Accord, by which the American government sought to increase the value of the yen against the US dollar so as to drastically cut the US trade deficit with Japan. Prompted by the rising price of the yen, as well as the high price of land and labour at home, Japanese multinational corporations opened up manufacturing centres in Southeast Asia, mostly in Singapore, Malaysia and Thailand, where conditions were generally very favourable to foreign direct investment (FDI) (Hatch and Yamamura 1996).

What can be termed the facilitative conditions for the formation of the developmental state were, then, in place in East Asia during the 40 years or so following the end of the Second World War (Stubbs 2009). First, weak, fragmented civil societies paved the way for strong centralized states. In East Asia these circumstances were brought about by the physical destruction and social disintegration caused by the fighting during the Second World War, the Korean War, the Chinese Civil War and various guerrilla wars in the region. Second, there has to be a clear threat. In East Asia the threat was viewed as coming from Asian communism and was seen as putting at risk those societies that were allied to the United States and the West. This threat encouraged both leaders and the general population to seek ways of organizing a centralized authority so as to resist the threat. Third, there must be widespread external support for a centralization of power within society, or what Joel Migdal refers to as a 'concentration of social control' (Migdal 1988: 22–23, 275). In East Asia in the post-Second World War years the United States was fully supportive of strong centralized states in the region as a way of containing the threat from Asian communism. Fourth, resources, most importantly financial resources in one form or another but also skilled manpower and organizational and technical knowledge, should be plentiful. American military and economic aid and later American and Japanese aid and FDI contributed to the substantial amounts of resources that were channelled into East Asian economies as a result of the various hot wars and the Cold War. Finally, there should be a widespread acceptance within a society of a developmental ideology based on state intervention to promote rapid industrialization. In East Asia the developmental motivation of the regional elites was engendered by the fear of communism and the need to build a strong society to face down the threat. It was supported by a population that valued performance legitimacy or, in other words, a government that provided security, stability and prosperity (Johnson 1989: 4; Migdal 1988: 269–277; Woo-Cumings 1998; Zhu 2002, 2003; Stubbs 2005).

Out of these facilitative conditions came the East Asian developmental state. It had five main characteristics: (1) a political elite committed to putting into practice a developmental ideology rooted in rapid industrialization and export-manufacturing; (2) a relatively autonomous, well-trained bureaucracy; (3) a pilot agency that controls industrial policy through its influence over planning, energy, production, finance and trade; (4) a rational industrial strategy that facilitated economic development; and (5) strong links between the bureaucracy and business that blurred the line between public and private and allowed the bureaucracy to guide industrial development (Johnson 1982; Onis 1991; Leftwich 1995; Woo-Cumings 1999; Deans 2000: 314–20).

Cultivated by the post-Second World War facilitative conditions, a number of states emerged with these characteristics. In Japan, the one part of the old elite that survived mostly intact the defeat at the hands of the Americans was the bureaucracy. The political parties emerged slowly and the political leaders were generally in a relatively weak position in relation to their counterparts in the key ministries. The Ministry of International Trade and Industry (MITI) became the archetypal pilot agency coordinating the actions of the most important ministries, including the Ministry of Finance and the Bank of Japan (Johnson 1982). The advent of the Korean War brought massive amounts of US economic and military aid as well as special procurements, which were orders placed with Japanese companies by Washington for goods needed in the war effort. Over the next quarter century Japan's developmental state, boosted by a continued influx of US funds, guided Japanese businesses to increasing levels of export manufacturing production so that the economy averaged GDP growth rates of more than 9 per cent during the 1950s and 1960s.

Taiwan and South Korea followed the Japanese example. Both inherited relatively strong central administrations from the Japanese colonial period, and Taiwan also gained a number of former Kuomintang officials who fled the mainland in 1947–8 to escape the advancing communists. During the 1950s and 1960s both Taiwan and South Korea recruited overseas-trained technocrats to bolster their administrative capacity. Each had authoritarian governments that gave their respective bureaucracies and their lead agencies considerable leeway in planning and executing industrial policies, assigning credit on favourable terms to particular economic sectors and even companies, and coordinating the actions of the businesses in order to bring about rapid economic development. Just as in Japan, American military and economic aid proved a massive boost to the Taiwanese and South Korean economies. Notably, the funds that were channelled into the region by the US during the Vietnam War produced a major push towards export-industrialization. Taiwan maintained an average of 9 per cent annual GDP growth rates from the early 1950s until well into the 1980s, and South Korea's annual GDP growth rates were in excess of 8 per cent over the same period (IBRD 1971; Stubbs 2005; World Bank various years).

The facilitative conditions produced developmental states in three other countries in what became the East Asian region. Singapore and Malaya/Malaysia developed strong bureaucracies, in good part stimulated by the British colonial administration's need to expand key ministries and agencies to deliver goods and services that helped to alleviate people's grievances and wean them away from the Malayan Communist Party's guerrilla movement. The development of the Malayan administration was, then, a product of the Malayan governments 'hearts and minds' approach to counter-insurgency. Both colonial territories benefited from the quadrupling of natural rubber prices and the doubling of tin prices, which more than doubled government revenues (Stubbs 1997). From independence in 1965 the Singapore government followed a policy of localization of the administration and recruited highly trained individuals. The government also pursued an export-oriented manufacturing policy coordinated by the Economic Development Board. The Malaysian government continued to expand the administration through the 1960s and into the 1970s. Both governments used foreign direct investment to press forward with export-oriented industrialization. Both governments used interventionist policies that employed government agencies working with the private sector to promote economic development (Huff 1994; Drabble 2000: 162).

Thailand's development state was very much the product of US prodding. Of course, the Thai bureaucracy had a long tradition of initiative and leadership going back to King Chulalongkorn during the late1800s, but it expanded most noticeably during the 1950s and 1960s. US aid supported both Thai students undertaking periods of study in the US and returning to jobs in the administration, and the setting up of a Thai-based institution for training upper-level bureaucrats. New agencies were set up, such as the Budget Bureau of the Prime Minister's Department and the Office of Fiscal Policy in the Ministry of Finance, which helped to coordinate Thailand's rapid economic development (Muscat 1994; Pasuk and Baker 1995). Indeed one observer noted that Thailand in the late 1960s had a 'strong, effective government'. And the Thai economy produced remarkable economic growth from the 1950s onwards as US aid was funnelled into the country to stave off the threat from local communist organizations. Most particularly, the Thai economic boom of the late 1960s was produced by the massive military spending by the US on fighting the war in Vietnam, especially establishing the main US airfields in northeast Thailand.

Intriguingly, all three governments – Singapore, Malaysia and Thailand – were described as strong administrative states in the late 1960s and early 1970s. Fred W. Riggs (1966) famously called Thailand a 'bureaucratic polity'. Milton Esman (1972: 62–71), a senior adviser in the Prime Minister's Department in Malaysia and professor at Cornell, termed Malaysia an 'administrative state' and noted that the size of the government's workforce was comparable to those of Denmark and the United Kingdom. And Chan Heng Chee (1975), of the University of Singapore and later Singapore's ambassador to the US, noted the build-up of an effective and relatively autonomous 'administrative state' in Singapore in the decade after independence in 1965. All three countries, then – perhaps not quite to the extent of Japan, Taiwan and South Korea but in a rather similar fashion – had built up relatively strong states that to a considerable degree met the criteria for a developmental state. Moreover, the three Northeast Asian developmental states and the three Southeast Asian developmental states had produced such strong economic growth that by the late 1980s and into the 1990s they were widely characterized as 'miracle economies' or newly industrializing economies (NIEs) (Balakrishnan 1989; *Economist* Editorial 1989; World Bank 1993).

However, from the 1980s onwards the facilitative conditions that had nurtured the developmental state came under pressure. The winding down of the Cold War and the rapid increase in the influence of the forces of globalization changed the overarching structures within which the economies of East Asia operated. In addition, the very success of the 'miracle' economies meant that the domestic setting had changed quite markedly. Slowly, the developmental state itself was forced to adapt to the new environment (Stubbs 2005; Beeson 2006: 184–198).

First, the reduction in the perception of a communist threat to East Asia as the Cold War abated meant that the United States was no longer so willing to favour 'concentrated social control' within its allies. Indeed, fledgling democracies emerged in both South Korea and Taiwan in the late 1980s. The new governments changed the relationship between the political leaders and the bureaucracy such that senior officials had to relinquish some of their previous autonomy. At the same time, and amplified by the ideas embedded in the increasing significance of the forces of globalization, the US pressed for the neo-mercantilist policies of the developmental states to be changed. Washington wanted a greater emphasis put on privatization, deregulation and a general liberalization of the economy, all of which further reduced the capacity of the bureaucracy to control industrial policy.

Second, the end of the Cold War and the advent of globalization altered the way that capital entered the economies of the developmental states. US military and economic aid had been channelled into the key East Asian allies' economies in the main through their respective governments. However, the new forms of external capital, foreign direct investment and short-term portfolio investment bypassed the government and went straight into the business sector. This meant that industrial priority was set as much by external decision-makers as senior bureaucrats within the country. Governments' capacity to steer industrial development through the direct allocation of funds to bolster specific industries and companies was therefore markedly reduced.

Third, the weak societies of the post-Second World War years, which had allowed for a centralization of power in the developmental states of East Asia, had been revitalized by the general prosperity that the developmental state delivered. As the economy grew, so businesses of all sizes expanded and thrived with the larger corporations in particular, gradually gaining increased economic and political leverage. The consequence of this development was that the relationship between the state and business, which had originally been dominated by the state, became much more evenly weighted and, in some cases, notably in South Korea, began to be tipped in favour of large business conglomerates. The developmental states had much more difficulty directing their economies. Furthermore, the increased complexity of the developmental state economies made it more problematic for governments to implement wide-ranging industrial strategies and to comprehensively manage the way in which their domestic economies became linked into the rapidly globalizing world economy.

Yet key elements of the developmental state remained in place in many East Asian societies. While each of the developmental states had been entrenched to varying degrees, they were also eroded in different ways by a series of factors, including the end of the Cold War, the forces of globalization and changes in the domestic power relationships. Importantly, however, the ideas that underpinned the development state, as well as their structures and policies, continued on embedded in the formal and informal practices of government. Significantly, those that benefited from the developmental state, such as businesses that served the domestic market and benefited from protective tariffs or businesses that gained from state support for their export-manufacturing strategies, worked to keep the developmental state and its policies in place. Similarly, officials within the government who operated the developmental state had an interest in sustaining it, as did those in the policy institutes and academia that were committed to the neo-mercantilist approach to economic development. But perhaps most importantly of all, the rapid economic development, prosperity and social stability – particularly when compared to the disastrous period directly after the Second World War – that was associated with the rise of the developmental state meant that it had a good deal of support within the wider general public. Hence, although some of the facilitative conditions that had spawned the developmental state had changed quite markedly, there were still strong pressures to keep it.

Wrestling with the many stresses and strains that swirled around the developmental state became, then, a common problem for the governments of East Asia. Regional governments had to search for ways to manage the demands created by the forces of globalization, while at the same time operating with administrative structures and facing many domestic interest groups that were still dominated by developmental state norms and values. Coming together in a regional organization to tackle these common problems, therefore, had an obvious appeal.

Regionalism and the developmental state

Of the five original ASEAN members three – Malaysia, Singapore and Thailand – were widely considered developmental states and members of East Asia's club of NIEs. A fourth, Indonesia, was also considered by some to be a developmental state and one of the region's NIEs (World Bank 1993; Vu 2007). Only the Philippines, which was in a terrible economic state for most of the period from the founding of ASEAN in 1967 to the Asian Economic Crisis of 1997–8, was not thought of as a developmental state. This common frame of reference was a significant ingredient in allowing ASEAN states to appreciate the needs and aspirations of their fellow members. It was particularly helpful when it came to the negotiations over the ASEAN Free Trade Area beginning in 1992 (Stubbs 2000). To some extent, as new members joined ASEAN – Brunei in 1984, Vietnam in 1995, Laos and Burma/Myanmar in 1997 and Cambodia in 1999 – the developmental state as a common denominator among ASEAN members was diluted. However, the emergence of the ASEAN Plus Three (APT) and the addition of China, Japan and South Korea to ASEAN in 1997 meant that the importance of the developmental state experience and norms once again came to the fore in the regional organization (Stubbs 2002).

The APT emerged out of the caucus meetings that the Asian representatives at the Asia-Europe Meeting (ASEM) held around the first ASEM in Bangkok in 1996 and the lead-up to the second ASEM in London in 1998. In anticipation of the first ASEM the ASEAN members, who were responsible for initiating and setting up the first meeting, had asked China, Japan and South Korea to join them (Stubbs 2002: 442–443). With the ASEAN members and the three Northeast Asian countries meeting to deal with ASEM issues during 1996 and 1997 it was not surprising that there should be an informal gathering of the leaders of the ASEAN and Northeast Asian countries at the 1997 ASEAN summit in Kuala Lumpur. Subsequent meetings of the APT heads of government were held at the following annual meetings of ASEAN.

Importantly, of course, the APT was established just as the Asian Financial Crisis was coming to a head. The timing was important. The Asian Financial Crisis prompted a major assault on the interventionist policies of the various developmental states of the region. The IMF, initially at least, chose to impose on the region's troubled economies that sought its help a set of policy solutions to the crisis, which included cutting government subsidies, reducing the government's overall spending, and pushing for further liberalization of the region's economies. At the same time, people such as Alan Greenspan, the Chairman of America's Federal Board of Reserve, were predicting the convergence of capitalism in Asia in the 'Western form of free market capitalism' (Hamilton 1999: 45–46). Indeed, Rodney Bruce Hall (2003) identifies and examines the discursive strategies adopted by the IMF, the US Treasury and the Kim Dae-jung government in South Korea as the Asian Financial Crisis unfolded. These discursive strategies sought to delegitimize the developmental state model, which was equated with crony capitalism, and the national industrial policies pursued by the previously dynamic and very successful East Asian economies.

The main purpose of this strategy was to advance the neo-liberal form of capitalism espoused by the US and most American-trained economists and technocrats.

One of the consequences of the IMF and American government's reaction to the Asian Financial Crisis was a sense of frustration and, as Richard Higgott (1998) has pointed out, resentment among a significant portion of key policy communities in East Asia. The IMF was widely seen as providing advice that simply exacerbated the problems created by the original crisis. The senior officials of the Fund were perceived to be following the expressed orders of the US government, which many in the region saw as taking advantage of an opportunity to undermine the successful, but competing, East Asian form of state-facilitated capitalism. Most Western policy-makers and analysts did not take into account the obvious problems that had been created by the ill-conceived, Western-advocated liberalization of financial institutions.

Significantly, then, many of those responsible for economic policy-making in East Asia were searching for ways of dealing with both the Asian Financial Crisis and the onslaught of criticism from the West just at the time that the APT was getting under way. There was a perception within key regional decision-making elites that at least among the membership of the APT there were politicians and officials who faced similar problems and who appreciated the difficulties that had been thrown up by the Asian Financial Crisis. Japan, South Korea, Singapore, Malaysia and Thailand – and some would add Indonesia – all had considerable and very positive experiences with the developmental state and, while some of the institutions and policies associated with the developmental state had been eroded, there were still significant ideational and institutional aspects in place.

There are many examples of key elements of the developmental state surviving the Asian Financial Crisis. In Japan during the 1990s, despite the fact that the costs outweighed the benefits, the political and business elites 'moved to preserve the status quo' in terms of key relationships between businesses and between business and the state. Walter Hatch (2010: 250) argues that they did this because they wished to maintain their positional power within Japan's political economy. Moreover, Mark Beeson (2009: 19) has pointed out that the Ministry of Finance, like other key parts of the bureaucracy, has worked to resist change. He notes that one way that the Ministry of Finance has done this is 'to expand its power by managing the very reforms that were supposed to curb its influence' (Beeson 2009: 19).

Similarly, David Hundt (2009) has argued that in South Korea in the post-1997–8 crisis period the state bolstered its power with respect to the *chaebols* – the country's major industrial conglomerates – and maintained the close relationship between government and business albeit in the context of restructured economic and financial policies. The South Korean government did this by employing its strong state capacity to impose increased liberalization in its financial sector and to introduce foreign capital into the banking system, and the market principles that came with it, in order to discipline the *chaebols*. As a result, the state is now stronger in relation to the South Korean domestic business sector than before the Asian Financial Crisis. Indeed, one analysis argues that the market reforms and liberalization of the post-1997 period are best viewed as 'a form of state intervention' (Kalinowski and Cho 2009: 241). Moreover, the Financial Supervisory Service, which was formed in the wake of the Asian Financial Crisis, acts as a quasi-pilot agency in that it directs credit to various parts of the economy and regulates and supervises corporate practices.

In Southeast Asia the developmental states similarly adapted to the changing global environment. In Malaysia the political system, with a coalition government led by the United Malay Nationalist Organisation (UMNO), remains in control of a government apparatus that continues to guide the economy in important ways. The powerful National Economic Action Council, headed by the prime minister and originally set up in 1997 to find a way out of the Asian Financial Crisis, and the Economic Planning Unit within the Prime Minister's Department, continue to plan and manage Malaysia's economic development. As Pepinsky notes, this is 'evidence of more political centralization of economic policy formation than before the [Asian Financial] Crisis' (Pepinsky 2008: 246). In Singapore the government has been determined to increase both its institutional state capacity and its political legitimacy in order to deal with the pressures of globalization. For example, Yeung points out that in the wake of the Asian Financial Crisis the Singapore state has not retreated in the face of globalization but continues to follow a 'significant developmental trajectory charted by the state' (Yeung 2003: 29).

Thailand in the aftermath of the Asian Financial Crisis has proved to be rather more complicated. Thaksin Shinawatra, when he became prime minister, introduced a set of reforms that centralized authority and gave additional powers to the office of the prime minister. He also identified 'small and medium sized enterprises, agribusiness, automobiles, the rural sector and tourism to spearhead Thailand's longer term growth' (Thitinan 2003: 288). His strong domestic-oriented economic growth strategy was reminiscent of past developmental strategies employed decades earlier. Thaksin's political reforms in particular threatened the traditional political and economic elites and when Thaksin was ousted from office by a coup in 2006 a number of his reforms were rescinded and Thailand reverted back to a more fragmented political system.

Overall, then, although marked changes have occurred in the nature of the original developmental state, enough of its distinctive features have survived over the last decade or so to ensure that key non-communist members of the APT have a similar approach to economic development and to managing the forces of globalization. However, what is also of interest here is the extent to which China, and to a lesser extent Vietnam, have also exhibited some of the features of a developmental state and, as a consequence, reinforced a significant common element to be found among APT members.

Although China was obviously on the other side in the Cold War, its experiences mirrored many of those of the East Asian societies that had spawned developmental states. In the wake of the defeat of the Kuomintang nationalists in 1949 the Chinese Communist Party (CCP) was able to build – at least in terms of China's recent history – a relatively strong central government. The fighting and widespread devastation caused by both the war against the Japanese and then by the Civil War meant that the new CCP government faced a relatively weak, fragmented society. The Korean War and encirclement by the West, most especially the US, created a military threat that justified the development of a strong central administration with the powers to regulate society and guide the economy. The Soviet Union, which provided aid to the new CCP government, was prepared to countenance a strong, centralized administration that was able to gain full social and economic control of the country (White 1988). Slowly, and despite a number of false starts, under Mao Zedong and the administratively skilful Zhou Enlai the Chinese economy developed an import-substitution industrializing strategy.

From 1978 onwards China gradually opened up its economy. Emphasis was placed on problem-solving policies, increased agricultural productivity, lower direct and indirect taxes and high savings rates. During the 1980s special economic zones were opened up along China's coast in Guangdong and Fujian provinces and ports were opened up to foreign direct investment. The control of economic development was in many cases exercised primarily at the local, city or regional level with an emphasis placed on township and village enterprises (TVEs). For example, some county-level governments were heavily involved in planning and administering the economic environment in which state enterprises, cooperative firms and TVEs were allowed to operate and compete (Blesher 1989: 103). Similarly, city governments, such as the municipal government of Tianjin, became what one analyst termed 'entrepreneurial states' (Duckett 1996).

However, in the early 1990s a series of reforms were put in place that started to take effect in the second half of the 1990s and which gave increasing power to the central government. First, the introduction of a value-added tax on all enterprises generated a wider tax base and meant that government revenues climbed steadily from just over 10 per cent of GDP in the mid-1990s to closer to 20 per cent by midway through the first decade of the twenty-first century (Naughton 2009). With greater resources at its disposal, the Beijing government was able to invest heavily in economic infrastructure projects, including many that were meant to aid transportation and energy development, as well as in expanding the education sector. Second, a large number of smaller state-owned enterprises (SOEs) were either closed or privatized and the government began to invest in larger SOEs under the banner of 'grab the large, let go the small' (Eaton 2011). This meant both that the many smaller, loss-making SOEs were greatly reduced in number and were no longer a major drain on the government's resources and that up to 50 of the largest SOEs were designated national champions. Third, China's banks, which were considered weak and vulnerable during the 1990s, were forced to write off the debts of the many small and medium-sized SOEs that closed down and were reformed so that they functioned more along commercial lines. Finally, over the last 15 years or so, China has maintained its currency at a level that has ensured its exports are competitive, its imports are not too expensive and that its foreign exchange reserves have grown at a steady rate giving it a buffer against any instability that might be created by an economic crisis.

The result of these and other reforms, then, has been to make China increasingly like a number of the East Asian societies that owed so much to their formative years as developmental states. And like the non-communist members of the APT, China, too, was grappling with the question of how to retain a measure of state intervention in managing its economy when confronted with the pressures from the outside world to liberalize. Indeed, just as the APT was getting off the ground in the late 1990s, so China was facing the conundrum of instituting reforms that brought about a greater liberalization of its economy so that it could gain entry to the World Trade Organization (WTO) while at the same time advancing the role of the Chinese state in order to promote aspects of the country's industrial development. Even after China became a member of the WTO in December 2001, there was a need to comply with the Organization's liberalizing rules within the context of the state's direction of certain aspects of the Chinese economy.

Vietnam may also be thought of as having some of the elements of a developmental state. Vietnam has a similar history to that of China in terms of the impact of external threats and the development of a central governing capacity. More recently the Vietnamese government has attempted to emulate the prosperity of its economically successful regional neighbours and has looked especially to South Korea as a model of development (Masina 2006: 45). Certainly, the developmental state is a useful model for the Vietnamese government for as Vu (2005, 2010) has argued 'Hanoi desires economic growth, but only to the extent that the ruling party can control it' (Vu 2005: 26).

Importantly, the challenges faced by both the Chinese and Vietnamese governments in balancing increasing economic liberalization on the one hand, and continued state direction of the economy on the other, have been very similar to the dilemma with regard to liberalizing while retaining a state capacity to intervene in their economies – which other members of the APT have been forced to confront. Generally, the APT members have sought very similar solutions. All have moved to self-insurance at the national and regional levels. At the national level this has entailed building up large foreign exchange reserves as a buffer against a repeat of the Asian Financial Crisis. Indeed, it is not just that China (US$2.85 trillion) and Japan (US$1.1 trillion) have the largest foreign exchange reserves in the world but that South Korea (US$293 billion), Singapore (US$218 billion) and Thailand (US$168 billion) have larger reserves than the US (US$132 billion) (China Daily 2011; IMF 2011). At the regional level, self-insurance has resulted in the slow development of the Chiang Mai Initiative Multilateralization, which is a US

$120 billion fund accessible by the central banks of APT members to fight currency speculation. Moreover, in most APT members the state has either sought to increase its administrative capacity in order to bring about better regulation in the wake of the pre-Asian Financial Crisis liberalization or has maintained its strong infrastructural and guidance roles in promoting the economy (Stubbs 2011). And some APT members have begun to develop embryonic social programmes as a possible social safety net in any future crises (Ramesh 2009).

The overall consequences for regionalization in East Asia of the continuing commitment among the APT members to a revised form of the developmental state – what Hayashi (2010a) terms a new generation of developmental state – is that in a very general sense the members must confront a common set of policy challenges that are tied to the need to manage globalization so as to ensure a continued ability to control their own economies and societies. Most importantly, most members of the APT have a common framework, which comes out of their experiences as developmental states reformed to some degree by the forces of neo-liberalism as their starting point. And so, for example, while there are a number of other factors at work in keeping the APT from expanding its membership, say to include Australia and New Zealand, the fact that other possible members do not have the economic successes driven by the developmental state in their recent history suggests that they may not be able to appreciate the aspirations and requirements of the current APT members. This may work against an opening up of the APT membership in the foreseeable future.

Conclusion

The argument of this chapter is that the nature of East Asian regionalism cannot be fully understood without an appreciation of the role that the developmental state has played in its emergence. While the common developmental state experience of a substantial number of East Asia's core member states should not be considered a determining factor in the growth of East Asian regionalism, it has certainly shaped the nature of regional organizations and their evolution. Of the current APT membership, Japan, South Korea, Singapore, Malaysia, Thailand as well as China and Vietnam – and some would argue Indonesia – have all experienced some of the characteristics of the developmental state with strong state guidance of an essentially market-oriented, export-led economy. Importantly, these are the largest and most successful economies of the region and so have a disproportionate impact on the region's development.

It is not just the developmental state background of East Asia's major economies that has influenced regional organizations but the fact that each has faced the same problems of managing the forces of globalization. Each of the developmental states of the region faced external pressures to open up their economy through privatization and deregulation while at the same time dealing with domestic interests that pressed for the continuation of developmental state's structures and practices. Exchanging ideas through regional organizations helped to develop strategies to deal with these issues. In particular, in the wake of the Asian Financial Crisis, the APT was especially helpful in managing the forces of globalization in a way that might help to avoid another crisis. Hence, the shared background of the developmental state experience and the collective problem of adapting the developmental state to changing global realities have been significant factors in the way in which East Asian regionalism has emerged.