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Thomas Kalinowski

Crisis management and the varieties of capitalism

Fiscal stimulus packages and the transformation of East Asian state-led capitalism since 2008

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Reichpietschufer 50
D-10785 Berlin
Germany
www.wzb.eu

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Affiliation of the author other than WZB:
Thomas Kalinowski, Ph.D.
Associate Professor, Graduate School of International Studies,
Ewha Womans University, Korea
Kalinowski.Thomas@gmail.com

Abstract

Crisis management and the varieties of capitalism

Fiscal stimulus packages and the transformation of East Asian state-led capitalism since 2008

by Thomas Kalinowski

This paper contributes to the understanding of the diversity of capitalism by combining approaches from comparative political economy and development studies, notably developmental state theory. We show that different types of capitalism react differently to global shocks and offer some support for the classic varieties of capitalism argument that external pressure leads to the reinforcement of historically evolved institutions. Moreover, we make several departures from established theories on the variety of capitalism, namely, their Eurocentric bias, their under-theorization of the role of the state, and the methodological "conservative bias" of institutionalist approaches.

At the empirical level, this paper studies the reaction of East Asian countries (China, Japan and Korea) to the global financial crisis with a focus on fiscal stimulus packages that were implemented from 2008 to 2010. Unlike in the West, where a (short-lived) revival of Keynesianism could be observed, East Asian governments implemented large fiscal stimulus packages with strong elements of industrial policies. This paper argues that the size and character of fiscal stimulus packages can be explained by a path dependency of developmental state capitalism. In addition, the paper examines the substantial changes in the transformation from an old-style developmental state to a "neo-developmental state."

Keywords

Comparative political economy, international political economy, developmental state, fiscal policies, varieties of capitalism, East Asia

Zusammenfassung

Die Spielarten des Kapitalismus und ihr Krisenmanagement.
Die Politische Ökonomie von Konjunkturpaketen unter besonderer Berücksichtigung der Entwicklung in Ostasien seit 2008

von Thomas Kalinowski

Dieses Diskussionspapier trägt zur Diskussion über unterschiedliche Spielarten des Kapitalismus bei, indem Theorieansätze aus den Bereichen Vergleichende Politische Ökonomie und Entwicklungstheorie miteinander verbunden werden. Ich stelle in diesem Papier dar, wie verschiedene Spielarten des Kapitalismus unterschiedlich auf den externen Schock der Weltfinanz- und Wirtschaftskrise seit 2008 reagiert haben. Das Papier stützt in gewissem Maße die Behauptung der Debatte über die *varieties of capitalism*, dass externe Herausforderungen tendenziell zu einer Stärkung historisch gewachsener institutioneller Arrangements führen. Gleichzeitig versucht der Beitrag, einige Schwachstellen der bisherigen Forschung zur Diversität von Kapitalismus zu überwinden – insbesondere den eurozentrischen Ansatz, die mangelnde Konzeptualisierung der Rolle des Staates und die zu enge Auslegung des Begriffs der Pfadabhängigkeit.

Auf der empirischen Ebene untersucht dieses Diskussionspapier das Krisenmanagement ostasiatischer Länder (China, Japan und Südkorea) seit 2008. Der Fokus liegt dabei auf der Fiskalpolitik und der Implementierung von Konjunkturpaketen. Im Unterschied zum (kurzlebigen) Revival keynesianischer Nachfragepolitik im Westen lässt sich in Asien ein Rückgriff auf Elemente der Infrastruktur- und Industriepolitik beobachten. Diese Stärkung von Institutionen des klassischen ostasiatischen Entwicklungsstaates zeigt eine pfadabhängige Entwicklung an. Gleichzeitig lassen sich jedoch auch Elemente des Wandels feststellen, und das Papier beschreibt diese „pfadabhängige Transformation" des ursprünglichen Ostasiatischen Entwicklungsstaates in einen Entwicklungsstaat der zweiten Generation.

Contents

1 Introduction

This paper contributes to the understanding of the diversity of capitalism by combining approaches from comparative political economy (CPE) and development studies, notably developmental state theory. We show that different types of capitalism react differently to global shocks and offer some support for the classic varieties of capitalism (VoC) argument that external pressure leads to the reinforcement of historically evolved institutions. Furthermore, we make several departures from established VoC theories, namely, from their Eurocentric focus, their under-theorization of the state as an actor (Jackson & Deeg, 2008); and the methodological "conservative bias" of institutionalist approaches that under-estimate the dynamics of capitalism (Streeck & Thelen, 2005).

This paper contributes to a deeper understanding of the benefits and challenges of integrating East Asian capitalism into the study of the diversity of capitalism (DoC).[1] Most importantly, the investigation of East Asian developmental states highlights the role of the state not only as a facilitator of cooperation but also as an agent of capitalist development. Finally, we depart from a rigid interpretation of path dependency and highlight aspects of capitalist dynamics that are driven by the embeddedness of institutions in domestic interest struggles (see section 2 for a more detailed discussion of the theoretical framework).

At the empirical level, this paper studies the reaction of East Asian countries (Japan, China and Korea) to the global financial crisis since 2008 with a focus on fiscal stimulus packages. Unlike in the West, where a (short-lived) revival of Keynesian strategies could be observed, East Asian countries reinforced industrial policies and reverted to export-oriented recovery strategies (section 3). This paper argues that these policies can be explained by the path dependency of East Asian developmental states. However, the paper also highlights the changes occurring in East Asia as the old developmental state focused on macro-planning and macro-coordination incorporates elements of a "competition state" (Cerny, 1997). This neo-developmental state is engaging in fragmented micro-interventions and increased government spending, particularly in the form of support for businesses (see section 4). This transformation reflects the changing balance of power in the relationship between government and business, which is increasingly tilted in favor of the latter (see section 5).

2 East Asia and the diversity of capitalism

East Asian capitalism continues to be substantially different from Anglo-Saxon and Continental European forms. These differences can be observed recently in the distinct reaction of East Asian governments to the global financial and economic crisis since 2008, as we will explain in greater detail in the empirical study of fiscal stimulus packages in the region in section 3. First, the stimuli in

China, Korea and Japan were larger than the stimuli in Europe, and the Chinese stimulus was even larger than that in the US, which is surprising given that East Asia has been less severely affected by the crisis since 2008 and that the crisis was primarily an external shock through the decline of world trade rather than a result of domestic economic deficiencies. Second, in contrast with the short-lived revival of Keynesianism and demand-side policies in the US and some European countries, East Asian countries witnessed a return of industrial policies and supply-side–oriented policies. What can explain this distinct East Asian reaction?

Diverging reactions to the same global challenge constitute an obvious problem for studies that assume a conversion of domestic institutions and "models of capitalism" amid globalization and the reaction to external shocks. This convergence approach assumes that there is one "best practice" solution for a certain problem and that institution building is a process of "rational design" that begins with a "clean slate" (Streeck & Thelen, 2005: 6). The French regulation school (for an overview see Boyer & Saillard, 2002; Boyer, 2005) and the subsequent debate on VoC (Hodgson, 1996; Hall & Soskice, 2001) offered a powerful critique that different models of capitalism would converge and follow the assumed "best practice" of US "normal capitalism" (Streeck & Yamamura, 2001: 1). Indeed, studies of DoC show that different institutional arrangements can create distinct pathways that lead to similar results in macroeconomic performance and stability. To some degree, this paper supports the original VoC thesis that external pressure leads to a reinforcement of institutional regimes (Hall & Soskice, 2001); we return to this argument later.

Unfortunately, comparative political economics and, particularly, the neo-institutionalist discussion of the VoC approach have been highly Eurocentric, with the exception of Japan (Yamamura & Streeck, 2003, Streeck & Yamamura, 2001) and a few excursions to other East Asian countries (Whitley, 1999; Coates, 2000; Amable, 2003). Often, the study of non-Western political economies is considered part of development studies (Nölke, 2011), creating the curious situation that the study of Western capitalism is considered part of the field of comparative political economy, whereas the study of non-Western capitalism is seen as part of international development and thus within the field of international political economy. Rather than superimposing certain DoC concepts that were inductively generated from the observations of Western capitalism, this paper has chosen a different approach: to begin with the perspective of East Asian development and to determine what an analysis of East Asia can contribute to the development of theory. The emergence of a new developed and stable model of capitalism in East Asia poses the challenge of integrating East Asia into the DoC debate and exposes some important shortcomings of the previous DoC literature. Most notably, studies of the DoC, particularly the firm-centered VoC approach, downplay the role of the state in capitalist development. Second-generation VoC studies have integrated the state into the firm-centered approach but have conceptualized it merely as a "coordination mechanism" or highlighted its "compensatory role" for the weakness in the organization of capital and labor (Hancké et al., 2007: 37). Departing from the firm-centered interpretation, Whitley (2005) highlights the role of the state in shaping business systems and steering economic development. Coates (2002) and Amable (2003) extend this work by introducing a state-led model of capitalism that is clearly distinct from the liberal, coordinated and social democratic forms of capitalism. This paper follows along the lines of the latter two studies but extends these approaches by offering a state-centered approach to DoC inspired by the developmental theory that emerged as the dominant explanation of East Asia's successful economic development during recent decades.

Originally, the developmental state theory evolved as a Weberian study of bureaucracy, with the most famous example being Chalmers Johnson's study of Japanese industrial policies led by the Ministry of International Trade and Industry (MITI) (Johnson, 1982) and the general dominance of the bureaucracy in shaping Japanese development (Johnson, 1995). Building on Johnson's work, political economists have expanded these studies to other countries, such as Taiwan and South Korea, and focused on the industrial and mercantilist policies of developmental states (Wade, 2004 [1990]; Woo-Cumings, 1999; Amsden, 1989). Unlike the regulatory states in what the VoC school terms "liberal market economies" (for example, the US) that primarily provide a framework for the market, developmental states follow a strategy of "governing the market" (Wade, 2004). This strategy includes economic planning and the utilization of private businesses and "the market" to advance goals of national development (see table 1). East Asian governments were suspicious of the self-regulatory market and rejected the advice of the Washington Consensus. Instead, these governments followed a development strategy that was first systematized by Friedrich List (1856) to focus on developing national productive capacities.[2] With the publication of the World Bank study on the "East Asian Miracle" (World Bank, 1993), a toned-down version of the "revisionist" developmental state theory (Wade, 1996) became one of the mainstream interpretations of East Asian development. More recently, scholars have highlighted the similarities between China and East Asian developmental states. China is similar to the East Asian developmental state with respect to its industrial policies, its integration into the world and regional markets, and its control over finances (Cho, 2005b; Cho, 2005a). However, China differs substantially from Japan and Korea because of its focus on state-owned enterprises. The Japanese and Korean economies are dominated by private business conglomerates (Baek, 2005). Until the 1990s, China was often referred to as a "socialist developmental state" (Evans, 2010: 47; Beeson, 2009: 14). However, particularly with the economic reforms of the 1990s, the abandoning of the "iron rice bowl" social security system and the admission to the World Trade Organization (WTO), referring to China as a capitalist developmental state with strong nationalist elements is now more accurate. Indeed, China's state-led "long march to capitalism" (Cho, 2005a) was not primarily a process of liberalization in the direction of a "Western" liberal market economy (LME) but rather a transformation into a Korean- and Japanese-style developmental state.

East Asian developmental state capitalism differs from other models of capitalism in several important ways. The primary role of the state is active macro-planning in the form of long-term economic plans and in the implementation of industrial policies to support the development of certain industries. This state-led approach to capitalist development differs substantially from regulatory states primarily concerning framework settings, neo-corporatist states concerned with facilitating coordination and welfare states focusing on redistribution (see table 1). Unlike the regulatory states in LMEs, such as the US, which concentrate on providing a framework for market actors that interact at arm's length, the developmental state is the leading actor in planning economic development with industrial and mercantilist policies as well as state control over finance as the main tools. Unlike (neo-)corporatist states in coordinated market economies (CMEs), such as Germany, which concentrate on facilitating cooperation between societal actors, a developmental state is characterized by a strong state-business network with weak labor unions. Unlike in welfare states, such as Sweden ("Nordic model"), the redistributive capacity of developmental states is limited, and government spending is low.

A shared weakness of the DoC and developmental state studies is the lack of understanding of the causes of institutional change and the dynamics of capitalism. DoC and development studies often employ a rigid understanding of path dependency that leaves little room for institutional change. By contrast, in this paper, path dependency is understood in the tradition of historical institutionalism and in the sense of institutional legacies that create preferences for certain pathways while making other routes less likely (Beyer, 2006: 25-26; Whitley, 1998). Both DoC and developmental state studies present persuasive arguments to assume a strong path dependency of the models of capitalism. DoC studies highlight "institutional complementarity" as the main source of this path dependency, whereas developmental state studies highlight the autonomy of the state from the dynamics of political and economic interest struggles.

In his study of Japan, Vogel (2006) shows that despite two decades of liberalization and neoliberal reforms, Japan never became an LME. Rather, the country is experiencing a remodeling of its institutions constrained by the path dependency of the past developmental state. In Korea, many expected that the IMF-mandated reform programs during the Asian financial crisis from 1997 to 2000 would "tame the tiger" (Bullard et al., 1998) and destroy the Korean developmental state. However, other studies show that the rapid recovery of Korea can be attributed to the persistence of elements of the developmental state (Thurbon & Weiss, 2006; Weiss, 1999; Kalinowski, 2008; Kalinowski, 2005).

Indeed, our case study of fiscal stimulus packages supports those who criticize a "conservative" or static interpretation of path dependency assuming institutional lock-ins and little leeway for change (Beyer, 2006; Streeck & Thelen, 2005). We will observe in section 3 that the developmental state is undergoing a process of path dependent transformation into a neo-developmental state. This transformation includes elements of "institutional conversion" (Streeck & Thelen, 2005: 26-29), in which institutions remain intact but change their purpose.

In addition, we can observe "institutional layering" (Streeck & Thelen, 2005: 22-24) in the sense that new institutions are introduced to supplement existing institutions.

Table 1: Idealtypes of states in different models of capitalism

	Primary role of state	Dominant form of interaction	Countries closest to idealtype	Related DoC terminology
Regulatory state	Provide institutional framework	Arm's length	US	LME, market-based, Anglo-Saxon, Liberal capitalism
(Neo-) Corporatist state	Facilitate coordination between interest groups	Coordinated	Germany	CME, Continental European, Rhenish, negotiated capitalism
Welfare state	Redistribution	Coordinated	Sweden	Nordic, Social democratic
Developmental state	Macro-planning, industrial policies	Hierarchical, state-led	Japan, Korea, China	Asian capitalism, state-led capitalism
Neo-developmental state	Fragmented micro-interventions and subsidies	Hierarchical, business-led	Japan, Korea, to a lesser extend China	East Asian competition state

For example, we can observe a conversion of industrial policies from centralized macro-economic planning to fragmented micro-interventions and a transformation from protecting markets to subsidizing struggling firms. We also observe that industrial policies aimed at creating national champions are supplemented by new layers of support for small and medium-sized enterprises (SMEs) (see section 3).

To understand this dynamics of capitalism, it is useful to depart from a pure institutionalist perspective that is "sidelining historical context and the historical forces that condition when and how and for what purpose particular institutional processes may emerge" (Streeck, 2011: 139). Rather, we turn to studies conceptualizing institutions as a "political economic equilibrium" (Amable, 2003: 46, Streeck, 2011) and highlight the embeddedness of the state in societal interest struggles, most notably in the struggle between capital and labor (Coates, 2002). Again, studies from the perspective of developmental state theory and, particularly, Peter Evans' analysis of state-society relations in developing countries (Evans, 1995) have established a connection to the East Asian region. Evans's work surpasses the initial concept of state autonomy that was used as an explanation for the success of East Asian developmental states. His concept of embedded autonomy assumes that the state is embedded in state-society relations and shows that it was the connection of state autonomy with strong networks between states and businesses that contributed to the success of macro-economic planning and industrial policies. Unlike in regulatory states, where state-society links are mediated at arm's length through anonymous markets, in European (neo-)corporatist states and East Asian developmental states, policies are created and implemented through a coordinated process. Unlike (neo-)corporatist states, however, with East Asian "corporatism without labor" (Pempel & Tsunekawa, 1979), organized labor is excluded from these state-society networks (see table 2).

Table 2: State-society links and the state

<table>
<tr><td colspan="2" rowspan="2"></td><td colspan="2">State-business links</td></tr>
<tr><td>Stronger</td><td>Weaker</td></tr>
<tr><td rowspan="2">State-labour links</td><td>Stronger</td><td>(Neo-) corporatist state</td><td>Welfare state</td></tr>
<tr><td>Weaker</td><td>(Neo-)developmental state</td><td>Regulatory state</td></tr>
</table>

The triangular relationship between state autonomy, the needs of a firm and the interests of organized labor is dynamic and depends on internal changes of the balance of power as well as external factors, such as economic globalization and crises. Critical political economic studies have strongly established the thesis that under pressure from transnational business groups, governments are forced to implement neoliberal policies of economic liberalization, privatization and pro-business regulatory reforms. Alternatives such as Mitterrand's socialist experiment in the early 1980s failed because capital and consumers had the option of taking their money abroad. With the increasing credibility of an "exit" option of capital, its "voice" in politics also increases (Hirschman, 1970). As a consequence, we can observe the emergence of "competition states" (Cerny, 1997; Hirsch, 1996) that compete to attract transnational corporations and capital. This neoliberal political bias of globalization has been well documented for countries in North America and Europe. Cerny describes the transformation of welfare states into competition states as follows:

> *"Rather than attempt to take certain economic activities out of the market, to 'decommodify' them as the welfare state was organized to do, the competition state has pursued increased marketization to make economic activities located within the national territory, or which otherwise contribute to national wealth, more competitive in international and transnational terms"* (Cerny, 1997: 259).

It is remarkable that scholars examining the transformation of the state have seldom considered beyond North America and Europe to test their hypotheses. In East Asia, welfare states or other forms of state-mandated decommodification have always been weak; thus, the transformation process of the state is expected to differ greatly. Despite these differences, however, we can observe a similar transformation process from a developmental state focused on macro-economic growth and investment rates into a neo-developmental state focused on supporting the micro-profitability and survival of businesses. Rather than attempt to replace market mechanisms with economic planning, as the developmental state was organized to do, East Asian neo-developmental states advance and manipulate market mechanisms to increase the competitiveness of economic activities located within the national territory and to support the global expansion of national businesses. Unlike the Western competition state that Cerny and others describe, the East Asian version does not reduce but rather increases government spending. Furthermore, the neo-developmental state is not generally focused on deregulation but rather on reregulation to support national businesses that are still in a catch-up process with global rivals, particularly in terms of expanding to new markets. Despite the differences, we can observe similar policy changes from protectionist policies to support for businesses through subsidies and from macro-economic planning to fragmented micro-interventionism (see section 4).

In summary, inspired by studies of the East Asian developmental state, we depart from a functionalist firm-centered approach to DoC and develop a state-centered approach to DoC by conceptualizing the state as embedded in state-society relationships.

3 East Asian crisis management since 2008 and the revival of industrial policies

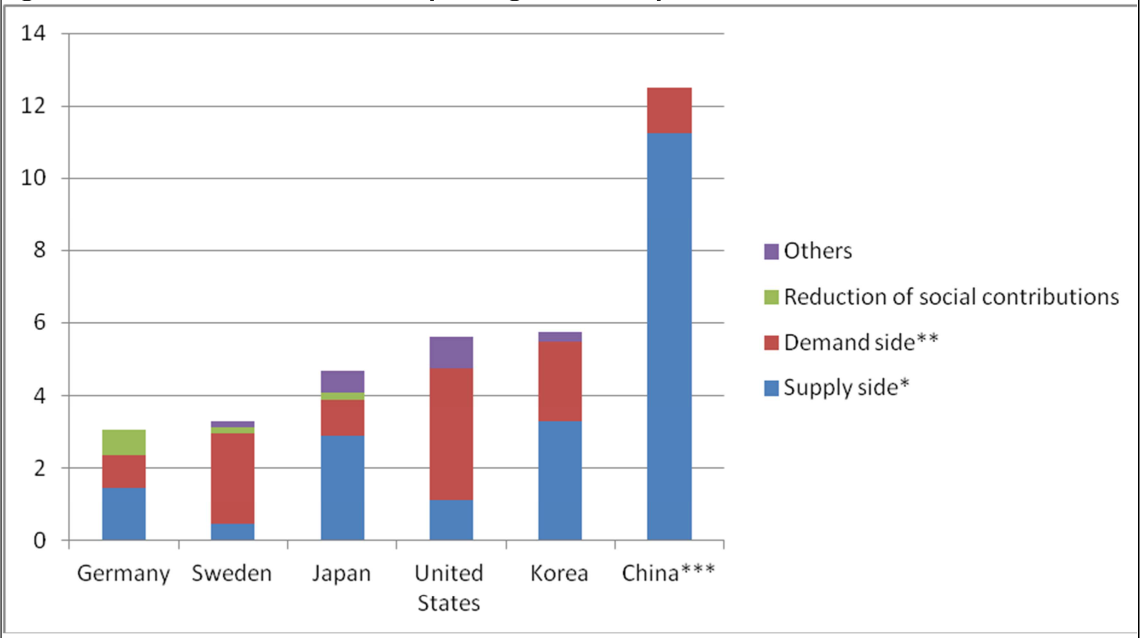
Empirically, the distinctiveness of East Asian capitalism can be observed in the management of the global financial and economic crisis since 2008. In East Asia, the crisis led to a revival of industrial policies that consisted of large, primarily supply-side–oriented fiscal stimulus packages, whereas the US and many European countries employed loose monetary policies and fiscal stimulus packages to stimulate domestic consumption. In some sense, the US and other regulatory states witnessed a revival of Keynesianism, although this revival was brief in most cases and has already been replaced by an austerity bias (Coates, 2012). Nordic social democratic states, such as Sweden, also implemented demand-side–oriented fiscal stimulus packages, although their stimuli needed to be much smaller because of the automatic stabilizers provided by strong social security systems. A strong welfare system and the ability to coordinate with labor and business, for example, to reduce work hours can explain why neo-corporatist states such as Germany implemented relatively small supply-side–oriented stimuli (table 3). In Sweden and Germany, the reduction of social security contributions that affect business and labor alike also contributed to the fiscal stimulus package (figure 1).

Meanwhile, an institutional analysis of fiscal stimulus packages and fiscal policies in East Asia since 2008 reveals that the revival of industrial policies is not simply a return to old-style developmental states.[3] By carefully examining the manner in which the fiscal stimulus was spent, we can observe that infrastructure remains important but that infrastructure policies have shifted to new areas, particularly "green growth." We can also observe institutional layering and the expansion of industrial policies in the sense that changing business interests are leading to new forms of support, such as support for international expansion. Finally, the negative economic effects of the developmental state models based on large business conglomerates lead to institutional layering because traditional support for big business must be supplemented with support for SMEs.

Table 3: The Political Economy of fiscal stimulus packages

		Bias of stimulus	
		Supply side	**Demand side**
Size of stimulus	***Smaller***	(Neo-) corporatist state	Welfare state
	Larger	(Neo-) developmental state	Regulatory state

Figure 1: Direction of fiscal stimulus spending 2008-10 in per cent of GDP



Notes:

* Spending for public investment, transfers to businesses, and tax reduction for businesses.

** Spending for public consumption, transfers to private households, tax reductions for private households, consumption.

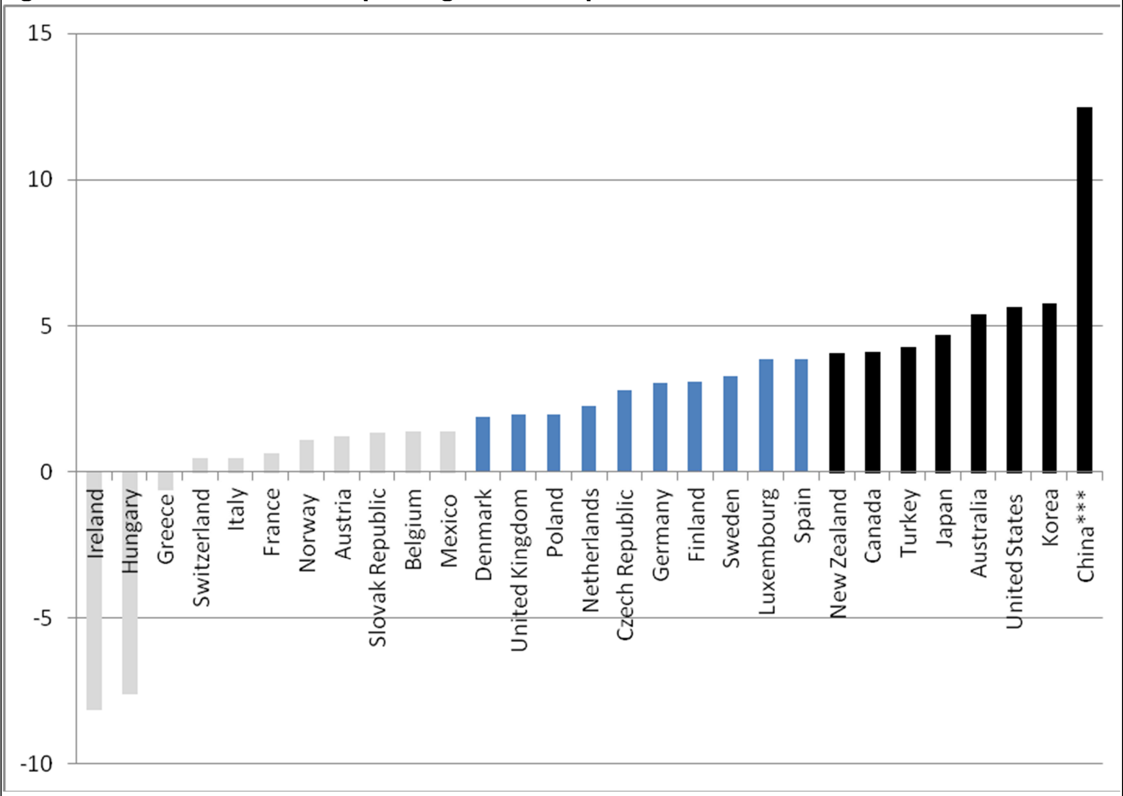
*** Data for China is based on estimates by different studies (see for example IMF 2009:10; Zhang & Zhang, 2009: 9; Cova, Pisani, & Rebucci, 2010: 2).

Source: OECD 2010c; OECD Factbook 2010 (Paris: OECD).

Size of fiscal stimulus packages

The fiscal stimulus packages in East Asian developmental state capitalism were substantially larger than those in European neo-corporatist or welfare states and were at a comparable level to the US as a classic regulatory state (see figure 2). The net effect of the fiscal stimulus from 2008 to 2010 was 6.1% of GDP in Korea, 4.7% in Japan and 5.6% in the US, whereas the effect was only 3.2% of GDP in Germany and 3.3% in Sweden (OECD, 2010d). China is not a member of the OECD and thus lacks directly comparable data, but according to Chinese national statics it had the largest fiscal stimulus package, reaching an estimate of 12.5% of GDP (Wong, 2011: 2).

Figure 2: Size of fiscal stimulus spending 2008-10 in per cent of GDP



Notes:

*** Data for China is based on estimates by different studies (see for example IMF, 2009: 10; Zhang & Zhang, 2009: 9; Cova, Pisani, & Rebucci, 2010: 2).

Note: Stimuli larger than 4% of GDP are flagged as large (black), stimuli smaller than 1.5% of GDP are flagged as small (light grey).

Source: OECD 2010c; OECD Factbook 2010 (Paris: OECD).

Supply–side orientation of stimulus

Reflecting the revival of industrial policies, a much larger share of the stimulus in East Asia was supply-side oriented and used to support businesses in the form of government investments, tax reductions and transfers to businesses. A much smaller share was allocated to demand-side support in the form of tax reductions for households and consumption as well as transfers to households and government consumption. In summary, the stimulus in East Asian developmental states was heavily supply-side oriented, whereas regulatory states such as the US and welfare states such as Sweden had a heavy demand-side bias.[4] Germany and other neo-corporatist states had small supply-side biases, whereas the stimulus in the UK had a small demand-side bias, indicating its position as a regulatory state with elements of a welfare state (see figure 3).[5] The US and social democratic Europe used stimulus packages to subsidize consumption, whereas East Asian developmental states and, to a lesser degree, neo-corporatist states utilized stimulus packages to improve infrastructure and implement industrial policies. The net effect for the supply-side stimulus was 2.9% of GDP in Japan and 3.3% in Korea, whereas the demand side of the stimulus was only 1% and 2.2% respectively (figure 1). By comparison, the supply-side effects were only 1.1% in the US and 0.5% in Sweden, whereas the demand-side effects for these countries were 3.6% and 2.5%. With 1.4% spending for the supply side and 0.9% for the demand side, Germany appears to be positioned in the middle between Sweden and the US on one side and East Asia on the other. A specific element of Germany is the enormous contribution of the reduction of social security contributions for employers as well as employees to the stimulus, which amounted to 0.7% of GDP (OECD, 2010d).

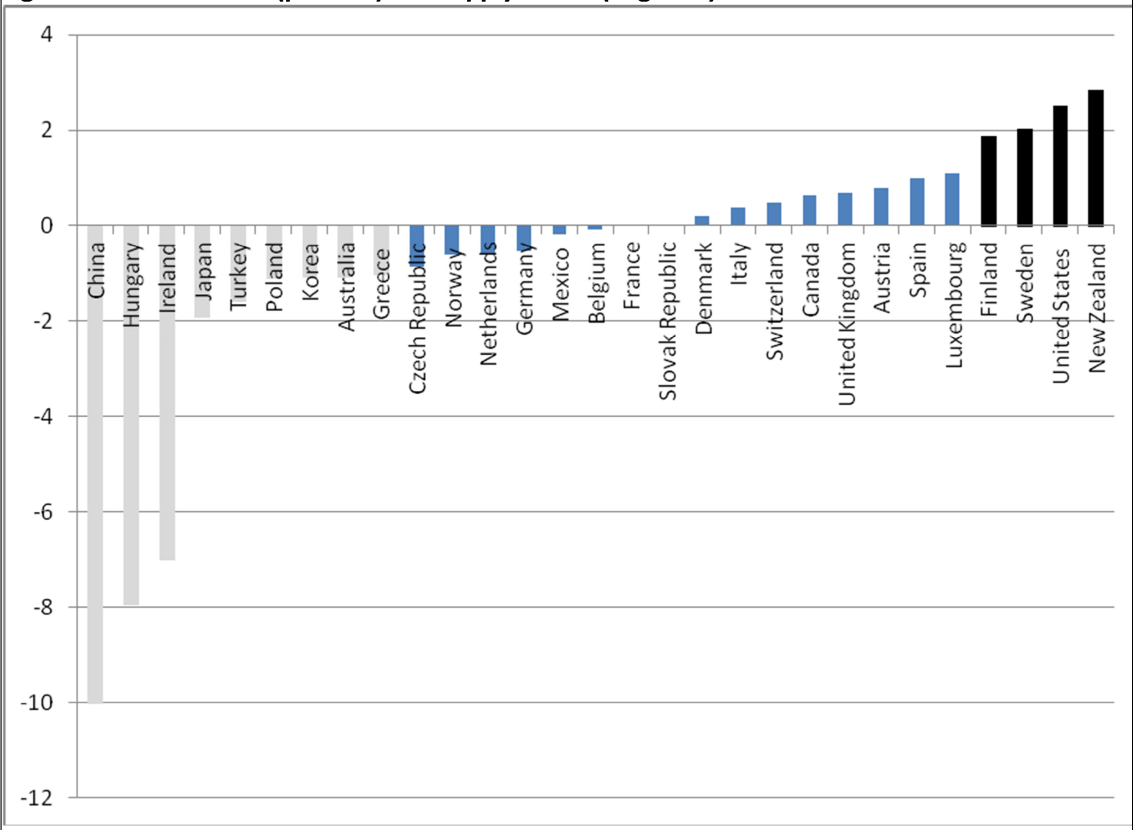
Unfortunately, as there are no comparable figures from the OECD available for China it is necessary to rely on national Chinese statistics in connection with anecdotal evidence. Based on the less comprehensive data available, it appears that China remains in the trajectory of the East Asian developmental state, focused on the supply-side–oriented promotion of investment and infrastructure. The IMF suggests that approximately 90% of the Chinese stimulus was public investment, whereas public consumption and transfers as well as tax cuts on consumption and capital accounted for only approximately 10% of the stimulus[6]. The invested amount was CNY 4 trillion ($635 billion) over the course of 27 months (Wong, 2011: 6). Specifically, 38% of the investments were in transport and power infrastructure, 25% in earthquake reconstruction, 9% in rural village infrastructure and 10% in housing. Only a small fraction was invested in non-construction infrastructure, such as health and education (4%), technological innovation (9%) and the environment (5%) (Wong, 2011: 6). In summary, we can estimate the supply-side contribution to be approximately 11.3% and the demand side to be 1.3% of GDP (figure 1).

In addition to these already substantial amounts, the Chinese government also asked the financial sector to "support the government's industrial policy by increasing lending for investment in a long list of sectors, projects and conditions including public infrastructure, earthquake reconstruction, energy saving, technical renovation and technology upgrading, regional development, small and medium-sized enterprises, and rural projects" (Wong, 2011: 12). Estimates of the stimulus from new bank loans are approximately CNY 4.3 trillion for 2008, CNY 9.6 trillion for 2009 and CNY 7.9 trillion for 2010 - approximately five times the amount of direct government investment (Wong, 2011: 12).

Infrastructure and construction sector

In all three East Asian economies, the construction sector plays an important role. In the early stages of economic development, construction and infrastructure are crucial, although their importance and the return on infrastructure investments decrease as the level of development increases.

Figure 3: Demand side* (positive) and supply side (negative) in % of GDP**



Notes:

* Spending for public consumption, transfers to private households, tax reductions for private households, consumption.

** Spending for public investment, transfers to businesses, and tax reduction for businesses.

Note: Bias is demand side stimulus minus supply side stimulus, >1 = strong demand side bias, 1 to -1 = weak bias, <1=strong supply side bias

Source: OECD 2010c; OECD Factbook 2010 (Paris: OECD).

In less developed China, infrastructure is still underdeveloped, and the government had little problem using CNY 1.5 trillion from the stimulus package to build train lines, airports, ports and electricity infrastructure. An additional CNY400 billion was used for low-cost housing and rural infrastructure. Reconstruction after the earthquake in Sichuan in 2008 amounted to CNY 1 trillion of the stimulus package (OECD, 2010a: 33); thus, a startling 81.8% of the investment part of the stimulus and nearly half of the entire stimulus were spent on infrastructure projects.

However, even in Korea and Japan, which already have a well-developed infrastructure, expenditures for infrastructure remain high. Construction companies remain important for the economy, and it is difficult for governments to reduce infrastructure spending to avoid bankruptcies and preserve jobs. In Korea, which had already suffered from a real estate bubble before 2008, finding new construction projects was difficult. In 2008, Lee Myung Bak, a former CEO of Hyundai Construction with the nickname "the bulldozer," became the new president of Korea and announced ambitious and controversial new infrastructure projects. The largest construction project was the four-river restoration project, which was intended to secure water supply and prevent floods by constructing dams as well as to create new recreation areas. The four-river project alone is projected to cost KRW 15 trillion (US$13 billion). Other projects include the expansion of the rail network and the construction of nuclear power plants to increase the share of nuclear power in energy production from 26% to 41% through 2030 (OECD, 2010b).

Among all of the East Asian countries, Japan is the most developed and has progressed the furthest in reducing reliance on infrastructure spending. Japan was formerly the archetype of a "construction state," in which an "iron triangle" of the ruling party, bureaucracy and construction companies spends taxpayer money to preserve profits and jobs in an oversized construction sector (Feldhoff, 2002). We can observe a recent weakening of this iron triangle, particularly since the change of government to the Democratic Party in 2009. Compared to previous fiscal stimulus packages, the 2008-2009 package spent far less on infrastructure. Only 26.7% of the stimulus was designed for infrastructure, compared with 78.7% on average in the previous packages between 1992 and 2002 (OECD, 2009: 79). Until early 2011, the reduction of infrastructure projects appeared to constitute a clear departure from the former developmental state focus on infrastructure with the exception of broadband access and energy-saving investments in existing houses. In March 2011, however, Japan was struck by the most devastating disaster since the end of WW2: the Tohoku earthquake and tsunami destroyed vast stretches of coastal areas in Northeastern Honshu and caused the meltdown of the nuclear power plant in Fukushima. The reconstruction efforts in Japan and the necessity to rapidly develop alternatives to nuclear energy have led to a revival of classic infrastructure and construction-related spending as well as "green" industrial policies.

"Green" industrial policies

The "green growth" strategy in East Asia is one of the most interesting new industrial policies. In the US and Europe, green growth is typically associated with environmental regulations, "sin taxes" on resource consumption or subsidies for environmental friendly products. Examples include high fuel taxes, the "cash for clunkers" programs or subsidies for the installation of solar panels ("100,000 roof program"). By contrast, in East Asia, green policies are understood as either green infrastructure projects or industrial policies that support companies in developing and producing ecologically friendly products. According to a UNEP (2009) study, China's "green stimulus" was $218 billion, the largest in absolute terms, with most of the spending designated for rail infrastructure (48%) and electric grids (35%). According to the same study, Korea devoted 79% of its stimulus to green measures, by far the largest share of all major stimulus packages. The government announced "green growth" as the new vision to provide a fairly coherent framework for a great variety of new government initiatives. In its five-year plan for green growth from 2009 to 2013, the Korean government's intent is to spend KRW 107 trillion ($94 billion). More than half of the spending (KRW 61 trillion) was allocated to "green" public construction projects, such as the controversial four-river restoration project mentioned above (OECD, 2010b: 142). KRW 23.5 trillion was directly used in the promotion of new green business opportunities. The government designated 27 core technologies that qualify for support - from LED lighting, green cars and solar panels to recycling and batteries (UNEP, 2010: 37). These "core areas" included rather controversial sectors, such as IT and nuclear energy, which the government has attempted to strengthen or establish as major export industries but that cannot technically be identified as green technologies. Different elements of industrial policies, such as direct government lending, government guarantees and tax incentives, were used for green industry financing. In 2010, the Korean government introduced a certification system in which public institutions evaluate companies and projects, and green technology must account for at least 30% of their sales to qualify for government-supported financing (OECD, 2010b: 147).

Institutionally, the green growth policies are also biased toward industrial policies because the powerful Ministry of Strategy and Finance (MOSF), not the Environmental Ministry, plays the leading role in the Presidential Committee for Green Growth (PCGC) that is responsible for implementing the policies. The MOSF was established in 2008 and can be viewed as the successor of the Economic Planning Board (EPB), which was previously the core of the Korean developmental state. The PCGC also includes direct business participation, the committee is co-chaired by the prime minister and a private sector representative (PCGG, 2012).

Compared with China and Korea, Japan has adopted a more balanced approach that not only includes industrial policies but also emphasizes the demand side in its green growth policies. An "eco-point system" that was introduced in May 2009 and provided rebates for buying electric appliances with low energy consumption was successful. TV sales in November 2010 were four times higher than in the year prior, and incentives for energy-efficient cars led to a 40% increase of sales (OECD, 2011b: 27). In total, Japan spent approximately JPY 2.9 trillion or 0.57% of GDP for "green anti-crisis measures." Unlike Korea and Japan, only 2% of these funds were used for infrastructure and equipment (OECD, 2010c: 38). This designation of funds starkly contrasts with the last large stimulus package in 2001-2002, in which the vast majority of spending was devoted to this sector.

Policies to support SMEs

All three East Asian countries economies suffer from disequilibrium between one side with large companies and conglomerates that dominate the economy and produce most of the exports and the other side with a large number of SMEs with low productivity that largely produce for the domestic market and provide employment for the largest share of the economically active population. Consequently, the focus of industrial policies has shifted from support for large companies in capital-intensive, heavy industries during the initial phases of industrialization to less capital-intensive SMEs in light industries (Wang and Huang, 2012). In Korea and Japan, this shift is clearly identifiable in the direction of the fiscal stimulus packages, whereas in China, support for SMEs is limited to credit guarantees (OECD, 2010a: 89-94). In Korea, the Small and Medium Business Administration (SMBA) operates within the powerful MOSF. In 2012, the Ministry of Knowledge Economy (MKE) founded the High Potential Enterprise team, which supports larger SMEs in becoming large companies (Korea Joong Ang Daily, March 30, 2012). Consequently, grants to local governments and SME-related expenses had the highest growth rates in the budget (OECD, 2009: 79).

In Japan, SME funding has substantially increased since December 2009, and the government requested that public finance institutions and the Fiscal Investment and Loan Program (FILP) channel financing into SMEs and into the newly designated growth areas. The government also expanded credit guarantees for SMEs (OECD, 2011b: 92). In some respect, political support for industrial policies has increased under the new Democratic Party (DP) government since 2009. For example, the previous conservative Liberal Democratic Party (LDP) government under Koizumi decided to privatize Japan Post, the largest public finance institution, which is often used to channel funds into certain industries. In April, a grand coalition of DP and LDP passed a bill to remove the 2017 deadline for privatization (Japan Times, 28 April 2012). Despite announcements for a demand-led and market-oriented economy, the government is not willing to abandon its use of powerful tools to channel financing into new industrial sectors and infrastructure projects.

Innovation state

Support for SMEs is closely intertwined with a transformation from a strategy based on "industrialization through learning" (Amsden, 1989; Amsden, 1991) to a strategy based on innovation. A larger portion of government attention is now focused on improving innovation and education and creating what Peter Evans terms the "capability enhancing state" (Evans, 2010: 38). The developmental state is becoming an "innovation state" (Wang et al., 2012) that invests more heavily in basic science and supports technology-intensive companies in new industries, such as biotechnology (Wang, 2007). In Korea, KRW13 trillion was spent in green technology research and development (R&D). The Korean government now spends 0.07% of GDP on R&D in energy-related areas, the second highest in the OECD behind Japan (OECD, 2010b: 144). In 2012, Korea established the Institutes of Basic Science (IBS) with 50 research centers to promote more innovative and groundbreaking research (Nature, May 17, 2012). The IBS are modeled after the German Max Planck Institutes and the Japanese Institute of Physical and Chemical Research (RIKEN), which was dramatically expanded in the 1980s when Japan was in a transition period from a learner to an innovator. The state is also playing an increasingly important role in education. In the past, education in East Asia was largely financed by families who were eager to assist their children in ascending the social ladder. Amid increasing wealth and social inequality, the resulting increase in tuition for universities is creating a vast social burden for many families. Some of the measures recently introduced in Japan and Korea include the reduction or abolishment of tuition fees.

The global expansion of industrial policies

East Asian countries have used their crisis management to improve their global role and support the international expansion of their "national champions". China's fiscal stimulus was significant not merely as an engine of Chinese growth but also as a stimulus for the global economy, particularly the East Asian region. When China announced the stimulus, the Japanese stock market increased by more than 5% (Stubbs, 2011: 161). In fact, East Asia's global role is increasing in general. Japan, China and Korea are members of the G20 and have substantially increased their share in the IMF to address the global financial and economic crisis and have contributed to the European Financial Stability Facility (Financial Times, February 19, 2012). Japan, Korea and China are negotiating or have already signed preferential trade agreements (PTAs) to support the global expansion of their export-oriented companies (Ravenhill & Jiang, 2008; Ravenhill, 2010).

East Asian governments have extended their industrial policies to the global level by using foreign economic cooperation and development cooperation to support business (Kalinowski & Cho, 2012). All three countries have also substantially increased their official development assistance (ODA) since 2007.[7] These countries are not using development cooperation merely to promote their global image and "soft power" but also to secure economic gains. Indeed, Korea is following the Japanese model of ODA (Reiffenstein & Nguyen, 2011; Kimura & Todo, 2010), which can be described as an international extension of industrial policies that support companies in expanding into foreign markets. Access to markets and resources are additional goals of development cooperation, which has been particularly discussed in the context of China's increased economic presence in Africa (Kaplinsky & Morris, 2009; Taylor, 2006; Alden, 2005; Woods, 2008).

4 Why are East Asian stimuli large? The emergence of the neo-developmental state

The empirical analysis of East Asia's crisis management since 2008 has shown a massive increase in government spending and a revival of supply-side–oriented industrial policies. However, this situation should not be equated with a return of the "old" East Asian developmental state, as suggested by Stubbs (2011) and Wade (2012).[8] By contrast, this paper argues that the utilization of increased government spending, industrial policies and export promotion, which were important elements of the "old developmental state" until the Asian financial crisis in 1997-

1998, do not indicate a revival of the developmental state as such. In contrast, these elements contribute to an emergence of a new form of neo-developmental state that is characterized by two major trends. The first trend is a move away from protecting domestic industries through tariffs and non-tariff barriers and a development toward supporting domestic corporations to compete globally (see table 4). The East Asian developmental state model originally followed a (neo-)mercantilist strategy of protecting the domestic market and supporting exports. Foreign direct investments were limited and tightly regulated to develop national production capacities via "industrialization through learning" (Amsden, 1991; Amsden, 1989).

This combination of import substitution and export orientation was successful and greatly facilitated the development process, but it encountered pressure from trading partners and international organizations such as the WTO to reduce tariffs and export promotion. Consequently, Japan opened its market in the 1980s, and Korea and China followed in the 1990s. Market opening did not lead to an abolishment of industrial policies but rather transformed government support for industries. Governments used market opening to introduced selective competition from the world market to force domestic companies to innovate and increase their productivity. We can observe a case of institutional layering in which economic liberalization and competition policies supplement but do not replace industrial policies. For example, the Chinese government used the WTO accession to discipline and reduce rent seeking by local governments and their state-owned companies and to force them to develop competitive industries (Cho, 2005a). A similar strategy is highlighted by Ravenhill for PTAs negotiated by East Asian countries, which were largely the initiatives of governments, whereas the business sector and population were cautious (Ravenhill, 2010). Governments are using trade negotiations to incite companies to expand in foreign markets and to force them to prepare for competition in previously closed home markets. For example, when the Korean government realized that Korean mobile phone makers were slow in adapting to the new smartphone hype, it granted Apple an exemption to the Korean telecommunication rules that required certain local software to run on all mobile phones, which ensured that the Korean market remained virtually free of foreign models. The entry of the iPhone to the Korean market in late 2009 was a wakeup call for Korean companies, such as LG and Samsung, which quickly followed with their own smartphones (Kim, 2011).

In addition to strategically using market openings to force businesses to invent, the government also shifted from a strategy based on control over finance and protectionism to a strategy based on support for domestic businesses in the form of subsidies. In the past, the East Asian developmental state governed the economy through economic planning and not by directly spending government funds. These lean developmental states combined low levels of government spending and taxes with massive direct intervention into the businesses of state-owned and private companies alike. Industrial policies were financed through government control and guidance of the financial sector rather than through government budgets (Woo-Cumings, 1991). Since the economic liberalization in the 1980s and 1990s, however, the government has surrendered control of finance and altered its support for industries by increasing government budgets, which partly explains the large size of fiscal stimulus packages and the general increase in government spending in East Asia. As shown in figure 4, government spending as a share of GDP in East Asia has increased with the exception in China during the transformation from a socialist to a capitalist development state until the mid-1990s. By contrast, in Sweden and Germany, government spending was lower in 2012 than it was 20 years ago, and in the US, spending has increased only marginally.[9]

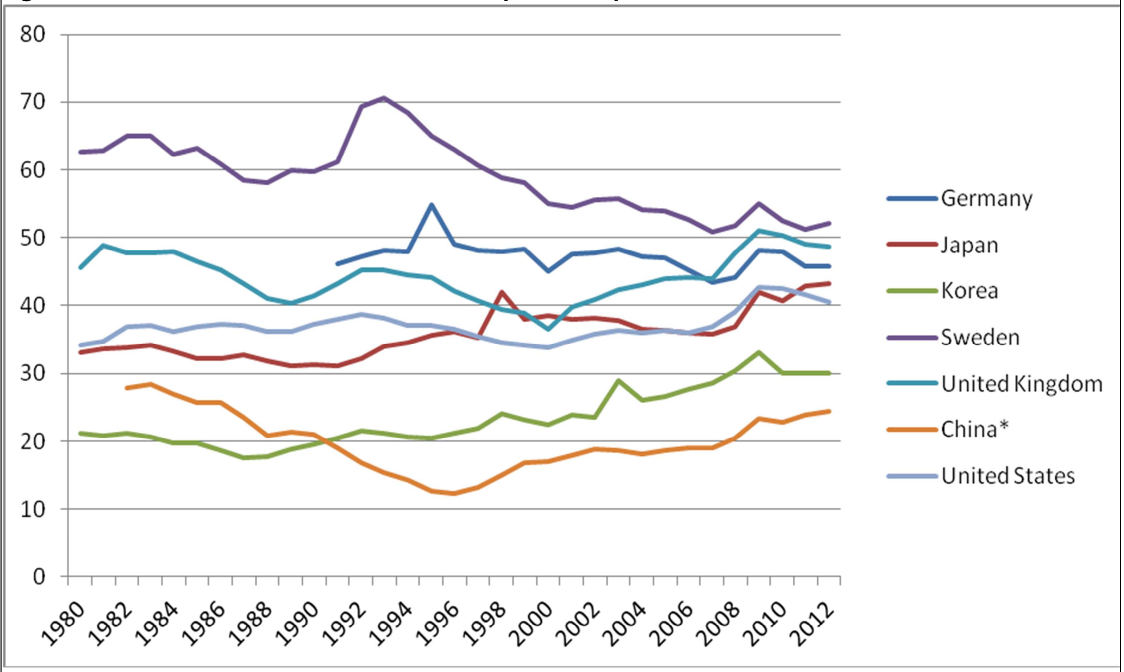
Table 4: Transformation from developmental to neo-developmental competition state

Developmental state	Neo-developmental competition state	Type of change
Centralized planning	Fragmented planning	Conversion
Macro interventions	Micro interventions	Conversion
Focus on macroeconomic growth	Focus on firm survival and profitability	Conversion
Import-substitution	Promote internationalization	Layering
Protectionism	Strategic liberalization and Subsidies	Layering
Focus on big business	Focus on big business and SMEs	Layering

Second, we can observe a transformation of industrial policies from macro-economic planning to micro-interventionism (see table 4). As indicated in section 3, this trend is recognizable in all three observed countries but is more advanced in Japan than in China, with Korea in the middle. As also noted in section 3, subsidies in East Asia cover a wide area, from support for R&D activities to facilitating the global expansion of businesses through ODA and economic diplomacy. Old-style industrial policies based on macro-economic planning are replaced by fragmented micro-interventions, and industrial policies are redefined as a "discovery process" (Rodrik, 2004: 3).

In the past, industrial policies aimed to build industries by "making winners" and support companies to a degree that would almost guarantee success.[10] The government created companies to lead industrial development by granting monopolies and providing them with sufficient support concerning finances and technology. In China, these companies were state owned, but in Japan and Korea, they were largely private companies created under the patronage of the government. Such companies remained at the mercy of the state and were forced to reinvest their profits and meet the government export targets to maintain their privileges. With the growing economic importance of winners, these companies became less dependent on support from the government; thus, the government's ability to force them to obey their economic plans declined. Companies that exploited their rent-seeking privileges became increasingly difficult to control because of their enormous importance for the entire economy. For example, although Daewoo's bankruptcy in 1999 was the largest corporate bankruptcy in Korean history, six Daewoo companies still exist today and continue to cause trouble. For example, the purchase of Daewoo Engineering & Construction in 2006 nearly caused a collapse of Korea's eighth largest conglomerate, Kumho Asiana, in 2009 (The Economist, July 2nd 2009).

Figure 4: Total Government Disbursements (% of GDP)



Source: OECD Economic Outlook Database, except China Total government spending (IMF 2012)

New "entrepreneurial" industrial policies are following a discovery process moving the strategy from "making winners" to the attempt of "picking winners." Governments provide subsidies for SMEs and startup companies that are seen as promising, but are not committed to support them to the degree that would guarantee success. This transformation process is accompanied by increased intervention by the state, and the general role of the government and government spending is growing. Rather than granting privileges to companies and forcing them to reinvest their profits, the government must now spend its own funds to support companies, particularly SMEs suffering from competition from global markets and domestic conglomerates. Meanwhile, states are becoming less able to act strategically and proactively. Rather than planning the economy and channeling funds into industries that were designated as the new centers of growth, the state is becoming reactive in cushioning the problematic aspects of development. The government is less strategic and becomes "splintered" (Cerny, 1997: 270) as the commanding heights of the old developmental states, the Ministry of Ministry of International Trade and Industry (MITI) in Japan, the Economic Planning Board (EPB) in Korea and the National Development and Reform Commission in China, were either merged with other ministries or lost considerable power. Emerging from this situation are splintered bureaucracies pressured by different interests, supporting large companies while also attempting to restrict their expansion. By contrast, the political leadership in these countries, namely, the blue house in Korea, the prime minister's office in

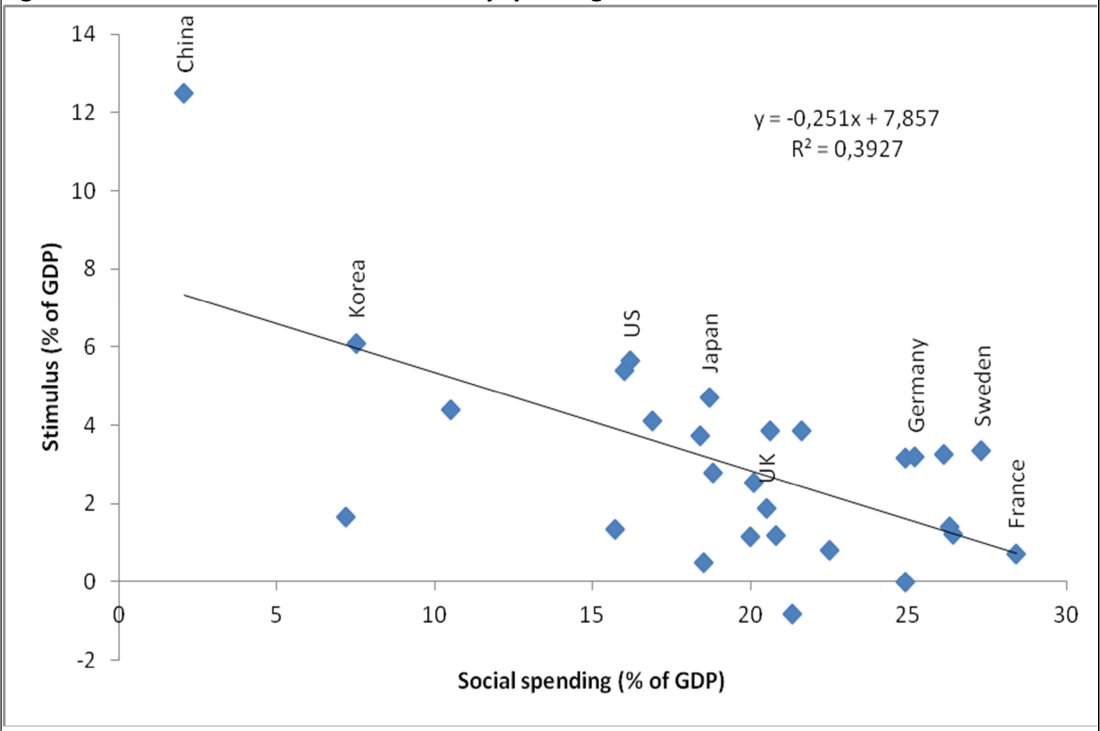
Japan and the politburo in China, maintain a large degree of centralized power, but they increasingly use this power in opportunistic ways. Leadership is exercised only when protesting against the action or non-action of the splintered bureaucracy becomes overwhelming.

The above-described dual transformation can be better understood if we highlight the paths that were not taken. First, East Asian governments, business and citizens have remained suspicious of the market's self-regulating capacity and have avoided a transformation into a regulatory state that merely establishes the framework for the market. In East Asia, market regulation and the enforcement of contracts remain weak and are often manipulated by network interventions as personal connections often triumph over anonymous market transactions. Merely establishing a framework in which private initiatives can freely evolve is ineffective if a lack of trust that is necessary for anonymous market transactions is missing and if powerful market actors do not appear to play by the rules.

Second, the developmental state has failed in its role of facilitating coordination between societal actors. East Asian governments have failed to provide weaker players, such as employees, consumers, SMEs and minority shareholders, the means to protect themselves against powerful market actors. Thus, the government must assume a "compensating role" (Hancké et al., 2007: 26) by micro-managing state interventions in the market.

Third, East Asia has not moved toward a comprehensive welfare state that could cushion society from economic downturns. Carlin and Soskice (2009) find that more generous welfare states in CMEs are an important factor in explaining why their fiscal policies are less accommodating than in LMEs.[11] Figure 5 shows a clear negative correlation between the amount of social spending and the sizes of fiscal stimulus packages. Countries with larger social security systems have larger automatic stabilizers and thus need smaller stimulus packages during economic downturns.[12] This result partly contradicts Amable and Azizi (2011), who found non-liberal economies to have more countercyclical policies despite their assumed tendency to have higher social spending.[13] However, the study of East Asia cases shows that non-liberal economies do not necessarily have a higher level of (public) welfare spending. East Asian developmental states have a low level of public welfare spending, and large companies provide comprehensive welfare benefits privately to their regular employees. As long as growth rates were high during the early stages of development and the government had a fair amount of control over the economy, job growth allowed for upward mobility. Today, the lack of a comprehensive welfare state forces the government to support, in particular, the ailing construction sector and SMEs through subsidies and infrastructure investments. Rather than strengthening the welfare system for employees and citizens, priority is given to corporate welfare with the goal of protecting jobs (and profits), particularly in the construction sector.

Figure 5: Correlation between Social security spending and stimulus size



Note: This analysis excludes Iceland, Ireland and Hungary that had huge "negative" stimuli due to the massive impact of the economic crisis.

Source:
Social expenditure: Aggregated data, OECD Social Expenditure Statistics (database), Data for China from 2006, source: Worldbank, Spending on Social Safety Nets: Comparative Data compiled from World Bank Analytic Work

5 Why are East Asian stimuli supply-side oriented? From embedded autonomy to corporatism without labor

The last section offered a plausible explanation for why the stimuli in East Asia have been comparably large and why the government is frequently forced to increase government spending. However, we have not yet found a reason as to why economic policies and crisis management are dominated by supply-side–oriented policies. Why did East Asia take the pathway toward a neo-developmental state and fail to reinforce the institutional complementarity of the old-style developmental state or follow an alternative route toward an East Asian neo-corporatist or welfare state? The transformation from a developmental state to a neo-developmental state and the distinct reaction of East Asian capitalism to global challenges can largely be explained by three dynamic developments within the East Asian political economies. First, the effectiveness of technocratic policies is declining amid an increasing level of economic development. Second, the developmental state coalition between government and big business is increasingly biased toward the latter. Third, the weakness of organized labor is failing to prevent state capture by business interests and provides an alternative to the "corporatism without labor" (Pempel & Tsunekawa, 1979) that is governing East Asian (neo-)developmental states. The technocratic capacity of the developmental state to develop and implement economic plans weakens as "best practice solutions" become less obvious when catch-up countries close the gap with the developed world. "Industrialization through learning," as Alice Amsden (Amsden, 1991; Amsden, 1989) phrases it, becomes far more difficult and experimental when latecomers catch up with the more advanced countries that they were "benchmarking." The government loses the planning capacity to identify and the fiscal capacity to ensure the success of strategic industries, such as steel, shipbuilding and cars, that would create linkage effects throughout the economy. Rather, as we noted above, the government provides fragmented subsidies primarily for SMEs that are bundled together with infrastructure projects under an incoherent vision, such as "green growth."

The decline of technocratic capacity is linked to the second element, which is declining state autonomy. Bureaucratic rule in East Asia was previously embedded in government-business networks (Evans, 1995; Kim, 1997). This "embedded autonomy" (Evans, 1995) declined with the increasing power of large East Asian business groups. As long as big business depended on the capacity of the government to protect companies from foreign competition and provide them with financing and technology, bureaucracy and business formed a partnership that was typically led by the government. With increasing levels of development, big business groups emancipated themselves from bureaucratic patronage, either only paying "lip service" to government initiatives or ignoring them entirely.

Research on the political economy of globalization has produced strong evidence that the internationalization of capital has given business greater leverage over the government and increased the likelihood of state capture (Evans, 2010: 50). In Western countries, this form of state capture is associated with the neoliberal turn since the 1980s. This "neoliberal counterrevolution" particularly criticized welfare spending, taxes, state ownership of companies, a de-commodifying "over-regulation" of businesses and, more generally, government activities that do not create immediate returns for businesses or limit profit seeking (Evans, 2010: 50). In East Asia, however, the increasing leverage of businesses created a different type of state transformation. East Asian states already have low taxes, low government spending, weak welfare states and few government regulations that protect society and nature from commodification. In the transformation to a neo-developmental competition state, business interests gradually eroded state autonomy and undermined the capacity of the state to implement national development plans that favor macro-economic growth, investment and job creation. Instead, big business groups are demanding support from governments to maintain profitability and to expand their market share, particularly in the global market. Consequently, the East Asian neo-developmental state is characterized not by stagnating or declining government spending but by an increase in government spending to support big businesses and SMEs.

Peter Evans describes the declining effectiveness of technocratic approaches and the state capture by business interests as “twin pitfalls [that] define the most likely shape of the demise of the 21st century developmental state project” (Evans, 2010: 52). These twin pitfalls were largely the result of a third element of the East Asian development model, which is the weakness of organized labor and the generally lacking democratization processes. Unlike in European corporatist countries, in which economic and political interests are organized by business associations, labor unions and political parties along ideological lines, interest groups in East Asia are fragmented. Business groups are reluctant to cooperate with their competitors to formulate a coherent pro-business ideology; rather, prefer to lobby politicians and bureaucrats for their economic interest through personnel networks instead of attempting to establish an ideological hegemony. Similarly, labor unions that are organized on the company level concentrate on bread-and-butter issues without a major interest in offering an alternative vision for a progressive society. The unions are sufficiently strong to achieve wage increases but too weak to promote economies beyond the pathway of the supply-side–oriented (neo-)developmental state and to establish an alternative demand-side–oriented growth model based on domestic consumption. Although independent labor parties exist in Japan and Korea, they have proven to be ineffective in challenging the close business government networks.

The weakness of organized labor increases the likelihood of state capture by business, which explains the supply-side orientation of economic policies. Rather than allocating funds to social security measures, the government subsidizes companies through infrastructure, support for R&D and other spending. Additionally, rather than empowering employees to fight for higher wages to facilitate the transformation to a domestic consumption-oriented economy, the government supports companies to conquer new export markets. In a simple matrix of the political economy of fiscal stimulus packages, combining tables 3 and 4, we can summarize the relationship between the state society links and the size as well as the bias of the stimulus (see table 5). Regulatory states with small welfare states and arm’s-length state-society relationships tend to have larger demand-side stimulus packages. Welfare states with strong labor unions tend to have relatively large demand-side–oriented stimuli, whereas (neo-)corporatist states with balanced state-society networks tend to have relatively small stimuli with a supply-side–oriented bias.

Table 5: State-society links and the political economy of fiscal stimulus packages

		State-business links	
		Stronger	***Weaker***
State-labour links	***Stronger***	Smaller, supply side oriented	Smaller, demand side oriented
	Weaker	Bigger, supply side oriented	Bigger, demand side oriented

6 Conclusions

The study of East Asian capitalism offers major potential for advancing traditionally Western theories of DoC. East Asian capitalism remains different from the Western variants, particularly concerning the central role of the state in achieving economic development and shaping the behavior of societal actors. East Asian (neo-)developmental state capitalism remains different from Anglo-Saxon and Continental European versions of market-regulatory, neo-corporatist and welfare states. We observe a large degree of continuity concerning industrial policies and the prioritization of the supply side in government spending. However, this path dependency should not be equated with a revival of developmental states or a lack of any meaningful changes. On the contrary, we can observe a path-dependent transformation from a proactive, macro-oriented and neo-mercantilist developmental state to a neo-developmental state that is reactive and micro-oriented and that supports the international expansion of national capital. This transformation was illustrated by a study of fiscal stimulus packages and government spending priorities since the beginning of the global economic and financial crisis in 2008.

The distinct path that East Asia is taking amid economic globalization can be explained by a political economic analysis of the social struggles in the region. East Asian (neo)-developmental states are dominated by close networks between business and government that are gradually transforming over time from embedded state autonomy to corporatism without labor and potentially even a state captured by business. The weakness of organized labor in the region and the decreasing autonomy of the state from business interests are the driving forces of East Asian capitalism and continue to distinguish this form of capitalism from the CMEs in Europe and the LMEs in Britain and the US.

7 Notes

[1] *The paper distinguishes between the VoC and DoC approaches. DoC refers to the entire body of literature addressing different models of capitalism, including the French Regulation School and the literature on national business systems. VoC refers to a specific institutionalist approach to the DoC that is associated with the work of Hall and Soskice (2001).*

[2] *Arrighi traces this strategy even further back to Adam Smith by rebuking the myth that Adam Smith was a theorist or advocate of the self-regulatory market (Arrighi, 2007: 42).*

[3] *Studies on fiscal stimulus conducted by economists are typically focused on the size of the stimulus, the speed with which fiscal measures are implemented ("frontloading") and the distribution of the stimulus between increased spending and reduced taxes (see for example Prasad & Sorkin, 2009). Economists largely neglect the types of activities that are used in such fiscal stimuli. This view can be traced to Keynes, who famously claimed that a*

stimulus would work even if workers were paid to dig holes and then fill them again (Robinson, 1972). The importance of timeliness ("frontloading") gives the classical theories a bias for consumption-oriented spending because it can be phased in rapidly and has a clear timespan during which, for example, "cash for clunkers" projects operate. In other words, the simple Keynesian model ignores that there "must be idle resources in the economy and the increasing spending has to be directed towards those resources." (Fatás and Mihov, 2009: 61) If we want to understand the political economy of a fiscal stimulus, then we must consider beyond the purely monetary approach to fiscal stimuli. For the interests behind a stimulus and the structural consequences, it is irrelevant whether the stimulus is used to subsidize consumers, if it is used to subsidize productive investments or if it used for unproductive investments (e.g., "to dig and fill holes").

4 *Ireland is an exception because it was forced to massively reduce government spending as a result of the massive amounts of funds that it needed to rescue and restructure its collapsed banking system. Australia is an example of an LME that has a surprisingly large supply-side-oriented stimulus, which relates to the large amount of investments in infrastructure and the importance of resource extraction and construction as important sectors of the economy.*

5 *Austria is an exception. As a neo-corporatist state similar to Germany, Austria may be assumed to have a mild supply-side bias, but according to figure 3, Austria shows a mild demand-side balance, which is partly related to its parliamentary elections in 2008, which influenced politicians to direct more spending to the general public and thus the electorate.*

6 *This estimate is based on similar assessments from different studies (see for example IMF, 2009: 10; Zhang & Zhang, 2009: 9; Cova et al., 2010: 2)*

7 *Japan recommitted itself to ODA and increased its net disbursement from a low of USD 7.7 billion in 2007 to USD 10.6 billion in 2010. Korea nearly doubled its ODA from USD 696 million to USD 1.3 billion during the same period of time (OECD, 2011a).*

8 *Stubbs evaluates the driving forces of institutional change in East Asia since 2008 in the following way. "Overall, then, the Great Recession has moved the mix of structures and policies in the major East Asian economies – Japan, South Korea, Taiwan, Singapore, Malaysia, Thailand, and China – away from the structures and policies promoted by the neo-liberal coalitions and back towards those advocated by the developmental state coalitions. Bureaucratic capacity has been expanded to allow for increased government intervention to guide economies and policies have been introduced that facilitate economic growth through sustaining import-substitution industries and aiding export industries in a variety of ways. Yet just as the developmental state coalition remained strong even after the neo-liberal coalition was able to gain increasing influence in the late 1980s and into the 1990s, so the neo-liberal coalition still has considerable influence despite the almost instinctive developmental state impulses that have been unleashed by the Great Recession" (Stubbs, 2011: 162). Wade (2012: 224) perceives "... an early phase in the emergence of a new set of global policy norms in favor of a more 'developmental' state, qualifying the near-consensus around the norms of a 'regulatory' state."*

9 *US government spending remains substantially higher compared to the early 1980s because of the increase in government spending during the Reagonomics of the 1980s.*

10 *Industrial policies are often equated with "picking winners" in the literature (Stiglitz, 1996; Rodrik, 2004), but in the case of East Asia, industrial policies were often structured in a way that the government would select a company, provide it with resources and protection, and monitor it to attempt to guarantee success.*

[11] *Amable and Azizi (2011), in their study that covers fiscal policy from 1980 to 2002, come to a different conclusion. They claim that not LMEs but non–liberal economies have more countercyclical fiscal policies. However, they do not distinguish between different types of non–liberal economies in Europe and Asia. From the evidence in this paper it seems that not the distinction between liberal and non–liberal economies is the important factor for the size of the fiscal stimulus package, but the role of the welfare state.*

[12] *A simple linear regression analysis of 27 OECD countries (excluding Iceland, Ireland and Hungary) and China shows that a 1 percentage point higher level of initial social spending as a percentage of GDP is correlated with a 0.25 percentage point lower fiscal stimulus as a percentage of GDP (std. err. 0.62, significant at 1% level, R–squared 0.39).*

[13] *The study by Aziz and Amable examines a different time period (1980–2002) than that investigated in this paper and addresses discretionary fiscal policies in general, whereas the current paper focuses only on fiscal stimulus packages*

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