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THESIS SUMMARY

Gábor Vigvári

Globalization and the developmental state

The effects of changing international regimes on the developmental state

Supervisor:

István Beczes, Ph.D
associate professor

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Department of World Economy

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1 Backround of the research, relevance of the topic

A constantly debated questions in economic theory are the questions of “hows? and whys?” of successful or unsuccessful economic development. It was the most important question of The early classical political economy: the title of the well-known book of Adam Smith was the Wealth of Nations. Later with the emergence of the neoclassical school of thought in economic theory the question became less important but after the second world war with the independency of many former colonies the question became adequate again. The development of countries in economic backwardness is one of the most important question of our highly globalized world economy.

To study the questions of economic development in the developing world a new subfield of economic theory was created after the Second World War: development economics. Since then there has been a huge development in theories about economic development. But in different time periods different schools of thought were popular in the subfield with different focus point about the problems of developing nations. There are different classifications about these schools and eras (see for example Szentes (2011), Meier and Stiglitz (2000) or Todaro and Smith (2009)), but these various classifications show similarities.

The figure below shows a possible classification of these different development theories with an emphasis on the dimension of time.

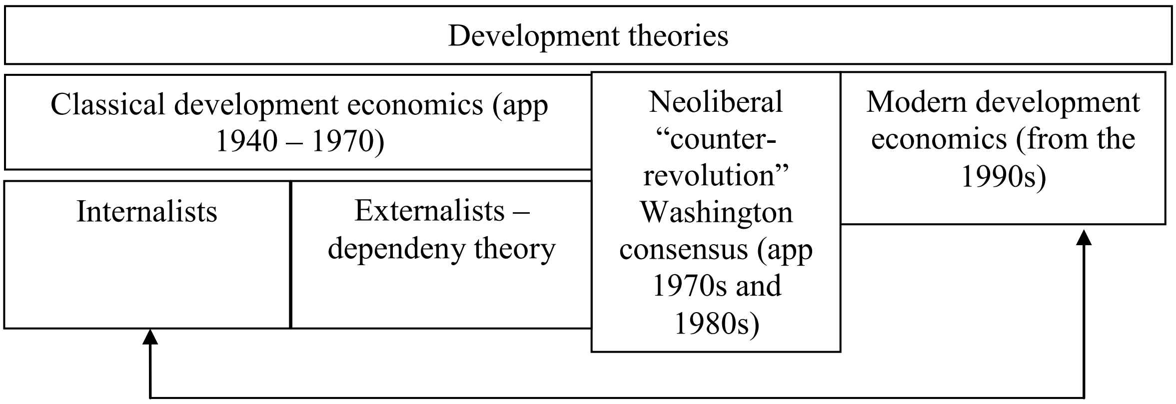

Figure 1: The evolution of development economics (Source: own figure)

According to the figure in the time period of the classical development economics we can differentiate between the so called internalist and externalist schools. According to the internalist way of thinking the cause behind economic backwardness is some sort of internal problem, while according to the externalists the problem is the asymmetric relationship between the developing and developed nations. Beside these differences however we can point out one important similarity: the role of state intervention with industrial policies, mostly import substitution. From the 1970s, though, with the neoclassical counterrevolution liberalization and the retreat of the state became popular, but after the 1990s mostly because of the success stories of the Eastern Asian countries the new, institutional development theories emerged.

The model of the developmental state became popular and got processed in the literature at the end of the 1980s and 1990s. The model sought an answer to the question, how the emerging nations of Eastern Asia got rich? However, most of the scientists agree on, that it was a real development success story, the model itself, and the way of how these policies were carried out is still debated. In the economic literature debate is still about the importance and role of state intervention. Sociologists and other social scientists emphasize the role of history and culture.

The four tigers of Korea, Taiwan, Singapore and Hong-Kong are the classical success stories of the developmental state. Some authors think about Japan as a developmental state (see Johnson 1982), however she was not a developing country. Later other countries of the region like Malaysia, Thailand showed major improvement and considered as developmental states. The literature began to discuss these stories after Johnsons work about Japan was published. Later on many other authors tried to describe the model of the developmental states and that is how it actually became a model in the development economics literature. In our dissertation we analyze the model of developmental states from a bit different point of view.

The starting point of our dissertation is to actually understand what we can mean under the term developmental state? To achieve this goal we turn ourselves to the interanlists theories of development economics. The major theorists of the developmental state give us a detailed and empirical description of the model like the monograph of Johnson (1982) or the work of Alice Amsden (1989) or Robert Wade (1990). These writings are, according to Stubbs (2005), the state centered approach of the developmental state. According to this way of thinking the developmental state is successful way of a state led market economy. The state used selective industrial policy and a very disciplined macroeconomic policy. With these policies developmental state were able to achieve a high level of economic development. According to this approach we will define the developmental state as follows:

1. A strategy of development policy which is based on the theory of the "big push" and import substituting industrialization (ISI).

2. It is actually more than the simple internalist approach as the phase of ISI was developed further to an export promoting phase. That is a huge difference when we compare this strategy with other ones.

3. And another point that is actually more than a question of economic policy making: the state was competent enough to promote sectors in which the country actually later had comparative advantage. There was no rent seeking by the public sector. The strategies were managed in the long run and the state had the capacity to maintain them even during recessions in the world economy. The state also had the ability to promote and encourage exports.

To sum up: the model of developmental state is on the one hand a typical example of the internalist way of thinking in the classical and modern development economics. The industrial policy is part of the old-school internalist development economics, while the stable institutional system that enabled the state to carry out such a successful industrial policy is the part of the modern development theory.

Accepting those means, that the concept of developmental state belongs to the internalist school of development economics. Building in the institutional theories improves our model further. However, when we think about the developmental state in a pour internalist approach we forget about one important thing. States are not in a vacuum but they are embedded into an international environment. The question is, if we should take into consideration this fact when we want to talk about the success of the developmental states.

The ability of state to develop its economy might be constrained by external issues. In our dissertation we examine which are these constrains, and how do they influence these abilities of the state to promote development. That means that the hypothesis of our dissertation is, that the developmental state is a unique case in the world economy that was enabled by the external environment. With this we might add to the literature of developmental state by analyzing these external constrains and especially the effects of globalization.

2 Used methods

In the world economy from time to time international institutions emerge of which duty is to regulate states' international relations. These institutions are called international regimes. The establishment and functioning of these regimes are examined by (beside other social sciences) the discipline of international political economy (IPE). Although the different schools of thought in IPE think about regimes very differently, one might say that there's almost a consensus about the fact, that regimes are actually constrains on the behavior of single states in the world economy.

The concept of international regimes was first used and defined by John Ruggie (1975). In our days however most scientist use the definition created by Krasner (1982: 186). According to this definition, "implicit or explicit principles, norms, rules, and decision-making procedures around which actors' expectations converge in a given area of international relations. Principles are beliefs of fact, causation, and rectitude. Norms are standards of behavior defined in terms of rights and obligations. Rules are specific prescriptions or proscriptions for action. Decision-making procedures are prevailing practices for making and implementing collective choice." As we can see, regimes have four "ingredients": principles, norms, rules and procedures. These ingredients are in a hierarchical relationship as according to Krasner the changes in rules and procedures are just changes inside the regime, however the changes in principles and norms change the regime itself. (ibid: 187)

It is important to distinguish between regimes and international organizations. International organizations are a narrower concept than international regimes. International organizations are independent actors in the world economy while regimes are not. However there are regimes which actually are institutionalized in international organizations. One another important consequence of the definition mentioned above that when talking about international regimes we should consider them as institutions. The definition of international regimes rhymes with the definition of North (1990) of institutions: where institutions are formal and informal rules (norms of behavior) that involve their enforcements, too.

International political economy tries to understand states' behavior in the international economic system. According to the theories of international regimes international regimes change countries behavior. In our little model created about regimes this behavior is our exogenous variable. On the other hand the independent variables are the structure of the international system, the relative power structure and the interest of the country. We think, that regimes actually modify the outcomes from this model (see the figure below!).

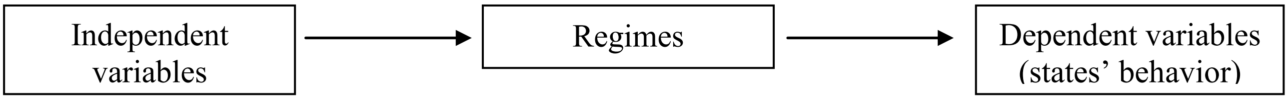

Figure 2. Causality in the model of regime theory (Source Krasner 1982: 189)

International regimes are such institutions which actually influence states' behavior in the international economic system. The question is why and how these institutions are established? What kind of motivations do states have when choosing to create or participate in regimes?

As Kiss J. (2003) puts it about the theory of international relations (from which IPE's schools of thought can be originated), during the second debate among the scientist of the discipline a common point of view emerged. According to this states can be examined as single actors behaving like "homo oeconomicus", trying to maximize their utility which can be described as their power. They do it as competing actors in an international system without any sovereign actors beside states. Both of the two traditional schools of IPE, realism and liberalism accepts this kind of rationalist argument about states, and we will use it as a starting point about regime theory.

Although both schools accept this rationalist argument there also mayor differences between them. The most important one is about the utility functions of the states. While realists think that the most important factor in states' utility function is power, liberals think more carefully about this question. As realists think, states are concerned not just about the absolute gains from cooperation with other, but also about their relative gains: the gains compared with the gains of others. Liberals are concerned less about power issues, they talk about interest instead of power. That means states are concerned more about the absolute gains from cooperation. These two schools are the rationalist branch of regime theory.

As the already cited Kiss J. (2003) writes, the fourth debate in international relations theory was between these rationalist schools and the new post-modern approaches. Hasenclever et al (1997) call these approaches cognitivists as knowledge plays a very important role in these theories.

Most of the cogitivists (the German authors cited above call them strong cognitivists) use instead of using the rationalists' "homo oeconomicus" way of thinking the so called "homo sociologicus" model. According to Andorka (1997: 37) a "homo sociologicus" is someone who tries to learn and adhere himself to the norms of the society. Applying this model to countries means that states think not only about their power or interest according to a utility function, but their preferences actually change, they learn, adhere to international norms, and actually their behavior not only might be influenced by regimes, but regimes can change because of changes in countries behavior.

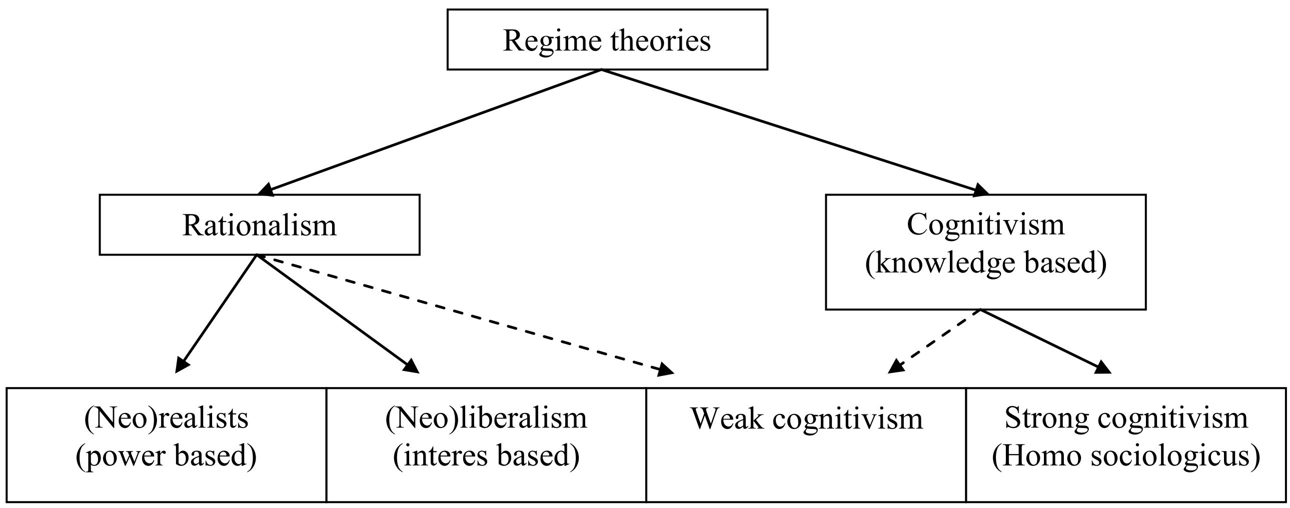

Figure 3: A possible categorization of regime theories (Source: own figure)

The categorization described above can be seen on the figure above. A more detailed categorization can be seen in the table below.

	Realism	Liberalism	Cognitivism (strong)
Central variable	power	interest	knowledge
„Institutionalism"	weak	medium	strong
Meta-theoretical orientation	rationalism	rationalism	sociological
Behavioral model	concerned with relative gains	concerned with absolute gains	role-player

Table 1: Categorization of regime theories (Source: Hasenclever – Mayer – Rittberger 1997: 6)

Analyzing table 1 we can divide regime theories into three groups: realism, liberalism, cognitivism. The most important difference between these groups is the central variable, which has the most important role explaining the construction and working of the regimes. According to realism and liberalism this central variable is two similar things. Realist are sure about that states try to maximize their power in the international system. That's why they are concerned about the relative gains from their cooperation decision. In case of liberalism the central variable is a softer category: interest. That means that states are more concerned about the absolute gains from cooperation. According to the cognitivist approach of which central variable is knowledge and is based on the "homo sociologicus" approach we see a state that is trying to adopt itself to norms and rules of game and is therefore a role-player figure. Its decisions are based on the knowledge it got from decisions made earlier.

Last but not least an important factor is the level of "institutionalism". In this context it basically means how important is the role of regimes, how stable they are? According to Hasenclever, Mayer and Rittberger (1997: 2) we can measure this with two possible variable: the effectiveness and robustness. Effectiveness is very static measure and covers two overlapping concept. First, a regime is effective to the extent that its members abide by its norms and rules. (This attribute of regimes is sometimes also referred to as "regime strength") Second, a regime is effective to the extent that it achieves certain objectives or fulfills certain purposes. On the other hand the robustness of a regime is a more dynamic measure. "Regime *robustness* (resilience) refers to the "staying power" of international institutions in the face of exogenous challenges and to the extent to which prior institutional choices constrain collective decisions and behavior in later periods In other words, institutions that change with every shift of power among their members or whenever the most powerful participants find that their interests are no longer optimally served by the current regime, *lack* resilience." (Hasenclever – Mayer – Rittberger (1997): 2, emphasis in the original) Realists are very pessimistic about regime effectiveness and robustness, while cognitivist are very optimistic. The liberals are somewhere in between the two other schools.

To sum up the two most important way of thinking about regimes are rationalism and cognitivism. The former has two schools of thought: realism and liberalism. However they have differences but these differences are not exclusive but rather complementary. Both theory consider regimes as institutions that actually enhance cooperation. Liberalism emphasizes interest and starts from the position that cooperation is hard because of some sort of market failure. From this market imperfection uncertainty, distrust and increased level of transaction costs evolve and regimes are the tool to eliminate those. On the other hand realists are concerned about power issues. The question, if realists or liberals are right is merely a philosophical one, and might depend from the field of cooperation.

The problem with liberal theories (and also realist ones) that they cannot explains, what is on the supply side of regimes. They can explain why regimes are needed, but not, who and who establish them. From this the so called hegemonic stability theory can amend the theory on the one hand, and on the other hand cognitivist theories might explain the supply side problem by introducing the role of knowledge. However, cognitivist theory cannot be easily fitted into a fictional compromised mega theory of international regimes.

The different regime theories mentioned above cover two levels of analysis of international political economy. As Kenneth Waltz one leading theorists of international relations, one of the source of theories of international political economy puts it we might examine question of IPE on three different levels. (Cohen 2008: 120 – 121) The first level is the systemic level. The rationalist theories are handling this level. The third, deepest level of analysis is the cognitive level, the level of norms, ideas and knowledge. Cognitivists theories belong to this level.

As we can see, a level of analysis is missing here. This is the second level, the so called domestic level, which is actually the level of interest groups. Traditional rationalist analysis sees the state as a black box: we don't know from where its preferences are from, how its decisions are made. The domestic level of analysis opens up this box. Its analysis focuses on structures inside of the state: interest groups, political parties etc… and their impact on state interest. The idea is that states' utility functions can be built up from the utility of the interests group functioning within the state.

One of the largest deficiencies of regime theory is that it neglects interest groups. One of the small numbers of regime theories is the intergovernmentalist approach of Andrew Moravcsik (1991). However this theory is mostly applied to regional integrations, mostly to the European Union.

Using the finding from above from the point of view our dissertation the following facts are relevant:

- International regimes are principles, norms, and rules. There are institutions which influence states' behavior in the international system, we call them international regimes. As we saw scientist are mostly agreed that regimes somehow influence states' behavior.

- Regime change is more than changing the rules of the regime. According to Krasner, regimes change if their norms and principles change.

- There are different answers to the question why do regimes change? Power based theories say that actually it is the change in relative power structure that causes regime change. In this case states with more power or hegemonic powers introduce new regime, sometimes even by force. They do it in order to improve their position in the economic system and maximize their power. If we accept interest based theories we have harder thing to do if we want to understand regime changes. It is obvious that in that case we might talk about a change in the interest of the state. The question is what is interest? As we saw, maximizing interest isn't so much different from maximizing power. The difference is that in case of liberal theories in the utility function of the state absolute gains from cooperation plays a larger role than relative gains. On the other hand in case of interest based theories domestic interest groups might play a role. And in case of cognitivist theories new knowledge, evolution of new norms and ideas can lead to a change in states' behavior but also to the change of regimes.

The most important message of regime theories is that state policy is constrained by external institutions. We might think about regimes as external, or exogenous factors explaining states' behavior, especially developing states who might want to introduce the model of the development state. When we talk about relative power structures, we might argue that developing or poor countries have less power than developed ones. There are some of which size and population are quite large and even abundant in natural resources but as they have less power than developed nation even their ability is circumscribed. But, some big developing nation such as China or India, or other BRIC countries might have the ability in the future to influence international regimes.

In case of interest based theories power still plays a relative important role. On the other hand we might have an endogenity issue here as interest groups can be considered as endogenous. On the other hand, especially if we talk about weak states which cannot stay independent from the interest groups within the society, we might say, that this endogenity problem is solved: the interest groups are actually exogenous. Considering ideas, norms, knowledge, these are created by norm activists who are mostly individuals and therefore might be treated as exogenous.

Therefore we can use the theories of international regimes as an analytical framework for our dissertation. We will think about globalization as changes in international regimes. We will examine how and why did regimes change in the world economy. After doing this analysis we show, how these changing regimes alter the possibilities of creating developmental states in the world economy. Therefore we will show, how globalization caused financial crisis in the Eastern Asian states, meaning that the traditional developmental state is incompatible with globalization. After that we show that in globalization another type of developmental states evolved: the Irish flexible developmental state. We will try to understand if this type of developmental state is really a developmental state?

3 Results of the dissertation

3.1 Changes in international regimes: causes and results

We will analyze changes in the international trade regime and the international monetary and financial regime. We discuss these two because trade and financial policies were the key policy tools of the developmental state and other successful and unsuccessful development policies.

When we take a look on the international trade system and analyze trade policies followed by different states and bilateral and multilateral treaties or even informal relations we can observe different time periods when these customs were the same. Kitson and Michie (1995) observe three such time periods from 1870 until today: until 1913 a relative liberal system can be observed underpinned by bilateral treaties and the lead of Great Britain. This was the era of the gold standard which was dominated by free trade. The time period between the two world wars was a more protectionist era, policy decisions by individual countries were uncoordinated. The time period after the second world war was the era of multilateral cooperation and gradual liberalization.

However there are different approaches concerning the evolution of trade policy and trade regime. Baldwin and Martin (1999) and Findlay and O'Rourke (2007) introduce more time periods. According to these authors the era of free trade in the 19th century began in 1846 with the abandonment of corn duties in England and the idea was spread by Britain after this decision. From the 1960s, and especially after the 1870s in many European countries protectionism became popular, especially in the new nation states, like Germany. The reason behind this was the growing agricultural import from overseas hurting European farmers and the evolving ideology behind industrialization and infant industry protection supported by economist like Friedrich List.

The time period between the two world wars is considered by every expert as a highly protectionist era, but the authors cited above divide the time period after the second world war into two subperiods. According to Findlay and O'Rourke (2007) the first such period is the era from 1945 until the 1980s. During these decades international trade was rebuilt between developed nation, however liberalization was far from perfect among these countries. However developing nations followed mostly very protectionist trade policies using import substitution. The authors think about Eastern Asian states as countries that actually integrated it selves into the world economy, they admit, that even developmental states followed highly protectionist trade policies. (ibid: 493) From the 1980s but especially after the establishment of the WTO in 1995 a new liberalization began in the world economy. This time period might have ended however with the failure of the Doha Development Round.

Looking through the history of the monetary and financial system we might find very similar time periods as we could find in connection with the trade system. Obstfeld and Taylor (2002b) examines the openness of financial markets and Eichengreen (2008) examines exchange rate mechanisms and they all find similar patterns in the evolution of the financial and monetary system. We can differentiate between four different time periods and the most important criterion is the used exchange rate system.

The first time periods stretches from the second half of the 19th century until the first world war and can be described by the exchange rate system of the gold standard. This era which was partially open considering trade was also a very liberal period considering capital flows and other financial relations. That's why many scholars describes this period as the first wave of globalization. the financial system was a very integrated one, especially when we examine capital flows between colonial powers and their colonies. These extended capital flows were enabled by the gold standard.

As we could observe problems in the trading system we could observe the same in the financial system in the interwar period. Most of the leading nations tried to reintroduce the gold standard however that was only a partial success. The new system, the so called gold bullion standard was used only for a short period of time. The most important reason behind that was that monetary policy became subordinated to domestic economic policy. Therefore without an enforcer financial crises and exchange rate crises happened quite often and therefore countries began to introduce capital controls (Obstfeld – Taylor 2002a: 5).

The next stage was the era of the Bretton Woods system. The system used until the 1970s was an exchange rate system built on pegged exchange rates. The US dollar and gold were the lead. But as the need for an independent monetary policy still played an important role capital controls had to be introduced. To stabilize the system an international organization was needed and the International Monetary Fund was established. But after the gradual liberalization of the financial flows in the 1960s the weaknesses of the system became clear and the exchange rate system collapsed in the 1970s. (Obstfeld – Taylor 2002a: 6)

The last time period began in the 1970s and we are still living in it. In the developed nations the pegged exchange rates were replaced by floating ones. Therefore with the liberalization of capital flows governments still can have autonomous monetary policy. In the developing world however many countries still maintain pegged exchange rates. Capital flows increased to many developing countries, especially at the end of the 1980s and the beginning of the 1990s which were followed by many financial crises. Overall the openness of the financial systems increased significantly.

When analyzing regime changes we write about the regimes created in Bretton Woods as developmental states started their success stories during this period. After that we describe how these regimes changed in the 1970s.

In the regimes of Bretton Woods liberalization was subordinated to internal stability and goals of economic policies. The rules created in Bretton Wood were built on norms and principles that served these goals. The main principle behind the Bretton Woods regimes was Keynesian economics that legitimized state intervention into the economy. The leading norm of Bretton Woods was embedded liberalism (Ruggie 1982) according to what liberalization and cooperation in the world economy were only desired goals if home equilibrium was reached. These norms and principles actually enabled developing nations to adopt interventionist development policies: the external conditions were perfect to establish the model of developmental state.

Bretton Woods and its regimes were actually a special product of a very special time period. First of all it was the product of the movement away from the liberalized economy built to the concept of the self-regulated market (Polányi 2004). As in society dissatisfaction against the self-regulating market evolves automatically, interest groups try to introduce new rules that regulate markets. New norms evolve against self-regulating markets. Bretton Woods is actually a compromise with capitalism.

The economic system of Bretton Woods on the other hand was the product of a negotiation process dominated by American hegemony. According to the rationalist theories of international regimes there might be states with relative larger power that try to influence regimes. As the United States was the hegemonic power of the Bretton Woods era, the system mirrored her interests. As Arrighi and Silver (2008) show, the United States as a relatively large and closed country was interested in a more closed international system. But, as Stubbs (2005) writes it, the regimes built on the concept of embedded liberalism made it possible to the United States to successfully help allied developing nations with unilateral preferences in trade and finance. Letting these countries to industrialize was a tool to make them stay in the capitalist world.

Then something has changed, the regimes established in Bretton Woods has begun to change. New norms and principles emerged: with monetarists and new classical economics the legitimacy of state intervention vanished, the belief that liberalization is the best solution for everybody came back and became the leading schools of thought. Norms have changed also as international organizations began to promote liberal policies, especially with the diffusion of the norm of the so called Washington Consensus. Things have begun to point toward a more liberal and globalized world economy.

3.2 The effect of globalization on the developmental state

We show the effect of globalization on the developmental state by using two case studies. Although the model of developmental state was already in danger at the beginning of the 1990s, it became clear only with the outbreak of the financial and economic crisis of Eastern Asia in 1997. The collapse of these countries came as a surprise for economists as Eastern Asian nations were the success stories of economic development. We have to the questions: what were the underlying causes of this financial collapse and what are the effects of the crisis on the developmental state?

Ma már külföldi és magyar tanulmányok (lásd például Radelet és Sachs 1998, és Benczes 2000d, valamint 2003.) is egyetértenek abban, hogy a pénzügyi összeomlás közvetett kiváltó oka a távol-keleti gazdaságok környezetének átalakulása, és ezzel kapcsolatosan az alkalmazott gazdaságpolitikák átalakulása volt. Az 1990-es évek elején végleg beléptünk a felgyorsult globalizáció korába, ennek következtében pedig a kelet-ázsiai fejlesztő államok is nyitottabbakká váltak mind kereskedelemi, mind pedig pénzügyi szempontból.

Nowadays foreign and Hungarian literatures (see for example Radelet and Sachs 1998, and Benczes 2000 and 2003) are agreed that the main cause leading to financial crisis was the transformation of the economic environment surrounding the developmental states. This change actually altered the used economic policies of the countries. The most remarkable change could be observed in the financial system as with globalization it opened up quite fast. The same could be observed in the trading system.

However this liberalization process was very dangerous. In the past the financial markets of the traditional developmental states were closed, therefore it made possible that unique institutional solution were developed in these markets. The banking sector was distorted by state intervention, the possibility of bail-outs led to the emergence of moral hazard. That's why the financial collapse could happen in 1997.

We can follow what happened in the figure below (Benczes 2003). The special institutions of the financial systems of the Eastern Asian states could not adopt themselves to the challenges coming from the highly globalized financial markets. States owned a quite limited amount of capital during their development period. After opening up the financial markets capital overflowed these states. As financial institutions were unable to cope with this huge amount of capital, financial bubbles were created. This can be illustrated by moving from cell 1 to cell 3 in our figure and this is actually a dead end. The correct way of development would have been led from cell 1 to cell 2 by the establishment of new institutions and then to cell 4 by liberalization.

	Alacsony tőke/beruházási lehetőség ráta	*Magas tőke/beruházási lehetőségek ráta*
Fejletlen intézményes alapok	**(1) Fejlesztő állam modellje**	(3) Egyik sem
Fejlett intézményes alapok	(2) Mindkettő	**(4) Piac által vezérelt vegyesgazdaság**

Figure 4: The financial crisis in Eastern Asia. The two possible scenarios (from cell 1 to 3 and from cell 1 to cell 2 and than to cell 4) are indicated with different types of arrows. (Source: Benczes (2003: 59))

The question is whether after the financial collapse of the developmental states we still can talk about the model of developmental states? There are many different opinions about this (see Shin 2000, Jomo 2001 and Beeson 2003). What we surely can observe is some kind of institutional transition. The typical form of industrial activity in Korea, the chaebol is being transformed to multinational corporation. State intervention is changing. If that means, that the traditional model of the developmental state is vanishing is a very hard question and might be answered by studying other developmental state like countries, like Ireland.

During the 1990s beside the Tigers in Asia a new success story began its way to become a hyped role model for economist: Ireland. From the early 1990s Ireland showed a very high level a GDP growth and only the former Asian tigers performances could have competed with this: that is why economists began to talk about the Celtic Tiger. However the comparison can be justified not just by the high level of growth but also by the role of state intervention. So Ireland got not just the name Tiger, but also some economists began to talk about Ireland as a developmental state. The Irish model is widely discussed in the foreign and Hungarian literature (see O'Riain 2000, Kirby 2002 és 2009, Farkas 1999, Artner 2000, Hajós 2006, and Nagy 1999). We briefly sum up these explanations and then we try to evaluate if the Irish state is actually a developmental one?

When we are trying to compare the Irish model with the Asian ones we can observe lot of similarities, but also differences. And most of the differences are stemming from globalization. The firs similarity is the role of state intervention. Both models did that by using bureaucratic agencies. However in the Asian countries this was done by the method that Wade (1991) called governing the market: price distortions, interventions in the financial system and trade barriers, whilst in Ireland state intervention meant tax reductions, subsidies and creation of free trade zones and industrial parks (more market friendly approaches). In Asia economic development was achieved by domestic companies working together with the state. In Ireland economic development was achieved by attracting foreign companies and by bounding these foreign companies with domestic suppliers.

Bureaucratic agencies in both cases were embedded into the economy as an agent of the state, though they remained autonomous from the private sector. However in case of Asia the private sector was dominated by domestic firms, but in Ireland the private sector actually was dominated by foreign, mostly American transnational companies.

That means that embedded autonomy is another common point in both models. That's why for instance O'Riain calls the Irish model developmental state. It is very important to see, however, that the level of this embedded autonomy (especially the level of autonomy) is different in the two cases. As the Eastern Asian economies were closed and therefore they had very limited contacts with the world economy, the Irish model is based on an open economy. Because of this Asian governments had larger space to maneuver while the possibilities of the Irish government are more limited.

The Irish bureaucratic agency that is responsible for attracting foreign firms into the country, IDA is one of the most important government agency in Ireland. When negotiating with a foreign firm that is seeking new place to produce something the ability of remaining autonomous is very little, as other countries are certainly trying to attract the same firm as well. And as decisions of foreign owned firms are usually made in another country the influence of state on the already working companies is also much lower than in case of Asia.

Another similarity is selectivity. Both the Irish and Asian developmental states used selective industrial policies. However there are differences too. The Asian nations used trade policies, financial policies to select certain industries to promote. In case of Ireland the selection was done among industries and foreign firms. It made a difference in which industry a foreign company was involved and only those were attracted to Ireland that fitted with the government's goals.

There further similarities as well. One important factor was political stability. in case of Ireland it was achieved by tripartite treaties where labor, capital and the state agreed on important questions like wages, taxes. In Asia political stability was achieved by dictatorship. What is important is that political stability also led to macroeconomic stability. The investment into human capital is also a similarity. In both model the promotion of education played a crucial role. And last but not least external factors, especially financing played an important role. in case of Asia the aid from the United States was such a factor while in Ireland the role of EU funds was remarkable.

To evaluate whether we might talk about a developmental state in case of Ireland we might analyze five factors (Kirby 2009):

1. The first question is if the economic growth in case of Ireland could be evaluated as real development? As Kirby shows it (Kirby 2009: 13) despite of high level of growth the social expenditure in Ireland remained on a moderate level, while income inequality remained quite high. Public spending on education and health (despite a lot

of educational programs) remained also quite low. From that we might argue that the growth wasn't entirely converted into development.

2. The reliance on FDI and path dependency of Ireland is another interesting question. As Bradley (2002) puts it in his work, the Irish industrial policy was actually "industrialization by invitation". That's why it is very hard to rely more on the domestic sectors. For example most of the Irish R&D is actually coming from the United States and the benefits of all those innovations are going back there. According to him Ireland is still a technologically follower country.

3. The third point is the role of political ideology. Fitz Gerald (cited by Kirby 2009) shows that because of the election system during elections political debates are carried out on a micro level. That leads to the depoliticization of macro level politics. Developmental policies are not influenced by ideological debates, economic policy is carried out by technocrats and pragmatists sitting in the governmental agencies.

4. Because of this highly professional and ideology free decision making bureaucrats are the ones that make the decision. However there is a dark side of this process: the Irish state is fragmentating because of that. For every new exercise new agencies are established. Therefore the number of these institutions are increasing and that's make it harder to govern the economy in this fragmented structure.

5. That brings us back to the question of level of autonomy. As we saw the level of autonomy of the Irish state is significantly lower than in case of Eastern Asia.

To sum up the most important finding from the case studies: according to our view the so called flexible developmental state of Ireland could fix the problem of the Asian type of developmental state that is adopts itself quicker to the challenges from globalization. However with this openness the effectiveness of the Irish state is decreasing as the level of its autonomy is significant lower. Another problem is that the Irish state cannot channel the benefits of growth into the society and turn growth into development. The economic crisis of 2008 shows also that even a very flexible state cannot adopt itself to large turbulences from the world economy. Thus, serious economic shocks can actually ruin the past benefits from development.

4 Conclusion

In our days we are living in a highly globalized world. Rodrik (2005) defines globalization as the decreasing of the barriers in the way of transnational connections. These barriers are actually transaction cost for transnational economic relations. This definition means that liberalization contributes to the acceleration of the globalization process. Although these transaction costs are not fully eliminated in the world economy there is a growing demand for further reduction.

The question is what will happen with the model of the developmental state in this situation? To conclude we have to examine two aspects of globalization process. The first one is the question of policy space of industrial policy. One can argue that with the globalization process the possibilities of using industrial policy tools are decreasing. This fear comes from the changing trading and monetary system.

Emerging countries in the world economy always used some kind of selective industrial policy. In case of Korea and Taiwan these tools were trade policy, the distortion of the financial system, barriers on foreign investment and capital flows. Using these tools are in today's world economy quite hard. The rules of the WTO for example make it less possible to use trade restriction and capital controls. Many countries in the 1990s began to use exchange rate policy as an industrial policy tool. However pressures from developed countries, especially from the United State make it less and less possible to use undervalued pegged exchange rates.

Beside the policy space issue the other problem is the pressure on convergence of different non-market institutions. Using Dani Rodrik's unholy trinity model of global politics we have shown two important changes considering developmental states. The first one was in connection with the Asian financial crisis: in a globalized world economy the institutions of the classical developmental state cannot work properly and cause economic crisis. A transformation of the institutions is needed. The reason behind this that globalization cannot work in a world economy with diversified non-market institutions.

The second problem emerges from the first one mentioned above. Because of globalization and the absence of proper global governance institutions we end up in the situation called by Rodrik golden straitjacket. The world of global straitjacket is very similar to the world of gold standard. During the time period of the gold standard economic policy could have only one goal: to maintain the stability of the pegged exchange rate. According to Rodrik in our time we end up in a world economy similar to that except that governments role is to adopt the county's institutions to the challenges from globalization. However this picture needs to be modified because of what we could observe in the case study about Ireland.

However O'Riain calls the Irish development model as flexible developmental state, we might argue that the Irish model is more alike to what Cerny (2000, and Cerny et al 2005) calls competition state. The competition state is not necessary a smaller state than the earlier ideal types of states like the developmental state or the welfare state. But the functions of state have been undergone over a severe change. The competition state lose the functions concerning the maintenance of full employment, achieving social goals by redistributions and other social political functions. Instead of that these functions should be carried out by the market.

However new state functions emerge. A very important function of the competition state is to enhance business activities through privatization, liberalization. An important function is the attraction of foreign capital. The consequence of that is not deregulation as frequently argued but re-regulation. However these new forms of regulations are foster market function and therefore we might call them "pro-market re-regulation". (Cerny et al 2005: 17)

That means that there is still economic policy in our times: and that's why we might argue that the situation today is different from the one during the gold standard. However states have to forfeit some aspects of their economic policies. The most important and maybe most painful part is social and welfare policies. Although in case of the classical developmental state we cannot observe a formal welfare state but the results of growth were distributed among the members of the society. With that income inequalities remained quite low. In case of Ireland, however, as we saw this was not true and that is because of that Ireland in more like a competition state as a developmental state.

On the other hand the developmental policies of countries change intensively. In case of Korea and Taiwan mostly internal actors of the economy were the subject of development policies. Today many important actors that influence the development of a country are transnational actors. These new actors need new tools of developmental policies and of course respond less to initiatives coming from these policies.

However that doesn't mean that open developmental or competition states do not have development policies. The tools of attracting foreign companies are used quite intensively by this type of states. But beside of tax reductions and subsidies other policy tools should be used to attract foreign companies. Therefore the competition state develops its educational system, domestic industrial sectors to become suppliers to multinationals. All of these functions are carried out embedded into the economy so the right policy tools would be chosen. Just like in case of Ireland.

However these functions do not need to be so diverse in different countries. Therefore we can see the convergence process among non-market institutions of states that was shown by Rodrik in his model. We can observe how politics have become uniform as the differences between right and left have decreased. That is one we saw in case of Ireland: macro level politics became highly professionalized. On the other hand Cerny et al. (2005) show how varieties of capitalism vanish in the world economy with this convergence process.

As Cerny and co-authors put it (2005) the time period of embedded liberalism was replaced by embedded neoliberalism. in this case neoliberalism is not the schools of thought discussed in chapter 3, neoliberal institutionalism. Here, neoliberalism is the norm emerging in the 1970s and 1980s. So we can change Rodrik's model as following. Instead of Bretton Woods compromise we might use embedded liberalism. This embedded liberalism made it possible to establish the model of developmental state. And instead of using the term golden straitjacket we can talk about embedded neoliberalism. Embedded neoliberalism is the playing field of the competition state.

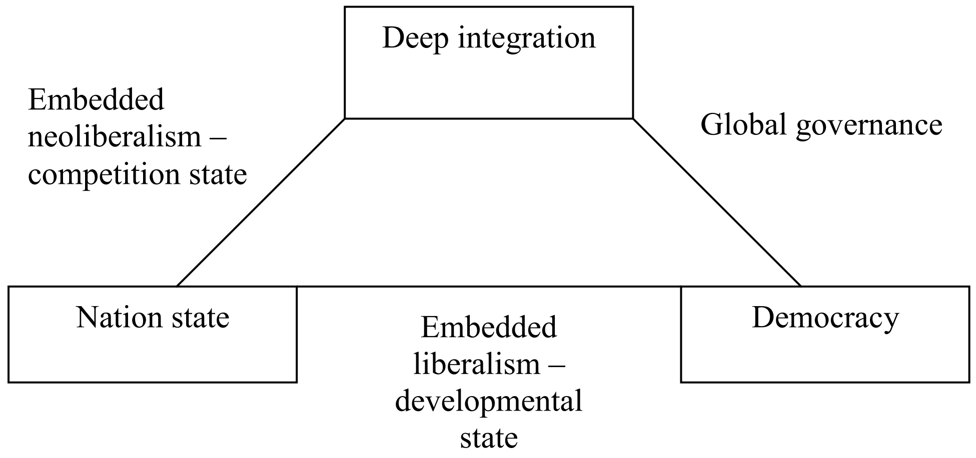

Figure 5: The unholy trinity of global politics, modified (Source: Rodrik (2005) own modification)

To conclude we can answer the question asked at the beginning of our dissertation. We can conclude that the developmental state is a development policy model that could be used in less globalized world economy. However the model of developmental state does not vanish entirely as another model of state intervention emerged with globalization: the competition state. The competition state inherited many characteristics of the developmental state. However one important ingredient is missing: the ability to transform growth into development. And that is because the competition state does not have the capability to conduct social policy. So we can conclude that the external environment was a very important factor in the success of the developmental state, but the model partially live further in the world economy.

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