

## THEORY OF DEVELOPMENTAL STATE, HEGEMONIC POWER AND EAST ASIAN DEVELOPMENT AFTER 1945

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**Abstract :** *This article discusses the theory of Developmental State, Hegemonic Power and rapid economic development in the East Asian region after 1945. The objective of this study is to determine the effectiveness of Developmental State policies with the role played by the hegemonic power. In the East Asian region, the role played by the American hegemonic power is very important in explaining the development process in the capitalist states in the region. The rapid development after Second World War in Japan, South Korea, Taiwan, Singapore and ASEAN countries had related with the roles and economics aid and assistance from the United States. The level of development of Japan, South Korea, Taiwan and Singapore are different with the level of development achieved by the People's Republic of China, North Korea and Mongolia. The similar situation in the South East Asian region, where the level of development of ASEAN countries are different with the Indochina communist states. This study concluded the effectiveness of the developmental state policies and the role of hegemonic power are closely related. The role of the hegemonic power is not free from in the international political strategy (the Cold War bipolarity structure).*

**Keywords:** *Developmental State, hegemonic power, rapid development, East Asia, ASEAN, NICs Asia, the United States.*

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### Introduction

This article discusses the theory of Developmental State, Hegemonic Power and rapid economic development in the East Asian region after the end of the Second World War in September 1945. The emergence of the bipolarity international political structure influenced

the political and the process of economic development in the East Asian region. During the period of after 1945 until 1991 international political structure influenced by the role played by the United States, as a hegemonic power and the Soviet Union, as the counter-hegemonic power. The effectiveness of Developmental State policies in the East Asian region are closely related with the role played by the American hegemonic power. The discussion in this study is divided into five sections; first, the introduction (problem statement, Objective of Study and Research Scope); secondly, the brief discussion on what is the Developmental States; third, Domestic Policy and External/International Factors; fourth, The East Asian Development and American Hegemonic Power Political Strategy; fifth, Economic Level of Development and Cold War Political Ideology; and finally the conclusion.

**Problem Statement:** The discussion in this study is to determine whether the effectiveness of developmental state policies and the role of hegemonic power are closely related.

**Objective of Study:** to discuss the effectiveness of Developmental State policies in the East Asian Region has related with the role played by the American hegemonic power.

**Research Scope:** To review the Theory of Developmental State, Hegemonic power and rapid economic development in the East Asian region after the end of the Second World War in September 1945.

### **What is the Theory of Developmental States?**

What is theory of Developmental States? What is the different with the capitalist free market, and central planning socialist economy? Is the Developmental State is similar to the mixed economy? When and where is the origin of the Developmental State theory? Chalmers Johnson introduced the theory of Developmental State in the early 1980s. Johnson corrected the misperception that Japan was following Adam Smith's idea of the liberal market economy.<sup>1</sup> He argued that Japanese economic development was the consequence of an authoritarian state's active intervention in shaping economic decision.<sup>2</sup>

The practices of Developmental State in Japan can be traced since Meiji Restoration in 1860s. From the beginning of the Meiji economic policy, Japan has followed a unique pattern in which a market economy has benefited from self-conscious direction by a bureaucratic authoritarian state. The Developmental State model also followed by the Asian Newly Industrialised Countries, South Korea, Taiwan and Singapore after 1945. Economic policy and the rapid growth the Asian NICs has followed the same pattern of Japanese experience: a market that is the engine of economic growth and authoritarian state as the driver of the engine. The Developmental State contended that states have a planned role to play in taming domestic and international market forces and connecting them to domestic needs. It argued that a state is important in overcoming market contamination and the numerous obstructions of industrialisation.

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<sup>1</sup> Details of Adam Smith idea of liberalism market see his book Smith, Adam, *The Wealth of Nations* first published in 1776. He argued that state is not supposed to interfere the market and free trade. He disagreed with the Mercantilist argument that the states should play greater role in managing economy. In the Japanese economic experienced since early twentieth century (even since Meiji era 1860s), the state intervene and played active role in Japanese economic policies.

<sup>2</sup> Johnson, Chalmers, 1982, *MITI and The Japanese Miracle: The Growth of Industrial Policy, 1925-1975*, Stanford: Stanford University Press.

Four structural elements are identified as characteristic of the Developmental State, namely; firstly, bureaucratic autonomy from politics that protects the Developmental State from bowing to political demands and pressures that might undermine long-term national economic growth; secondly, close collaboration of public and private sectors directed by a powerful planning agency or board; thirdly, heavy and continuing investment in education for everyone and policies to ensure equitable distribution of the wealth gained through high-speed growth and; finally, the use of incentives and persuasion rather than commands, so that the state's economic intervention is based on the price mechanism of the market rather than administratively assigned prices.<sup>3</sup>

The Developmental state is different to the states in Socialist economic system and Western capitalist economies. The Socialist state finds to substitute administrative commands for private entrepreneurship and market mechanism, while in Western capitalist economies the state is primarily regulatory and is assumed to play the role of an unbiased umpire in the market place. The Developmental State does not attempt to change the market mechanism and private decision making, but neither does it abdicate to private profit-seeking behaviours in the development process. It will attempt to influence private business decisions by persuasion, coercion and by manipulating the parameters of private decision-making. The Developmental State is different from both Socialist economic system and Western economic capitalist.

We can say that the Developmental State is a system developed from the 'interaction of two sub-systems,' one public and geared to development objectives and the other private and geared to profit maximization.<sup>4</sup> The Developmental State is not just combined the both economic model, but has the specific elements and characteristics, thus Developmental State model also different with mixed economy in certain aspects. Although Developmental State similar in some aspect of Western Mixed Economy, but the Developmental State is more than a mere combination of element of command and market system. The defining characteristics of the Developmental State is not the amount of industry owned and controlled by the state, but the degree, scope and direction of the state's management of the market as a whole. The Developmental State intervenes in the market not only to removes serious obstacles to national economic development and dilutes the effects of market failures but to direct the nation's economic growth and ensure its international competitiveness. Primary responsibility for determining national economic priorities is not left to the market but is assumed by a state with sufficient autonomy to pursue developmentally desirable national economic policies.<sup>5</sup>

Economic development (in terms of growth, productivity and competitiveness) is the most significant priority of state action. The state single-mindedly adheres to economic development even at the expense of other objectives, such as equality and social welfare.

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<sup>3</sup> Johnson, Chalmers, 1985, 'Political Institutions and Economic Performance: The Government-Business Relationship in Japan, South Korea and Taiwan,' in Robert A. Scalapino, Seizaburo Sato, and Jusuf Wanandi (eds), *Asian Economic Development-Present and Future*, Berkeley: University of California, Institute of East Asian Studies (quoted in Vera Simone and Anne Thompson Feraru, 1995, *The Asian Pacific: Political and Economic Development in a global Context*, New York: Longman, pp,163-164.

<sup>4</sup> Discussion on Mercantilism, capitalism and Developmental State, see Balaam, Davi, N, and Veseth, M., 2008, *Introduction to International Political Economy*, (fourth edition), Upper Saddle River, NJ: Prentice Hall/Pearson, pp. 246-247.

<sup>5</sup> Simone, Vera and Feraru, Anne Thompson, 1995, *The Asian Pacific: Political and Economic Development in a global Context*, New York: Longman, p. 164.

The developmental state has a firm obligation to private property and the market. State managers, who frame strategic industrial policy to stimulate development, however closely control the market. In other words, the developmental state elite actively interfere in the economy, but in a 'market conforming' way. Within the state bureaucracy, a pilot agency (such as Ministry MITI in Japan, BAPPENAS in Indonesia) plays a crucial role in strategic policy formulation and implementation. This agency is given adequate scope to take initiatives and operate effectively, and is run by the best managerial talent available to the state bureaucracy.<sup>6</sup> The strictly meritocratic recruitment into the bureaucracy not only warrants a high degree of bureaucratic competency, but also creates a sense of unity and common character on the part of bureaucratic elite. Their long-term, often life time service in the same bureaucratic agency also strengthens this 'esprit de corps' among the bureaucrats and supports them to accumulate experience and expertise in economic matters.

### **Domestic Policy and External/International Factors**

The domestic policies and economic development has a close relationship with the external situation. The domestic situation is not free from the international situation. The international situation had influenced the domestic policies and domestic economic development.

The state actor and economic development have a close relationship with the domestic structure of a state and the role played by a state as explained by the theory of developmental state. The state's policies as emphasised by the theory of Developmental State also needs support from international situation, i.e. hegemonic power. How successful a developmental state strategies and policies are also had influences from the international economic and political situation and the relationship with the hegemonic state.

The situation of the international ideological struggle in the East and Southeast Asian region after 1945, especially after the Korean War and Vietnam War, had a close influence upon the success of state economic policies in the capitalist East Asian countries. Before the period of before decolonialization (after the Second World War ended in September 1945), the colonial hegemony like British and Dutch had influence over their colonies.

International ideological struggle and political-economic elements are important in explaining the relationship between the theory of Developmental State and the role played by hegemonic powers.<sup>7</sup> Any analysis of the East Asian development has to take into account the international context within which East Asian economic growth materialised in the post war period. The rapid industrialisation and economic development of Taiwan, South Korea, Hong Kong and Singapore benefited from heavy interaction and hegemonic struggle between the America, Soviet Union and China Communist (People's Republic of China).

The nature of domestic political economy and international ideological struggle in North East and Southeast Asian region after World War II is important in explaining the successful and miracle economic development of Taiwan, South Korea, Japan, Hong Kong and Singapore.

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<sup>6</sup> So, Alvin, Y., and Chiu, Stephen W.K., 1995, *East Asia and the World Economy*, Thousand Oaks, CA: Sage Publication, p. 13

<sup>7</sup> . Onis, Ziya, 1991, 'The Logic of the Developmental State' (Review Article), *Comparative Politics*, vol. 24, no. 1, October 1991, pp.117-118.

Theory of Developmental State became one of the significant theories in analysing the development in East Asian region after 1945. Where did the state in East Asian region gain their ability to plan and implement the state's economic policy? Why did it start after World War II and why did it not start before 1945? Here (by answering the above questions) we can see the relations between the international political situation, domestic economic development and the hegemonic elements in explaining the rapid development of the capitalist countries in the East Asian region.<sup>8</sup> The hegemonic struggle between United States, Soviet Union and China Communist gave the positive impact and rapid growth to the development of Taiwan, South Korea, Hong Kong, Singapore and also Japan rapid economic recovering after 1945.

### **The East Asian Development and American Hegemonic Power Political Strategy**

The economic development of a state was influenced by the international political situation factor, i.e. the relations with the hegemonic state and the developmental state. East Asian countries rapid economic growth after the Second World War was due to the international political structure (the relations of East Asian countries with the American hegemony and bipolarity structure of power struggle during the Cold War period) and the hegemonic powers economic policy towards those countries. As a the United States allies, South Korea, Taiwan, Japan, Hong Kong, Singapore and other ASEAN countries received special treatment in American economic and security policies. The security and public good (political and military security) provided by the Americans contributed great impact to the economic development for East Asian countries.<sup>9</sup>

The United States financial support towards capitalist East Asian countries, especially Taiwan and South Korea after World War II was very great. From 1946 to 1976, the United States provided \$12.6 billion in American economic and military aid to Korea and for Taiwan was \$5.6 billion. No other country in the world received such large sums from America with the exception of Israel and South Vietnam. The Korean total of \$6 billion in U.S. economic grants and loans, 1946-1978, compares to \$6.89 billion for all Africa, and \$ 14.89 billion for all Latin America countries. The U.S. military deliveries to Taiwan and Korea in 1955-1978...totalled \$9.05 billion, whereas Latin America combined received \$3.2 billion.<sup>10</sup> The great financial support was the political motive, i.e. to contain the spreading of communism to the capitalist East Asian countries. The outbreak of conflict on the Korean peninsula extended the Cold War to Asia, altering the U.S. strategic perception of the region and creating expanded political and economic commitments to the South Korea and Taiwan. The economic development in the East and Southeast Asia and the role of the hegemonic powers cannot be understood without reference to the hegemonic political struggle after World War II.<sup>11</sup>

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<sup>8</sup> .So, Alvin, Y. So, and Chiu, Stephen W.K., 1995, *East Asia and the World Economy*, Thousand Oaks, CA: Sage Publication, see chapter 8, pp. 186-212.

<sup>9</sup> . Naya, S., 1971, 'The Vietnam War and some aspects of Its Economic Impact on Asian Countries', *The Developing Economies*, vol. 9, no. 1, pp. 31-57.

<sup>10</sup> . Woo, J.E., 1991, *Race to the Swift: State and Finance in Korean Industrialisation*, New York; Columbia University Press, p. 45 (quoted in Chowdhury, Anis and Islam, Iyanatul, 1995, *The Newly Industrialising Economies of East Asia*, London and New York:Routledge, p.39.

<sup>11</sup> . Haggard, S., 1988, 'The Politics of Industrialization in the Republic of Korea and Taiwan', in Hughes, H., (ed), *Achieving Industrialization in Asia*, Cambridge; Cambridge University Press, p.265.

## **Economic Level of Development and Cold War Political Ideology**

The domestic economic and political structure influences the relations with the American hegemonic power and the efficiency of states roles and economic development policies. The economic development of capitalist countries (the countries which had good relations with American hegemony) and socialist countries (which had good relations with communist countries) had different achievement in their levels of economic development. In the Asia Pacific region the clear boarder created after the Cold war broke out in the region. A clear example can be seen in the Southeast and North East Asian region. North Korea, Mongolia and Indochina countries lean towards Soviet Union, while japan, South Korea, Taiwan and ASEAN countries closer to the American. There were better achievements of economic development for the countries that had good relations with the American hegemonic power. The economic development of Indochina countries, i.e. Vietnam, Laos and Kampuchea were at a different level from the economic achievement of ASEAN countries (especially Singapore, Malaysia, Thailand and Indonesia). In the northeast Asian region, South Korea, Taiwan, Hong Kong and Japan had different achievements from People's Republic of China,<sup>12</sup> North Korea and Mongolia. Indochina states were more closer to Soviet Union or China, and ASEAN countries had closer relationships with the United States, Japan and Western European countries. Their political relations with hegemonic powers influenced the level and achievement of economic development.

The situation also can be seen in Malaysia and Indonesia during the period of before 1965. The relative achievement and level of economic development was much better in Malaysia than in Indonesia. Malaysia achieved better economic development than Indonesia, especially in the 1950s to 1960s. The differences in domestic political and economic structure and external political relations could explain the different pace of development between the two countries. Malaysia had better foreign relations with the United States of America and other Western powers that contributed positively to its economic development. The Indonesian domestic economic policy and external political relations under President Sukarno rendered a negative economic impact on Indonesia. The level of development in Indonesia might be different if the state had played a more active role in developing her economy and had closer relations with the Western capitalist countries in the 1950s and 1960s. The Republic of Indonesia during the Sukarno era (1949-1965) gave greater preference to develop the military capabilities and to have close relations with the Soviet Union, China and Eastern European Communist countries.<sup>13</sup>

For Indonesia, the economic development was very slow in the 1950s and early 1960s but changed dramatically after 1965. The year of 1966 was indeed a watershed in Indonesian economic development. President Sukarno's economic policy and anti-American hegemony foreign policy had destroyed the Indonesian economy. Rapid development started after 1965,

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<sup>12</sup> Especially before Deng Xiao Peng's Economic Reformation. The China's economic growth totally changed since early 1980s after Deng Economic Reformation 1979. Since the period of 1980s China Communist economic growth improved rapidly. China communist became the second largest economy since the end of 2010.

<sup>13</sup> See Mohd. Noor Yazid, 2016, Indonesian Relations with the Eastern Europe, Soviet Union and China before 1965: Systemic and Domestic Factors,' *Review of European Studies*, vol. 8. No. 3, September 2016, pp. 253-257.

when the state under the Suharto administration changed foreign economic policy and played a more active role in managing to develop the Indonesian economy. The rapid economic development of Indonesia after 1965 was the direct impact of the role played by the developmental state and support from American hegemonic powers and other Western powers.<sup>14</sup> The active and efficient role-played by the Suharto administration and the external support from Western countries, as well as Japan, greatly contributed to the rapid Indonesian economic development after 1965.<sup>15</sup>

## Conclusion

In the East Asian region, the role played by the American hegemonic power is very important in explaining the development process in the capitalist states in the region. The rapid economic development after Second World War ended in September 1945 in Japan, South Korea, Taiwan, Singapore and ASEAN countries was closely related with the roles and economics aid and assistance from the United States. The level of development of Japan, South Korea, Taiwan and Singapore are different with the level of development achieved by the People's Republic of China, North Korea and Mongolia. The similar situation can be seen in the South East Asian region where, the level of development of ASEAN countries such as Singapore, Malaysia, Indonesia and Thailand are different with the experience and development achievement in the Indochina communist states.

This study concluded that the effectiveness of the developmental state policies and the role of hegemonic power is closely related. Developmental state policies could be implemented easily with the strong support from hegemonic power. The role and support given by the American had subtle political strategic to the regional political structure in the region. The American had had to create American economic and security sphere of power in the East Asian region for the long-term international political survival. The role of the hegemonic power is not free from in the international political strategy during the Cold War bipolarity structure. Without the Cold war, the American would not play greater role in the region.

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<sup>14</sup> Mahajani, Usha, 1967, 'Indonesia's New Order and The Diplomacy of Aid,' *The Australiam Outlook*, vol. 21, no. 2, pp.214-234.

<sup>15</sup> For the development after 1965 see Ari A. Perdana, Puspa Delima and G. Sivalingam, 2005, 'The 1997 East Asian Financial Crisis, IMF Conditionally and Competition Policy in Indonesia,' in G. Sivalingam, *Competition Policy in The ASEAN Countries*, Singapore: Thompson Learning, pp. 31-33.

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