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The Political Economy of the Rise and Decline of Developmental States

Summary: Based on a classical political economy, on Latin American structuralism, and on Gramscian perspective about the state this paper argues that national economic strategies are formed by particular interactions between institutions and economic structures and evolve according to social conflicts in a non neutral international environment. This idea is explored to interpret the rise of the developmental state in some national development strategies experienced by peripheral countries during the highest convergence period of the Golden Age and its crisis and redefinitions during the greatest divergence phase and neoliberal reforms of the last two decades of the 20th century.

Key words: Political economy, Developmental state, Economic development.

JEL: O20, O53, O54.

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Paper by invitation

The diffusion of industries to several peripheral countries after the Second War and the great divergence between them since the eighties has sparked wide debate on economic development. Interpretations based on neoclassical and on institutional economics (with different degrees of proximity to neoclassical economics) are the major field of historical explanations. Despite the wide differences they have on the determinants of economic growth, they share a common perspective about three basic aspects: The first is the supposition that strategies of development are built by a set of government policies and by institutions that model private behaviors (of course they disagree on what policies and institutions promote economic development); the second assumes a "methodological nationalism" in which individual countries growth performance are explained by domestic factors. The third is the corollary of the two above perceptions and says that the state as a major inductor of positive change (in resource allocation as in the heterodox reasoning, or in creation of market institutions as in orthodox thought) is responsible for success or failure of growth strategy. For the mainstream school wrong policies taken by populist state plays the dominant role, wrong policies taken by liberal or neoliberal states plays this role by heterodox. For both a meritocratic Weberian state is central to the successful strategies of development (to avoid cases rent-seeking according to neoclassical authors; to discipline large firms according to the institutionalists).

Stemming from a methodological perspective based on classical political economy, on Latin American structuralism and on Gramscian perspective about the state, this paper takes a critical stance concerning these three basic aspects. At first it

considers that modern explanations about developmental states and the role of institutions neglects the different challenges and circumstances created by initial conditions and how different economic and social structures influences institutions (a bias opposed to ECLAC's classical structuralism that neglected the autonomous role of institutions). The major challenge to explain development strategies is to articulate the two dimensions. Secondly, it assumes the proposition according to which the international environment is not identical for developing nations and is influenced by the hegemonic state's economic and political action, creating different development opportunities for them. Finally, it considers that the state (and its developmental historical variant) cannot be viewed as an agent above interests, apart from social classes and relations with other states, but rather, as a central institution where the dominant class or some of its sectors leads a coalition of power and builds a hegemonic project compatible with a particular accumulation strategy. Moreover, the compatibility between the growth strategy of the dominant fractions of capital and the nation development can not be assumed and it is precisely the tension between them that explains the evolution and crisis of development strategies as hegemonic projects.

Besides this introduction this paper has three main sections. In the next two sections there is an attempt to illustrate some of these issues from an analysis of national patterns of industrialization and development strategies experienced by peripheral countries both during the highest convergence period and the greatest divergence phase. The third and last section discusses the "neo-developmental state" in face of the historical analysis.

1. National Development Strategies in the Golden Age of Post-War; The Formation of Developmental States (DS)

The partial and limited diffusion of industrialization in the postwar period (especially, among industries and activities closer to the innovative businesses such as capital goods sector) was a consequence of national strategies led by development-oriented states specifically geared to reproduce — in backward economies — modern industry and its infrastructure as the main engine of economic growth.

Under U.S. hegemony and under the geopolitical of the cold war, national development was basically an accumulation strategy and a hegemonic project of industrial national capital coordinated by national states favoring the formation of large industrial companies and their markets. National developmental strategies were followed in several countries and took different routes according to the size of the economy, the natural resource base, income distribution, geopolitical insertion (i.e., associated with higher or lower degree of ambition and political and military autonomy), the political power underlying that strategy and the unequal opportunities created by more developed countries. How successful those strategies were depended on the combination of those internal and external circumstances.

At distinct levels of success a few countries (in Latin America, especially Brazil and Mexico, in Asia, the Asian Tigers - especially Korea and Taiwan - the Southwestern Asian countries, India and China) followed a path somehow similar to

what industrialized countries had experienced to restructure during the post-war period. An attempt was made to transplant the key industries typical of the American manufacture pattern - metal mechanics, automobiles and chemicals - and their consumption patterns - centered on consumption durable goods financed by credit. These industries, along with urbanization and its services and infrastructure created in agrarian economies what Albert Hirschman (1958) defined as a new "multidimensional conspiracy for development" as its expansion would generate a chain of effects on productive sectors and technological improvements that would engender economic development. As Raul Prebisch (1949) remarked, the typical Keynesian post-war policies on the periphery would require structural change so as to offset the external constraints, and building new capital stock in the industrial sector would be the basis for a policy directed to high growth and unemployment reduction.

Between 1950 and 1980, the steady increase in per capita income in those countries — higher than the world average rate and U.S. rate, the country leader — was chiefly due to the increased pace of the industrial output growth and the transfer of surplus labor in agriculture to urban activities led by industry and services. In countries where this shift was greater, as in Korea or Brazil, the growth rate was higher, and in countries where it was less intense, as in India, the rate of growth of income per capita and per employed person was lower.

Despite the diversity of initial conditions within those countries, they faced the challenges caused by large technological gap in relation to industrialized countries, the narrowness of domestic markets, the problems of coordination and financing of complementary blocks of investments in new sectors and restrictions on balance of payments.

Similarly to what happened in Western Europe in the postwar period, the influence of industrial success in the Soviet Union gave major political legitimacy to the long-term planning; thus, the Government planning boards became pilot agencies with a major influence on economic policy. But the national strategies of industrialization were not distinguished only by planning. In those most successful countries such as Brazil and Korea (and later in China, since Deng Xiaoping's reforms), strategies were the result of industrial action over the allocation of investment. In some countries like Korea, Taiwan or Mexico the state has directly controlled the "commanding heights" of the financial sector (Stephan Haggard, Lee Chung, and Sylvia Maxfield 1993). Besides finance, in many countries industrial inducement was directly exerted through the formation of major blocks of state enterprises operating in strategic industrial activities and infrastructure.

Thus, regardless the higher or lower share of exports in the composition of industries' final demand, the late industrialization of the 20th century was led by the states. The conventional distinction between a strategy based on import substitution industrialization (ISI) associated with the state leadership in countries like Brazil and Mexico, and an export-oriented industrialization (EOI) associated with a pro-market strategy that would have prevailed in Korea, Taiwan or Thailand does not resist, in fact, to the historical evidence on industrialization pursued in those countries. All strategies originally included import substitution processes and selective opening and put greater or lesser emphasis on industrial exports according to different sets of fac-

tors. An essential part of national development strategies was the macroeconomic regime in which the exchange rate, fiscal and monetary policy were subordinated to the objectives of industrial development (Haggard, Chung, and Maxfield 1993). Until the 1970s, the external financing was scarce and the constraint on foreign currency imposed strict control on foreign exchange, control of imports, encouraged exports and policies that proved to be a strategic element to the national development-oriented routes.

However, in spite of common strategies, the countries that started their industrial diversification processes in the post-war period followed different patterns and their states had different capacity to induce structural change. Two aspects stand out from pattern differences: the levels of income distribution associated with the industrialization process of (inequality in Latin America was much higher than in Asia), and the share of industrial exports in countries' total exports (much higher in Asia). Besides these structural dimensions, one important difference was the role played by foreign capital larger in Argentina, Brazil or Mexico than in Korea, Taiwan or India. Considering the State's power to induce the economy one may observe that although the common base was a coalition between the military, technocratic planners, and the private industrial sector this coalition was stronger in Korea or Taiwan than in other countries. In these countries a "cohesive capitalist" state (Atul Kohli 2004) was built by dislodging the landed owners and with strong support of US in their strategy of communist contention in Asia. It was also influenced by Japanese' institutions and business strategy developed after the war. Excluding Korea and Taiwan the ("normal") development state was more "fragmented and multiclass" and the industrial sector had to compromise some economic policies with powerful land owners.

Different Patterns

Unlike Western European countries, industrialization in peripheral countries led by developmental states was not accompanied by social democratic coalitions aiming at the distribution of income and full employment. However, despite the fact that the goals for greater equity were subordinated to the goals for growth and industrialization, income distribution was quite uneven according to the different social coalitions supported in the state. The social coalitions, i.e., the economic interests prevailing in the hegemonic project of national developmental age, and the pattern of income distribution were essentially influenced by the way the land property and the modernization of agricultural production evolved. In countries where the productivity in food production was lower and internal structural heterogeneity higher, the lower was the peasant's income and the heavier was the weight of the traditional oligarchy on political power — such as in Brazil, India or Indonesia the sate was more "fragmented and multiclass". In these cases industrialization took place accompanied by extensive social marginalization and exclusion of rural masses (and growing suburban areas) of modern consumption, leading to large income concentration. In countries where land reforms and simultaneous modernization of agriculture took place (as in Korea and Taiwan, that like Japan made deep changes in ownership relations, with the United States' support and encouragement), internal structural heterogeneity and social polarization was less intense, and the state was more cohesive around the interests of industrial capitals.

Similarly, export performance followed a distinct path.

In East Asia, the import substitution was quickly followed (as early as in the 1960s) by industrial exports (mainly textiles and clothing in the early stages), generating a greater trade diversification and consequent positive effect on the balance of payments. In Latin America, the diversification of exports happened much more lowly and less intensively (and even so, only in some countries, notably in Brazil this occurred in late 1960s). Several hypotheses explain this discrepancy. Hypotheses that follow a neoclassical approach and those closer to predominant institutional analyses emphasize the different strategies adopted and the prevailing interests. Excessive protectionism, the urban and anti-rural bias of developmental coalitions, or the pessimism about the Latin America's possibility to export industrial products would have prevailed in the region in contrast to the clearly exporting-oriented strategies of Asian countries (explained by orthodox perspective as a result of less protectionism, or by the heterodox viewpoints as a consequence of solid industrial policies).

What distinguishes these approaches is the lack of connection between strategies, institutions and economic structure. Using an argument similar to that employed by Marcelo Diamand (1986) in the case of Argentina, by James Mahon (1992) and more recently by Luis Carlos Bresser-Pereira (2010), here we claim that among countries with highly competitive export industries based on natural resources such as those of Latin America, there came to be an external heterogeneity or an "imbalance in the production structure" between the productivity of the primary export sector and that of the industrial sector. This imbalance led to the formation of an uncompetitive exchange rate for the industry contributing for the specialization of the export sector. Industrial policies favored domestic industry through preferential exchange rates and tariffs, but they were not as competitive as it was in Asia for industrial exports. The interests involved in this strategy clearly were much more solid than were those generated by such a different economic structure as the one that prevailed in the most dynamic Asian countries.

In Latin America, the high share of exports based natural resources exacerbate a distributive conflict between primary exporters, industrial sector, non tradable support activities and the working class on the exchange rate. This was particular intense in Argentina due to its bigger external heterogeneity and higher labor militancy.

Thus, the higher cohesiveness around manufacture exports (and industrial interests) was not simply matter of institutions but an outcome from the economic structure.

In Asia, for a small group of countries like Korea, Taiwan that had during the 1960s a lower level of industrialization than Argentina Brazil or Mexico, and certainly city-states like Hong Kong and Singapore, the scarcity of natural resources made the export of industrial products the obligatory path toward industrialization, whether due to the low size of the domestic market (as in the case of Taiwan and the city-states) or, as in the case of all the others, due to the need to finance their import capacity. Poor natural resources basis was favorable to a more balanced economic structure, making it possible to establish a real exchange rate more favorable to in-

dustry. Secondly, because of the political situation resulting from the Cold War, these countries relied on heavy U.S. support during the initial provision of external funding and of a preferential market for their exports.

Thus, the Asian industrial strategies did not distinguish themselves for having adopted policies and instruments very different from those used in Brazil or Mexico. The State was not more or less interventionist in the induction, coordination and subsidization of private investment; however, due to dissimilar structural and geopolitical circumstances, this policy has yielded different macroeconomic and social results.

In these countries, the composition and transformation of the export structure generated a larger and more diversified sector of industrial tradables and a stable exchange rate. The dominance of industrial sector (led by coalition of big business and the State) over other fractions of capital was much more secure than in other developing nations. The main conflict between industrial capitalist and working class was suppressed politically by an authoritarian State but economically the evolution of real wage was sustained by a simultaneous rise in food and industry productivities.

This fact had important consequence for the easier way that Asian countries reacted to the debt crisis of 1980, but it had already manifested itself with the pattern of indebted growth followed by Brazil, Mexico and Korea in the 1970s.

During the seventies, despite the dollar over borrowing that was spread in periphery (India is an exception), the differences within Latin America Countries and within Asian countries were very sharp in contrast with the situation that took place after the 1980s marked by a regional clustering. After the first oil shock and during all the 1970s Argentina with a fragile balance of payment position and strong working class had high rate of inflation exacerbating its structural dilemma; Mexico interrupted a cycle of "stabilizing development" and pressed by the political turmoil of the late sixties, initiated a distributive strategy in a unstable path until the discovery of new reserves of oil and huge accumulation of external debt. Brazil and Korea had a different strategy and used the availability of cheap money to launch an industrial plan aimed to import substitution in heavy industry and chemicals.

Between 1950 and 1980, developmental states that made domestic industrialization their main strategy for national development also took form in Indonesia and India. Five-year plans, a high percentage of state companies in strategic sectors of heavy industry and infrastructure, strict protection of the internal market and import substitution were the core of this strategy. In India, its neutral position in the Cold War and the influence of Soviet planning led to the formation of an autonomous military strategy with significant impacts on the priority of heavy industry. In both countries, these strategies led to performance quite distinct from that of the Southeast Asian countries and structurally more similar to that of Latin America. With an underdeveloped agricultural system, a vast majority of the population engaged in the struggle for survival, little intra-sectoral mobility and an insubstantial industry of handcrafted consumer goods, Indian developmentalism resulted in modest growth rates and income concentration (given the vast rural poverty), yet it has managed to internalize important segments of modern industry and its infrastructure. In Indonesia, where there was a predominance of primary exports, high income concentration based on the differences between rural areas and cities also occurred.

2. Neoliberalism and the Crisis of the Developmental Nation States

The Reagan-Thatcher offensive against the National Keynesian State in the central nations, the external-debt crisis at the periphery and the collapse of the USSR in 1991, at a time at which a new technological revolution based on information and telecommunication was rising, led to significant changes in the international division of labor. Under unrestrained competition finance and productive internationalization greatly enlarged.

The "Washington-Wall Street complex" (and its leadership over the World Bank and the International Monetary Fund) established itself as the center of political power and of the ideology not only of globalized American capital but also of globalized capital in general. Despite its rhetoric concerning a minimal state and market efficiency the establishment of neo-liberalism as a doctrine led to a new strategy of accumulation and a new hegemonic project widening the dominance of capital in general and finance capital in particular over other fractions and interests. These transformations were triggered through a widespread attack on the unions and on welfare state. It also corresponded to a new U.S. trade offensive to open the hitherto regulate internal market of the new industrialized exporting nations.

Among the industrialized nations, the large corporations, exposed to intense international competition, sought greater autonomy from the state, the workers and the chain of domestic suppliers, simultaneously demanding greater state support for the globalization process of production and finance in new spatial and regional arrangements. Transplanting labor intensive activities to peripheral countries was intense remaking the international division of labor. The firm's strategy of going global introduced a fracture between national capitalism and national capital with important repercussions on macro economic policies and political coalitions (Carlos Medeiros 2005).

During the eighties and nineties a low and asymmetrical growth took place within industrialized countries. Despite some national regularities observed in all countries – Terence McDonough, Michael Reich, and David M. Kotz (2010) named these changes liberal social structure of accumulation to distinguish them from regulated SSA that prevailed before – the "devolution" of Keynesian National Welfare State was very differentiate among industrial countries according to the severity of external pressures and the resistance of working class and State social institutions.

Among the recently industrialized and semi-industrialized nations, the impacts of these transformations were greater in light of the lesser productive diversification and greater dependence of its industries on state regulation of the financial system and the domestic market.

Although taken in different circumstances and with different intensity, the end of the developmental state had a similarity with the end of the Keynesian Welfare National State in industrial countries. If this was associated with the end of the subordination of monetary and fiscal policy to full employment, the end of developmental state was associated to end of the subordination of fiscal and monetary policy to industrial development. The structural power exerted by capital over the state greatly enlarged.

Similarly as it was happened with national Keynesianism, development strategies based on industry and on the nation as the prevailing scale of accumulation were abandoned in many countries and a new hegemonic project led by the economic domination of cosmopolitan capital was established.

Despite the differences observed in time and space, the discontinuity in development strategy involved two major forces: financial openness and big business revulsion against the developmental state.

Financial opening played an important role for the crisis and discontinuity of national developmental strategies (in both industrialized and, mainly, semi-industrialized nations) insofar as it exposed the economies to volatile capital inflows and dissolved the role of domestic credit as a mechanism for coordinating investments. The developmental coalitions supporting state intervention was supplanted by a "more orthodox and internationalist policy factions and pushes toward liberalizing reforms" (Haggard, Chung, and Maxfield 1993, p. 325). It was in the wake of the exchange-rate crises that Washington Consensus structural reforms were massively introduced. The institutional position of the Central Bank (with an exclusive focus on price stability) was strongly enlarged due to international constraints that followed the external crisis and the role played by manufacture interests and its institutions was diminished.

As a corollary to these macroeconomic and institutions change there was a split – to the extent to which, and under the conditions in which the nations opened their economies – between the interests of the large corporations and the national industrial strategies that were the basis of national development. Cultivated and promoted by their developmental nation-states domestic business, challenged or partially removed from their markets, began to seek for new opportunities and strategies for accumulation, especially through the formation of joint ventures with multinational corporations and through majority interests or participation in the business of privatizations. Such opportunities of going global demanded new State functions and policies and a new power scheme and strategy of accumulation.

Thus, the U.S.-led pressure throughout the 1990s in favor of liberalization, deregulation and privatization found widespread internal support among the dollar-based cosmopolitan financial groups and big business in general. The large corporations' rebellion against developmental states occurred everywhere. It was generally accompanied by public opinion that identified developmentalism and industrial policies – such as those implemented by countries like Brazil, Korea or Indonesia – with political authoritarianism, with "crony capitalism" and, in the case of Brazil, with income concentration. The social cohesion and political legitimacy of industry-based accumulation strategies and, consequently, the hegemony of this project were profoundly shaken.

But this general trend was far from being homogenous and a great divergence took place.

In Latin America and in some East European countries, the debt crisis of the eighties was intense bringing about high inflation rate and deep recession. This caused a structural crisis in prevailing State led growth and created new coalitions of internal and external interests – remaking the bloc of finance and primary export that

ruled LA in the XIX century – around the agenda of reforms of the Washington Consensus that spread all over the region in the nineties (Medeiros 2008).

In Asia, the external shock of the eighties was not so disruptive. In large countries as China or India, the debt ratio was too low to make any substantial negative impact (Alan Hughes and Ajit Singh 1991). In East and on South-East countries, thanks to better solvency ratios, the surge of Japanese investments and the clustering of production chains in the region (Medeiros 1997) and the majority of the economies (more or less open) had high growth preserving the bulk of institutions developed earlier. This clustering of success and collapses in space and time is the major evidence of the limits of the "methodological nationalism" (Medeiros 1997; Jose Antonio Ocampo and Maria Angela Parra 2007). Only in the nineties but mainly after the 1997 crisis – circumscribed to the countries that opened their capital accounts (in Thailand, Indonesia, Philippines and South Korea) - occurred a strong offensive against the developmental institutions.

Thus, like happened in industrialized countries, there were different national answers to liberalization process. In Latin America countries liberalization was taken in a radical U-turn as a "rebound effect" (Hirschmann 1982; Gabriel Palma 2010) from a very weak national position; in Korea and other Asian countries liberalization was taken later and from a trajectory of high growth. Other Asian countries like China, Taiwan or India did not dismantle the main developmental institutions. Political and structural reasons contributing for this different route.

Thus, the degree and impact of these changes on national developmental strategies essentially depended on the extension and circumstances of the external crisis, the resistance of the previous economic and political coalition to the new challenges and the capacity for structural transformation of the economies. The production structure, the existence of distinct regional dynamics and the power and political cohesion of the nation-states were the main vectors for a strong differentiation occurred between Asian and Latin American Countries.

Different Paths

Throughout the 1990s, it was possible to identify various reactions to the liberalization and technological pressures. One common response to the new challenges was the pursuit of an "integrationist" strategy (Alice Amsden 2001), or as put by Sanjaya Lall (2000) "a passive strategy dependent on foreign direct investment (FDI)". This was based on two pillars: on micro side this strategy was built by the formation of new private alliances and re-specialization in activities with absolute cost advantages (whether in industrial commodity chains, as in Mexico, or in natural resources, as in most South American countries and in Russia, throughout the 1990s).

On macro side this strategy centers on exports and on external financing and investment as the main growth machine. The demise of developmental state's institutions and the reconstitution of new state around these new activities and social classes was the main political challenge.

In Mexico, the liberalization process initiated after the 1982 default in external debt and bank nationalization accelerated in the beginning of the nineties moving towards the NAFTA agreement established in 1994. Led by small group of techno-

pols a victorious coalition formed by large Mexican groups mainly in non tradable sector, and American multinational companies, inaugurated a growth strategy based on exports of labor intensive industrial activities in a "shallow" trade specialization. This export model enlarged the Mexican dependency to US markets and investments and promoted the rise and internalization of domestic conglomerates. For this last endeavor that fractured the early connections between Mexican capitalism and Mexican big business the State has a protagonist role in privatizations deals and providing massive finance support.

In South America, cosmopolitan big business's rebellion against the developmental state started during the late seventies and the eighties as a consequence of the external crisis and hyperinflation that occurred in many countries. It corresponded to the expansion of the power and influence of the holders of dollarized assets like the traditional exporters, banks and of non tradable activities in association with foreign capital. In Argentina, during the eighties the external debt resulted in huge wealth and debt transferences from state to big business. Started in 1989, the Structural Adjustment Programme and massive privatization supported by Washington institutions and Argentinean elite generated a premature deindustrialization and denationalization but simultaneously a large centralization of capital took place headed by commodity exporters and finance.

In Brazil, the alliance that backed the State was led by manufacture industry (including a high participation of foreign companies) but included domestic construction firms (and support activities in non tradable sectors) and domestic banks that achieved a strong position in the seventies. Important segments of manufacture sector early contested the State leadership. But it was the 1980' external crisis, high inflation and the irruption of an autonomous labor struggle that undermine this coalition. With a more diversified industry that partially resisted the process of trade and financial opening, some important public enterprises (including a big development bank) were preserved from the massive privatization and denationalization of midi nineties. The "desenvolvimentistas" – the technocratic, intellectuals and industrial leaders that led the old economic strategy – were not completely dislodged from the State as happened in Mexico or Argentina. But likely all countries in the continent the winners from these liberal transformations were foreign investors and the big business in finance sector and in production of commodities.

Led by the bureaucracies close to Washington institutions (the technopols in the central bank, the finance ministry, etc.), liberal reforms removed industry and its bureaucracies (planning ministry, labor ministry, intermediary government agencies, etc.) from the "commanding heights" of the economy.

In Russia and East Europe, the crisis of socialism was also accompanied by a "rebellion" of the elites – the "revolution from above" as Kotz and Fred Weir (1998) stated it – particularly of the executives of the large corporations. A violent, primitive capital accumulation was established involving the new sectors and private economic groups that prospered by the transition to capitalism (agriculture, oil and natural gas). In the East European nations that attracted German capital, a new specialization process in labor-intensive industrial activities was initiated, and foreign financing was resumed, affirming, here also, the "integrationist" way.

An essential feature of this strategy was a macroeconomic regime based on monetary stability, cut in public expenditures (mainly investment) and financial openness. This led to substantial valorization of the real exchange rate and high interest rate. The power of financial sector in these countries enlarged not only because its assets grew faster in the decade but because its main interest – higher interest rate and low rate of inflation – has predominate on economic policy. Due to high levels of external debt and growing influence of IMF on domestic policies, this finance domination was expressed in orthodox Central Banks that assumed in these countries the "commanding heights" of the economy.

Some of these changes and the demise of the developmental state also occurred in Korea in the beginning of the nineties and in many Asian countries after 1997-8 external crisis hit. Throughout the 1990s, several Asian nations followed a mix strategy based on industrial inducements and on IDE and exports integrate in commodity chains in a flying geese model. Korea under American pressures opened its financial system eliminating the role hitherto exerted by Government on credit and investment. Big chaebols decided that the government intervention was a hindrance to new economic opportunities. Other less developed countries in Southeast Asia follow a similar liberal road.

The national development strategy was not fully changed in China, and India (both with military power and autonomous geopolitical presence) and Taiwan or Singapore that followed a path of greater autonomy or of greater resistance, preserving the national developmental strategy and its hegemonic project in a new context. Although relinquishing some previous economic regulation mechanisms, the developmental state in dynamic East Asian countries survived.

In the case of China, this route – "independent" according to Amsden's (2001) classification – was based upon greater resistance to abandoning the national industrialization strategy, maintaining or introducing superficial changes in the control of financial flows, investments and associations with foreign capital. The preservation of large public corporations, the maintenance of internal credit state control and the maintenance of economic planning and macroeconomic coordination centered on the defense of a competitive real exchange rate progressed strategically, favoring industrial capital prevailed. As a form of restructuring resulting from external pressure and technological changes, this path was based on selective, negotiated policies of trade liberalization, on support of the corporate globalization process and, above all, on the pursuit of inclusion of innovative and proprietary activities in the closest production chain through ample public investments in science and innovation aimed to industrial up grade.

India followed an intermediary regime. It introduced comprehensive trade reforms and liberalized private business to rebuilt new internationalization strategy but preserved the controls on financial flows and kept the State rule on industrial policy. This path was taken by various countries preserving the bulk of industrial policy and a positive articulation between national industry and exports subordinating finance to this goal.

3. Final Remarks

In the beginning of the new millennium great changes occurred in world economy. Higher international growth, substantial rise on commodities prices, lower rate of interest and a continuous expansion of industrial commodities chains mainly located in Asia were the main facts. The rise of China as a great trade power was in the center of these changes. These circumstances brought about better and more diffused economic opportunities for many peripheral countries. Even for less competitive Latin American countries, the rise in commodities prices allowed a simultaneous and rare situation of economic growth with positive current balance and sharp contraction of external debt (Ocampo 2007). The 2008 financial crisis brought about a great recession in industrialized countries (an effect that still continues) but did not change some of these new and structural circumstances for less industrialized countries. In this context many countries introduced Keynesian expansionist measures against the hitherto predominant orthodox opinion. Politically the once strong IMF, World Bank, WTO and other global organizations and their free trade ideologies lost credibility and influence in face of the wave of crisis that hit the countries that followed their main prescription. Nationalism, regionalism and national strategic alliances gained more legitimacy.

A neo-developmental strategy has today a focus less centered on productive sector than it happened in the past and is more centered on innovation processes in new technologies through several policies and instruments. But essentially what makes this state developmental is not only the general goal to change the pattern of comparative advantages but the availability of instruments to implement it. Various countries began constructing new development strategies situated between neo-developmental strategy based on “a second catching-up phase” and a passive and integrationist strategy. This third way, a “neo-Keynesian” tries to keep distance on the one hand, from the previous strategy of national development and, on the other, from the pro finance and liberal macroeconomic policy advocated by the Bretton Woods institutions.

Without the particular conditions that support a “high road” that we observed in some Asian countries the State in this third way has less power to induce structural change. The economic and social cohesiveness for this is missing. For different structural and political reasons in major Latin American Countries or East Europe the major private economic groups that in the past were the main benefiters of industrial policy are nowadays much more associate to international commodity chains in asymmetrical regional agreements and in non tradable activities (in case of Mexico or East European countries that took the integrationist strategy) or was fragmented did not survive the radical process of liberalization (in case of Argentina) or have dislocated to sectors based on natural resources and its support activities in services and construction (Brazil or Russia). Of course in these countries there are large segments of national manufacture industry not connected to global chains that have resisted and survived. Nowadays they are exposed to a strong competition from China and need a more active industrial policy but these interests are diffused and less po-

werful to exert a leadership in economic policy and to build a political support for a comprehensive industrial policy. On the other hand, the opportunities to expand investments in natural resources have great enlarged.

Thus, despite the fact that nowadays are more possibilities to recreate a pragmatic strategy to achieve higher rates of growth, only few countries, are building solid developmental strategy based on technological catch-up.

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