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The Political Economy of Emerging Markets and Alternative Development Paths


Edited by Judit Ricz · Tamás Gerőcs



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International Political Economy Series

Series Editor

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Judit Ricz · Tamás Gerócs
Editors

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and Alternative
Development Paths

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*We dedicate this volume to the memory of our great friend and colleague,
Zsuzsánna Biedermann, an outstanding scholar of African political
economy.*

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Introduction: Emerging Market Economies and Alternative Development Paths

Judit Ricz

In the twenty-first century many latecomer and semi-peripheral economies, including countries from Latin America, Sub-Saharan Africa, Southeast Asia and Central and Eastern Europe are embarking on development paths that are fundamentally different from the well-known classical models and are shaped by historical and socio-political conditions peculiar to their modernization experiences. The ways these statist economic systems are organized and coordinated have recently drawn

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much academic interest. However, the emergence and operational logic of contemporary state capitalism still lacks a systematic exploration and explanation (Alami & Dixon, 2020).

The search for alternative development paths is of course not new in modern economic history. To just focus on the most recent period, the search for alternative modernization trajectories has dominated the twentieth century, it has been present at the latest since the independence of many former colonies and the creation of independent states. This has been accompanied by the emergence of development economics (or in wider terms development studies) as a separate subdiscipline, that has considered the state as a central agent in the process of latecomer development, and has opposed the free market-oriented approach of mainstream economic thinking. By the 1970s and 1980s however the post-colonial and post-independence enthusiasm started to wane, along the discouraging development achievements of most of these developing countries. This is the time of the neoliberal counterrevolution has started to gain also ground in development studies, and led to an overall belief in free markets, deregulation and a minimal (nightwatch) state. Accordingly economic policies were paved by Washington consensus-type reforms (Williamson, 1994) dictated by International Financial Institutions (mainly by the World Bank) and the overall Zeitgeist of this period can be best described by the phrase “there is no alternative”.¹

At the latest by the Millennium however new winds started to blow: with the rise of large emerging economies’ (such as China, Brazil and India) weight in the global economy more and more attention was being paid to their state-led economic development, as these latecomers at least initially seemed to succeed and in some measures—such as in terms of real GDP growth rates—started to outpace their Western counterparts. Driven by the commodity boom, and the outstanding growth rates of China,

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¹ The phrase originally goes back to Herbert Spence, the nineteenth-century philosopher, who believed in laissez-faire government and positivism and answered to any critics of capitalism, free markets, and democracy, that “there is no alternative”. This slogan however became associated later with the British Prime Minister Margaret Thatcher and her economic policies, who first mentioned it on 21 May 1980 in a speech at the Conservative Women’s Conference.

generating ever increasing demand for raw materials—which were main export products of many emerging and developing countries, emerging regions of the world have experienced unprecedented growth rates not only in Asia, but even Latin America and Sub-Saharan Africa. Scholars and analysts started to write about a new growth momentum and the triumph of alternative development models (such as the Beijing consensus and even the term Brasilia consensus has emerged). These changes have led to the renaissance of developmentalist thinking and the analysis of hybrid regimes and state capitalism got into the centre of academic debates.

While many of these newly emerging economies have weathered the primary effects of the GFC better than the core of the world economy, their “honeymoon” period was short. The exhaustion of the commodity boom, the deceleration of China and changing global economic context (or the secondary impacts of the GFC) have led to the exhaustion of most of these “growth miracles” of the 2000s.

The post-crisis period of the following decade, the 2010s seems to be again dominated by the search for alternative growth and development models, often paved and driven by social unrest and political instabilities, and complicated by the new Cold War, the global coronavirus pandemic and its consequences, as well as more recently by the myriad impacts of the Russian war in Ukraine.

For the sake of being comprehensive, we must admit, that many of these challenges are not unique to emerging and semi-peripheral economies, but countries at the core of the world economy are also facing new and pressing challenges, as the modern capitalist system got under severe pressure as well. Going beyond economic growth and incorporating human and ecological aspects into development, the current capitalist trajectories are not sustainable on the global scale, and the COVID-19 pandemic and the impacts of the climate change are the most recent visible signs of these anomalies. In this edited volume however we focus on the emerging and (semi-)peripheral economies for at least two reasons: first, their fundamentally different structural characteristics and asymmetrical integration into the world economy makes them more vulnerable to current development challenges, than their Western counterparts; and second, existing theoretical frameworks constructed to analyse core economies, often neglect the specificities of the (semi-)periphery.

All in all, we argue that consensus seems to emerge, that the GFC has represented a critical juncture in terms of both economic policies and

in related mainstream economic thinking (though many signs—especially outside the core economies—predate the GFC and have been present at the latest since the Asian Financial Crisis). The previously reigning neoliberal coherence (marked by the Washington Consensus and the “one-size-fits-all” principle in economic policy-making) has been replaced with “productive incoherence” (Gabel, 2011, 2018) referring to a new era characterized by newly emerging global (regional) powers and alternative development trajectories. This trend has been reinforced by more recent changes in the global political economy, such as the US–China trade war—potentially leading to a second Cold War (see Wade in this volume), followed first by the COVID-19 pandemic and then by the prolonged Russian war in Ukraine and their drastic human, economic and political consequences.

THEORETICAL FRAMEWORK(S) TO ANALYSE EMERGING MARKETS’ VARIETIES OF CAPITALISM

Two important tendencies have dominated the last decade(s) (at the latest since the 2008–2009 Global Financial Crisis) in the global political economy scene: state involvement in the economy has been on the rise worldwide and democracy has been backsliding globally. We are living in interesting times, where hybrid regimes and alternative development trajectories emerge and require systematic analysis, potentially even new analytical frameworks.

In international political economy there are basically two distinct, yet existing theoretical approaches, upon which one can build to analyse these diverse development trajectories: either from the perspective of state involvement, or from the point of view of firms. The emergence of both theoretical perspectives predates the most recent statist cycle, yet these can be helpful to analyse and better understand contemporary (illiberal, atypical or alternative) development processes. The first, state-centric approach goes back to the East Asian miracle and emerged as one of its explanations: the developmental state (DS) school. This has argued that beyond the growth-with-equity paths of East Asian economies (especially Japan, South Korea, Taiwan and Singapore) a unique institutional construct played a central role, along some other prerequisites related to external context and internal state capacity and autonomy (see our previous volume Geröcs & Ricz, 2021; Csáki, in this volume).

While these East Asian economies were undoubtedly the most striking success stories of economic catching up, examples of statist development are not so rare, as statist and more liberal policy cycles have iterated during the modern economic history (see Nölke, 2014).

Currently we can witness the third wave of state capitalism, which started around the late 90s and early 2000s in emerging economies (such as China, Brazil and India), and differs significantly from its earlier versions. First it is a much more multifaceted institutional construct based “on a variety of formal and informal cooperative relationships between various public authorities and individual companies” (ibid, p. 3), revealing a new pattern of business–government relations. Second, by being integrated into an intensively globalized world economic system, the strategic and selective use of inward and outward foreign direct investment became an important instrument of contemporary state capitalists to foster national economic development. As a third distinctive aspect, specific public policies and more general structural issues can be mentioned that closely interlink the state and multinationals in emerging markets. These include changing forms of state ownership and exerted (indirect) state influence, financial support provided by development banks or other state-owned or parastatal institutions (such as pension funds or SWFs), as well as some regulatory measures. While specific structural issues emerge from the rising significance of (formal or informal) interpersonal networks between state officials and private firms, as well as the meddling with prices (of strategic inputs, such as energy or even labour), monetary policy issues or international trade and FDI agreements, but even the strategic use of diplomatic tools might be mentioned.

From a developmental perspective, we can sum up by claiming that successful latecomers have always more heavily relied on the state in driving their modernization than the first industrializer Great Britain, or the US. The need to catch up with these more advanced liberal economies has led to a more organized and coordinated version of (state) capitalist system, with however important national varieties depending on historical, institutional and other factors, such as the timing and mode of integration into the world economy. This argumentation goes back to Gerschenkron (1962), however taking into account strong institutional path dependences it is even more strikingly valid for the last generation of state capitalists (the late-latecomers, such as Turkey, Hungary, Poland, Belarus—see the respective case studies in this volume) and the large emerging economies Brazil, India or China).

Simultaneously with this most recent shift in economic policy practices, the economic and developmental role of the state has been brought back to the centre of economic debates and one can witness the renaissance of developmental state approach in economics (Haggard, 2019; Mazzucato, 2013; Thurbon, 2016; Wade, 2014; Williams, 2014; Wylde, 2017).

The other existing theoretical perspective upon which one can rely when aiming at analysing contemporary state capitalism, is the firm-centred one, the so-called comparative capitalism research and especially the Varieties of Capitalism (VoC) school. More than twenty years have passed since the seminal work of Hall and Soskice (2001) on Varieties of Capitalism, who initially aimed at criticizing the prevailing state-centred approaches of the 1970s and 1980s for putting too much emphasis on the capacity of state actors in influencing economic outcomes and development. Their basic argument was that in the context of economic openness and globalization a firm-centred perspective is much more relevant to differentiate between different (developed) market economy models. While the DS school emerged to explain the outstanding growth (development) performance of the East Asian economies, the VoC theories emerged to explain institutional differences among the developed Western economies, and the analysis of developmental outcomes and prospects, was—at least initially—out of the scope of analysis.

Within VoC school extensive literature has emerged during the last decades, which can be structured into three (possibly four) generations. The first, the classical school of VoC, mostly relates to Hall and Soskice's work (see also Amable, 2003) and the differentiation of liberal market economies (LME) (e.g., the US, UK, Canada, Australia, New Zealand, Ireland) and coordinated market economies (CME) (e.g., Germany, Japan, Sweden, Austria). The second generation, mostly labelled as post-VoC literature aimed at developing further types of capitalist models, still focusing on the core and strongly related regions or groups of countries (the semi-periphery). In this regard, the dependent market economy model (Nölke & Vliegenthart, 2009) can be highlighted, but also the works of Beáta Farkas (2016), or Dorothee Bohle and Béla Greskovits (2007, 2012), who analysed Central and Eastern European (CEE) countries within this framework. The third generation, called critical comparative capitalism (CC) research, aimed to incorporate more critical, global approaches and to reflect upon post-GFC emerging issues such as international economic integration (e.g., the Eurozone crisis) and tried to also incorporate the demand side of analysis (see e.g., Ebenau

et al., 2015; Nölke et al., 2019). While there is no strict dividing line between these different generations, we mention the hierarchical market economy model of Ben Ross Schneider (2009, 2013) and the state-permeated market economy variant (Nölke et al., 2019) here, not on chronological or regional basis, but rather because of their extension of the classical analytical framework. Finally a fourth generation of VoC research seems currently to emerge, as more and more Authors and works indicate that comparative capitalism research has recently (during the last few years) moved towards intertemporal (instead of international) comparisons attempting to define and characterize historical phases rather than simply building valid models for certain countries or world regions.

For the sake of the focus of this edited volume, the third generation of VoC research is the most relevant, as it explicitly aims at including emerging economies and extending the theoretical framework. Consequently the questions related to growth prospect and developmental outcomes (economic catching up and upgrading) became part of the analytical focus of most studies. Especially by accounting not only for positive, but also for negative institutional complementarities the topic of middle-income trap became a central problematic in this extended theoretical framework (see also Mickiewicz in this volume).

Most recent works such as the Special Issue in *New Political Economy* (Schedelik et al., 2020) and another one, published in the *Review of International Political Economy* (Bruszt & Langbein, 2020) perfectly illustrate the renaissance of a (renewed) VoC research. accordingly contemporary VoC research explicitly aims to be relevant for the analysis of emerging markets and aims at extending the classical theoretical framework to be able to describe emerging markets' varieties of capitalism, with more or less success. The latter, Bruszt and Langbein's approach especially stands out with its intention to incorporate into their extended VoC research framework the relevant insights of the DS school.

This is especially, what our edited volume also intends to emphasize: namely, in order to better reflect and analyse the specificities of emerging markets' development (and to account both for success and failure) insights of both the statist and the firm-centric perspectives should be accounted for, as only the combination of the DS and VoC perspectives can lead to a better understanding of their unique development trajectories (see also Geröcs, 2022).

Finally, our approach is multidisciplinary as we draw on different theoretical perspectives, also reflecting the scholarly diversity of the Authors

and our different disciplinary backgrounds. This is not to say, however, that this volume lacks internal coherence or relevant contributions to ongoing academic debates. On the contrary, each chapter seeks to provide critical insights on contemporary development models and trajectories by challenging conventional thinking or superficial observations and oft-held, yet potentially misleading presumptions.

THE AIM, APPROACH AND STRUCTURE OF THE VOLUME

As we have shown the scope of both the developmental state school and of comparative capitalism research has been extended recently to include the analysis of emerging economies outside the core of the world economy, and to make also intertemporal comparisons possible (such as to define and characterize historical waves of state capitalism). Still, we are convinced that to better understand the current wave of state capitalism and to explore its national varieties there is a need to critically reconsider existing theoretical approaches and methodologies, and even to search for new ones, if necessary. This volume aims to contribute to this recent research endeavour, by providing interesting theoretical and empirical analysis on emerging market's varieties of capitalism.

While the People's Republic of China is often framed as the vanguard of the contemporary state capitalist wave, the Chinese example constitutes only one of many exciting cases in which semi-peripheral economies search their own alternative paths to steady growth and sustainable development. From the role played by national champions in emerging markets, the heightened pressure towards active industrial and social policies, the thorny questions of economic populism to the myriad changes taking place in multilateral institutions, this volume aims to bring together studies eager to showcase high quality research that explores emerging market economy practices and policies in empirically diverse and analytically exciting ways from Asia and Africa to Central and Eastern Europe.

This edited volume aims to be a contribution to the analysis of emerging market economies' alternative development trajectories. We explore the new perspectives on semi-peripheral dependent development since the Global Financial Crisis and especially amidst the new global pandemic, the COVID-19, as well as taking into account the Russian aggression in Ukraine and the global and regional consequences of the prolonged war.

At the same time this book is the third volume in a row, as it is the continuation of our mutual research at the Institute of World Economy (Centre for Economic and Regional Studies in Budapest, Hungary) on economic and developmental policy-making in the global semi-periphery in the post-crisis cycle. See also our two recently published volumes titled ‘Market-Liberalism and Economic Patriotism in Capitalist Systems’ edited by Gerócs and Szanyi (2019) and ‘The Post-Crisis Developmental State – Perspectives from the Global Periphery’ edited by Gerócs and Ricz (2021).

With all this said, the novelty of this book is twofold: on the one hand this volume aims to contribute to a better understanding of emerging markets’ varieties of capitalism from the point of view of semi-peripheral dependent development. As with the fading relevance of static equilibrium models, new scholarship is increasingly focusing on the dynamics of capitalist development and its historical conditions, while re-opening old debates about the system’s expansionary nature, specific vulnerabilities, destructive and irrational tendencies, and recurrent crises. Related, a consensus emerges that the new dynamics cannot be grasped by focusing solely on advanced capitalism (and relying on analytical frameworks and tools fabricated to analyse advanced economies), because it consists precisely in the transformation of the conflicts, compromises, and hierarchies between the centre, periphery and semi-periphery with the possible emergence of a new hegemony.

On the other hand, the volume collects case studies from various (often underresearched) emerging economies aiming at enriching discussions about alternative development trajectories by expanding thematic and regional focus of both the Developmental State and Varieties of Capitalism schools.

Accordingly, the chapters throughout this volume apply the critical political economy approach, while bringing together a great variety of contemporary state-led developmental experiments in order to reconsider classical approaches of comparative capitalism research in general, and especially the conventional arguments of the middle-income trap literature. For this purpose, the volume aims to contribute to a better understanding of the emerging markets’ varieties of capitalism and to open new perspectives on latecomer and dependent semi-peripheral development in the post-crisis cycle, while critically engaging with existing theories and contributing to related international debates.

As presented in this introduction the chapters throughout this volume endorse the employment of multiple perspectives (critical political economy, comparative capitalism research, middle-income trap scholarship) and methodologies by its contributors. It considers this plurality of approaches fruitful when it comes to developing a complex research agenda in the broader field of contemporary state capitalism (the role of the State in Varieties of Capitalism—SVOC). The overall coherence of the volume is ensured by fact that each contributor addresses the questions and challenges of state-led development in latecomer emerging economies and with main focus on the post-crisis cycle.

Finally, the first three chapters (following this introductory chapter) deal with topics inherently linked to the global context and theoretical framework of latecomer development. Chapter 2, written by Robert H. Wade deals with changes and challenges on the global level, namely the new Cold War between the US and China (plus Russia) and the consequences for the global economy (and hierarchy), inherently paving the way for the possibilities of alternative development trajectories. Tomasz Mickiewicz in Chapter 3 also frames emerging market's varieties of (state) capitalism by focusing on middle-income trap (MIT) and the need to reconsider it. His main added value to this extensive literature is the argument that it is not only economic policies and institutions that matter for development, but political ones as well, and it is not only in the later stages when politics matters (contrasting conventional views of first development and then democracy), but slight differences in political institutions in the early phase of development might lead to significantly different development trajectories at the later stages. The last theory-oriented chapter (Chapter 4), written by István Benczes focuses on the populism and/or developmentalism dichotomy in the twenty-first century. It concludes that in contrast to historical examples, recent populist experiences (especially in Central Eastern Europe) are not resulting in the rise of a new alternative (economic) paradigm to neoliberalism, while at the same time these are not resembling successful historical cases of state-led developmentalism either. Consequently, in many contemporary state capitalist regimes, developmentalist discourse merely serves to hide wildlings of these illiberal regimes.

The following chapters rely on this conceptual background and provide empirical evidence, yet these also enrich theoretical insights with further interesting topics, such as the role of rents, state ownership and industrial policies. Empirical evidence is based on the Global East and South. More

concretely Chapters 5 to 9, focus on the European periphery or as we call it Emerging Europe, by looking at the role of state-owned enterprises, the manufacturing sector, various types of rents and the specificities of the Belarusian and Turkish state capitalism.

The last part of the book consists of four chapters (inclusive of the concluding chapter), and enriches the volume with thematic and regional perspectives, such as educational developmentalism in East Asia, the role of public finance and social transfers (in Poland and Turkey) and the need to reconsider emergism, as an ideology in the African context (the case of Zimbabwe). The final chapter summarizes similarities and differences of emerging market economies' alternative development trajectories, explores new perspectives on latecomer development in the post-crises cycle and concludes.

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Conflict Between Great Powers Is Back with Vengeance: The New Cold War Between the US and China Plus Russia

Robert H. Wade

Russia's invasion of Ukraine, February 2022, has prompted much talk of the dangers of a third world war. But in many ways the current situation looks more like a return of the old cold war—the long four-decade period (1947 to 1991) of geopolitical tension between the US and the Soviet Union, backed by allies in west and east. It was called 'cold war' because neither side declared war on the other, knowing that was the route to 'mutual assured destruction'; they fought each other through proxy wars (for example, Korea and Vietnam) and propped up despots and insurgents.

The current situation could be understood as the second stage of a single broad conflict, with a 'globalization' intermission of thirty years.

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As in stage one, the US is once again leading a western alliance against a Russia–China axis. Again, the leaders avoid direct fighting for fear of mutual assured destruction through nuclear weapons. Again, both sides court a large bloc of ‘non-aligned states’, sometimes called ‘the global South’ (Rachman, 2022).

But there are also major differences between our cold war and the first. Above all, China is clearly challenging the US’s long-established position of regional and international hegemony, in a way that Russia never did; this, even though China’s average income remains far below that of the US (a quarter to a third). From its side, the US government sees China and Russia as partners in a direct challenge to the ‘rules-based global order’ designed and upheld by the US and allies. The war in Ukraine is the current battlefield for this challenge.¹ The US government and NATO see the Ukraine war as not just about the security of Europe but about the wider global order. So, the second cold war moves us towards the Thucydides Trap, a hot war when a challenger state threatens to displace an existing state as the international or regional hegemon.

A second difference is that the second cold war is occurring in a situation of much greater global upheaval and tension than the first. The issues include climate chaos, artificial intelligence, pandemics, threat of major war, mass migration, food shortages, energy shortages, inflation, soaring economic insecurity and inequality, political polarization or fragmentation across western polities; and a general weakness of international solidarity in acting for the global collective good, dramatically exposed by the way that rich countries hogged COVID-19 vaccines and by the failure of debt relief proposals made by the G20 group of large economies (Ahuja, 2022; Wade, 2020a, 2020b).

A third difference is that the US–Soviet cold war was between basically different types of economic systems, whereas the current one involves two kinds of capitalist systems between which are deep economic interdependencies. If the name of the game in the first cold war was ‘mutual assured *destruction*’ (MAD), respect for which kept it cold, the name of the game this time is ‘mutual assured *disruption*’ (MAD2); with the crucial qualification that the disruption threat is limited by ‘mutual assured *dependence*’ (MAD3), on account of the dense economic interdependencies across the divide.

¹ Mitchell et al. (2022) argue that Beijing’s support for Russia in Ukraine is a lot less than the rhetoric suggests.

The US, EU, China, and Russia are each emphasizing ‘strategic autonomy’, ‘re-shoring’ or ‘friend-shoring’ of supply chains. Companies of all sizes are looking for ways to localize more production where their customers are, and to build redundancy into their supply chains (less priority to ‘just-in-time’ and more to ‘just-in-case’). But so far this does not amount to ‘deglobalization’. Global merchandise trade as a share of GDP is currently only a little below its historic high of 26% in 2010, compared to 10% in 1980.

The element of conflict is more evident in the way that some governments are ‘weaponizing’ their control of assets vital to other economies. And some governments are exploiting other economies’ digital vulnerabilities through cyberwar—in power plants, pipelines, railways, sanitation, hospitals, chemical refineries, banks, cell-phone networks, water treatment plants, election infrastructure, medical records, and much more.

GEOPOLITICS IS BACK, BUT IT’S IN THE ECONOMY

Retired military officers who earlier—during the post-first-cold-war ‘globalization era’ when the world economy operated on western rules with little challenge—might have retired to a quiet life on the golf course are now employed on boards of multinational companies.

If the biggest open question about this second cold war is, ‘will it tip into the third world war?’, the next biggest is, ‘can the deep integration between China, Russia and the west survive the intensification of super-power rivalries?’ Pierre-Olivier Gourinchas, chief economist of the IMF, is doubtful. He warns of the world splitting into ‘distinct blocs with different ideologies, political systems, technology standards, cross-border payments and trade systems, and reserve currencies’ (quoted in Bounds, 2022).

This essay describes the current state of cold war play in several domains of economics and technology: trade, capital markets, high-tech, and cyberwar. But first, more on the main players, the US and China.

UNITED STATES

The US remains the global hegemon, though diminished. The biggest danger to its hegemony is as much the Republican Party as China.

The US advantage starts with size, geography, and geology. It has the third largest population. It is surrounded by oceans and just two

neighbours, both of whom are likely to remain friendly. It has abundant fossil energy in the form of shale gas, and—with renewable energy—may become self-sufficient within the next decade, while China continues to depend heavily on energy imports from the Middle East via the contested South China Sea.

If we take a country's population times its average income as a rough indicator of 'structural' power (as distinct from 'instrumental' power), the US's structural power remains well ahead of China's, about 1.5 times.

The US dollar is another source of structural power. James Rickards says 'America's most powerful weapon of war does not shoot, fly or explode. It's not a submarine, plane, tank or laser. America's most powerful strategic weapon today is the dollar. The US uses the dollar strategically to reward friends and punish enemies' (2022). Around 60% of the foreign reserves held by the world's governments are in US dollars, compared with 2% in renminbi. The US controls not only the dollar itself; it also controls the dollar payment system. A dollar payment from a bank in Shanghai to another bank in Sydney runs through one of the US-controlled payments systems. The US government can cut off these payments more or less at will. China, Russia, Iran, and others are working to escape 'dollar hegemony' and implement non-dollar transactional currencies and independent payments systems; so far with limited success.

The US remains by several measures the most profitable and most innovative country in the world. With the world economy divided into 25 sectors (such as heavy machinery, electronics, aerospace, financial services, health care, pharma, media), US firms had the highest share of global profits in 18 out of 25 sectors (72%) in 2006 and in 2017, including in the most high-tech sectors (Starrs, forthcoming, based on *Forbes Global 2000*). China is the only developing country with even a toehold in the global distribution of profits in more than a few sectors (but India does relatively well in software).

The US has by far the biggest share of world high-tech exports (using the OECD definition): in 2018, 32%, against China's 21% and EU27's 19% (Schuller & Schuler-Zhou, 2020).

War remains a large part of the American identity (though less so than for Russians). The US spends almost a sixth of the federal budget on 'defence', keeps troops in 750 foreign military bases around the world including many within easy strike range of China and Russia, and engages in 'counterterrorism' missions in 85 countries. Its record of non-kinetic