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### RESEARCH ARTICLE

#### THE DEVELOPMENTAL STATE IN LIGHT OF THE LATEST CHANGES: TOWARDS A NEW DEVELOPMENT APPROACH

**Dr. Abdul-Ghani Ali Mansour Al-Sabai**

Founder And Director Of "CLEAR VISION", President Of The "EL" Center For Modern Strategic Studies, Part-Time Professor Of Economics And Business Administration, Adviser To The Presidential Office For Economic And Development Affairs - Republic Of Yemen.

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#### Abstract

In the light of the recent changes of the twenty-first century, our societies on the one hand, and both the world economy and the economy as a social science on the other, face important challenges, which call for model changes, perhaps even new models. First, in the aftermath of the global financial and economic crisis of 2008-9, and most recently because of the COVID-19 pandemic, we can observe various types of active State interventions and increased State involvement to revive economic growth and development throughout the world. This has led to renewed interest in the analysis of the role of the State in economic development in general, and to the renaissance of the State's developmental approach and the theories of the development system in particular. This article aims to critically review and synthesize the latest literature on States and development systems. Based on the theoretical and practical experiences of development States over more than half a century, and taking into account the recent changes of the twenty-first century, we share critically with the relevant literature and aim at weaving a new account of the complex issues of the role of the State in development today. While we argue that the new model of a development State has not yet been penetrated in the literature, we offer some pillars around which consensus seems to have emerged.

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#### Introduction:-

##### Why do we need a new approach to the developmental state

In the aftermath of the 2008-2009 global financial crisis, and even more evident than the spread of the Corona pandemic (COVID-19) since early 2020, we are witnessing an upsurge in state activity around the world. In contrast to these renewed trends of state activity in the more advanced economies, the new development experiences in the peripheral countries (in the emerging countries and the less developed countries) to promote the catch-up with the leadership of the state started earlier, and can go back to the first decade of the new millennium. Thus, it is undoubtedly true that the economic and developmental role of the state has been brought back to the center of political and academic debates. In conjunction with this shift in the practice of economic policy-making, we can witness the renaissance of the state development literature and the theory of the development system in the economy. This article argues that this new branch of literature is not a revival of the old or classical model of

**Corresponding Author:- Dr. Abdul-Ghani Ali Mansour Al-Sabai**

Address:- Founder And Director Of "CLEAR VISION", President Of The "EL" Center For Modern Strategic Studies, Part-Time Professor Of Economics And Business Administration, Adviser To The Presidential Office For Economic And Development Affairs - Republic Of Yemen.

developmental states (Woo-Cumings, 1999), but that a new conception of the developmental state is emerging. Although it is recognized that the latest literature on development states and systems represents an eclectic body of work, the new paradigm of development states in the twenty-first century has not yet been penetrated.

The starting point for our analysis is the argument that by the end of the last century, with changes in the specific (and unique) context of successful development states (Northern Asia), the downfall of the classical development-state model was a comprehensive and thus inevitable phenomenon (Beeson, 2004; Haggard, 2019; Ricz, 2019; Williams, 2014). Therefore, in the twenty-first century, we must transcend the geographical and temporal limits of the classical model, and we must delve deeper into its inclusion in modern economic theories<sup>1</sup>. We must also leave behind the ideological-laden debates (contrasting the revisionist school<sup>2</sup>, neoliberal, IFI-backed) that characterized the old state development approach and its demise (Stubbs, 2009; Wade, 2018). At the same time, we do not aim to build a new development case model that can be applied or simulated without restrictions, since we are convinced that development strategies are specific to the environment, and that they are valid only in their own context in time and space (Fuso, 2013a, 2013b).

Building on the theoretical and practical experiences of development states over more than half a century and taking into account the most recent changes, this article provides a new account of the complex issues related to the state's role in development today. While we stress that the latest literature on countries and development systems represents a group of advanced works, and that the modern model of development countries in the twenty-first century has not yet penetrated. Thus, we reveal some of the differences and commonalities between the old and modern developmental state model, and define the guiding principles for the concept of the developmental state in light of the latest changes of the twenty-first century, which will constitute a more appropriate approach for countries on the way to transforming from developing countries to developed countries in today's world.

Undoubtedly, this provides a fertile ground to actively participate in the intense international debates concerning development states in the twenty-first century.

The elements of the new narrative of the developmental state are contained in this article in three main parts. After this introduction, the first main part presents the most important characteristics of the new concept of the developmental state based on three main points: first, we clarify the new interpretation of the developmental states, then we present the new context shaped by the latest changes, and finally we lay out the new analytical structure of the developmental states. The second main part sets out the guiding principles for the new concept of the developmental state, while we review the most important points, which relate to the consensus that appears in the economic literature. Thus, we analyze the requirements of development countries in light of the latest changes, at the level of social and economic alliances and political settlements; the level of institutions and policy-making; and, last but not least, at the level of economic policies. The last part concludes.

#### **Characteristics of the new concept of the developmental state:-**

##### **The new context of developing countries requires a new approach**

The need to rethink the analytic concept of development states can be checked on the one hand with the fall of the traditional model of the DS development state, and on the other hand with the emergence of recent changes, presenting new challenges for the twenty-first century (possibilities and limits) for governments to formulate and achieve their main social and economic development goals.

To review the classic DS concept of development there are two main direct methods: first, relying on the synthesis of the most recent theoretical results (the inferential method); and second, to "simplify" the most recent experiences of countries or groups of countries that have been revealed as development success and to consider their economic policy practices (inductive approach).

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<sup>1</sup>See Evans (Evans, 2010, 2014)

<sup>2</sup>In the twentieth century the proponents of Johnson and the authors of the classic developmental state school were called revisionists, or revisionists, who extended the original Japanese developmental state model and applied it to other countries, first in East Asia and later also outside that region.

The theoretical starting point is the new capacity-based development paradigm (Sen, 1999) that is embedded in new development economics theories, but also in modern growth theories as well as in the new political economy and the new institutional economic school<sup>3</sup>.

While it comes to another way to review the concept of the DS, the latest development experience, the “Experiences of East Asian Countries” – is not only in the Northeast, but also or more so in the countries of Southeast Asia.

Also, the special development paths of China and India (Hua & Hu, 2015; Raquiza, 2012) may offer some lessons.

As well as the latest development experiences in Latin America (Ricz, 2017; Schneider, 2015; Wylde, 2012, 2017). The experiences of some rapidly growing sub-Saharan African economies should be taken (Clapham, 2017; Biedermann, 2016; Hope, 2019; Ikpe, 2018, 2020; Routley, 2014). Peers (such as Egypt and Tunisia) should be taken into account, while even recent state models in Turkey and Iran, or even the non-developmental experience of the two countries of Yemen, can provide useful lessons for country case studies<sup>4</sup>.

Here we mainly rely on the 'first' option, and only the 'second' option is included in the form of the recent DS literature review summarizing recent developmental experiences<sup>5</sup>

There is no doubt that methods based on theoretical findings and practical experiences go in the same direction, and their combination may be useful in revising the concept of the developmental state. However, the limits of the topic here stand when analyzing and composing the latest academic literature on developing nations and weaving and presenting a new narrative of the developmental state in light of the recent changes of the twenty-first century.

#### **The new interpretation of the concept of the developmental state:**

In press articles, and in political statements, but also in academic publications, we may often find references to the term developmental state without specifying precisely what the term is intended to, or implicitly used as a synonym or substitute for active state participation.

The classic school of developmental state literature grew out of the concept formulated by Chalmers Johnson (1982) in his book on Japan, and then applied and extended to other countries, particularly the countries of Northeast Asia<sup>6</sup>

As Meredith Wu-Cummings (1999, p. 1) defines, a developmental state is "an acronym for a chain - a web of political, bureaucratic and financial influences, which works to build economic life in capitalist Northeast Asia".

Developmental states of course existed and flourished in other parts of the world also before Johnson's primary work. In Latin America, the (developmental) approach to development has a long and wide historical tradition, and the term developmental state appeared before the 1980s,<sup>7</sup> but this interpretation differed fundamentally from the developmental state model in Northeast Asia. The term developmental state was often used in the twentieth century for a few European countries (such as Ireland, Finland, or even France), and for some emerging countries (such as India or China, but even Brazil or South Africa may be mentioned), while more recently there has been a renaissance of naming. Some fast-growing African countries are described as developing (eg Botswana, Rwanda or Ethiopia)<sup>8</sup>.

<sup>3</sup>For some of the more narrowly focused theoretical foundations, see also the new developmental approach shaped by the work of Bricker (2011; 2015; 2016).

<sup>4</sup>For country case studies see the following, respectively: Kotlai, 2020); Rosa-Zigitvari, 2019, Kornai, 2015)

<sup>5</sup>In addition to the country case studies mentioned above, the following volumes provide wide-ranging insights into practice experiences (Carroll-Jarvis, 2019; Nem Singh-Ovadia, 2019; Geröcs & Szanyi, 2019; volume, 2014; Ricz-Geröcs) Volume Editing on Post-Crisis Development Countries: Perspectives from the Global External Environment by Palgrave Macmillan [in 2021].

<sup>6</sup>Besides Japan, South Korea, Taiwan, Hong Kong and Singapore are also often described as a classic developmental country. The main characteristics of the extended version of the classic model are also valid (with some limitations, of course) for the second generation of the newly industrialized countries of Southeast Asia (such as Malaysia, Thailand, the Philippines and Indonesia)

<sup>7</sup> See (Cardoso and Valito 1979, pp. 143-148); (Soares, 1975) Quoted in (Schneider 1999, p. 278).

<sup>8</sup>(Rutley, 2012: 11-12) provides a good overview of a recently discussed condition as a developmental one.

In this context, we can agree with (Marc Bezon, 2007: 120) who says that "the developmental state has become a general term to describe governments that try to actively 'interfere' in economic processes and direct the course of development, rather than relying on market forces." We can also point to (Laura Routley, 2014: 159), who argues that "the concept of the developmental state often functions as a paradigm less and more as a 'buzzword' with its own uses and effects", while speaking (Ben Fine, 2013). , p. 3) Also on "the buzzword character of the DSP" [the developmental state model].

We are convinced that in order to prevent the misuse of the term "developmental state" and even the "emptying out" of the term developmental state, it is inevitable to redefine or reconsider its meaning in the twenty-first century

We are convinced that the characteristics of the traditional definition of a developmental state according to Johnson (Johnson, 1982, p. 23) are still valid<sup>9</sup>.

Thus the developmental state refers to a rational capitalist plan model, with a long-term commitment to a development-oriented approach, and active state intervention in order to achieve key social and economic goals. It was also added that to build or maintain a developmental state, there is a need for a kind of social consensus and consensus regarding the central role of the state in development, as well as regarding the content of the main socio-economic goals.

The classical developmental state model focused on the special case of the latecomers in development, placing economic transformation and catching up at the top of its priorities, and more precisely in maximizing economic growth. Given the specific and unique context in Northeast Asia, it was somehow realized that economic growth served the welfare of a broad social base, but that the common character of economic growth was initially. At least as an unintended by-product and less as a result of conscious economic policies or political intent - (Jomo, 2006; World Bank, 1993).. Any theory of the developmental state in the twenty-first century must go beyond this old approach that focuses on economic growth, and in light of the concept of Broadly Specific Development, or the so-called Human Capacity Approach (Sen, 1999). While the new models of the developmental state, in addition to the economic dimension, must also focus on (comprehensive) human development (the social dimension), as well as taking into account the political and environmental aspects, spatial development issues, gender and generations.

The classical developmental state concept analyzed the structural transformation of backward economies, which are mainly agricultural economies, in the specific context of backward development and thus focused mainly on the process of industrialization. The new economic transformation dating back to the end of the twentieth century has led to a shift towards the knowledge and services sector, as the main driving forces behind economic growth. The distinct and divergent new service sector (Evans, 2014:229) consists of a well-paid commercial and financial sub-sector that provides employment to a small minority of service-sector workers, and a low-paid—undervalued and under-remunerated—personal services sub-sector. This essentially results in various effects on distribution and welfare, as industrialization did in the twentieth century. One of the most significant consequences is the increase in social inequalities. It is against this background that today we have to go beyond the special cases of underdevelopment and industrialization, and analyze the structural transformation of economies at different stages of development in more general terms.

This broader approach also means that the geographical focus, which was previously focused on (Northeast Asia), will not be exchanged for a new African and emerging country focus, but that the new developmental state concept should also be expanded in its geographical relevance to include all emerging and developing countries aimed at To follow up the process of catch-up led by the state. (In line with the broadening of the development focus as outlined above).

The immaturity of the new developmental state concept can easily be illustrated by the diversity of economic literature and its divergent views. These different classifications of developmental states are often used, emphasizing their motivator, enabling role, or describing them as facilitators. Rather (Mariana Mazzucato, 2013, p. 21) goes further in her book on entrepreneurial countries, drawing from the experiences of the most advanced

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<sup>9</sup>This saying only points to the correctness of the definition, not the model itself, which although empowering the Japanese economic miracle, is at the same time also at the root of Japanese economic struggles over the past quarter century, (Murphy, 2014).

economies, especially the United States, and says that the so-called “hidden developmental state”<sup>10</sup> played a role important and active in its economic successes. In its arguments, the country (the US) has gone too far beyond Keynesy-type macroeconomic interventions, or even passive R&D financing, and has implemented entrepreneurial activities in the Schumpeter context, such as effective override market risk or create new markets. But with regard to these views, we adhere to the special case approach applied to development economics, specifically the need to formulate different policies according to the stages and levels of development, since the same policies that may work within the framework of a developed country may not succeed in less advanced economies<sup>11</sup>.

**Finally**, it can be concluded that the designation of the developmental state is in no way preferred or precisely defined in the twenty-first century, and therefore redefining the term developmental state and reconsidering the concept of the developmental state according to past experiences and future challenges may provide useful lessons for countries with aspirations development in light of the latest changes of the twenty-first century.

#### **The new context shaped by the latest changes:**

Beginning in the second year of 2022 of the third decade of the twenty-first century, we face an ever-changing global context that provides new conditions for state-based experiments. Even in the post-2000 period, fundamental changes have occurred, which may require differentiating between the period before and after the global financial framework, or perhaps addressing the post-2014/16 (or even post-COVID) period separately.

To give one example, since the "new normal" in the global economy in the early 2000s (the so-called short golden decade) meant relatively high rates of economic growth in emerging economies driven primarily by the commodity boom (increasing demand for and increasing prices for primary products), which boosted the performance of exports and incoming foreign direct investment. In the last 5-6 years, by contrast, the "post-new normal" has meant a sharp fall in commodity prices - stabilizing at relatively low levels - accompanied by a slowing Chinese economy and one of the lowest interest rates ever recorded. All of these represent a completely new external context for all actors in the global economy, including the least developed and emerging economies.

#### **A new analytical structure for developing countries;**

Building on recent work, we develop a new analytical framework that can structure thinking about development states and related academic debates in the twenty-first century. To define the main levels of this new structure we rely on Development System Theory (DR) originally developed by Pempel (1998; 1999), then applied by Wylde (2012) to Latin America, and in a slightly modified version by Booth (2015a; 2015b) on experiences current African development. The new development system approach can be structured on three levels, as shown in the following table

Analytical Levels of the New Developmental Regime Concept

<b>Pempel [1998; 1999]</b>	<b>Booth [2015a; 2015b]</b>
1. socio-economic alliances	1. political settlements
2. political, economic institutions	2. process of policy making
3. profile of public policies	3. content of relevant public policies

**Source:** Own construction based on Pempel (1998; 1999) and Booth (2015a; 2015b).

#### **Guidelines for the new concept of the developmental state**

##### **Towards a new concept of the developmental state**

The main elements of the new DS concept for the twenty-first century are often compared to the classic DS model which serves as a base of reference to reveal the most important continuities and changes while laying the foundations for the new DS concept. The starting point remains the new paradigm in the economics of development and development, as the "sustainable human development" approach, which is closely related to democracy, and which is based on the humanity of man and his right to participate in and benefit from development, and the recent structural change of the economy (acquisition of knowledge economy) which leads to becoming Expanding human choices and capabilities is a primary goal and a means of development.

<sup>10</sup>For further discussion of the hidden developmental state, see the original article from Bloc, (2008) or the revised article from (Szalavetz, 2015)

<sup>11</sup>See also (Cornia, 2020)

Accordingly, the new developmental states should give priority to equitable and inclusive (sustainable) social development. Successful "go-to-development countries" need to get rid of a detailed and divergent vision of development. Strategically conflicting which, according to Mazzucato (2013), transcends a commitment to a development-oriented approach and consists of certain (perhaps even sectoral) priorities. However, this development agenda is in an ideal state that is determined by the involvement and consensus of various social and economic actors (interest groups), so as to enable social support and mobilization for its implementation

**Political settlements and socio-economic alliances:**

The main feature of development-oriented political settlements is that they reduce political pressure on governments acting to care for certain interest groups and to apply a short-term view, and thus one of the main characteristics of developmental states is that by building balanced social and economic alliances, these alliances can reduce From the role and share of discretionary expenditures to win the support and loyalty of a particular elite or interest groups and at the same time make it possible for governments to implement a long-term development-oriented approach and implement their long-term development vision.

To build a new legitimate basis for development systems in the twenty-first century, much broader sectors of society must be included. This implies a much more complex task for the new development-oriented governments (compared to their old parties), yet most groups of society share the common interest of expanding human choices and capabilities, and the only task is to raise public awareness of these issues and mobilize support for relevant investment decisions

**policy making process:**

In most of the literature of modern developmental states, consensus seems to emerge that the only lesson that can be drawn from successful development-oriented experiences regarding the policy making process is the primacy of a pragmatic, problem-based and iterative approach.

Building on the experiences of developing and emerging markets, iterative learning is key to good policy choices and an appropriate institutional structure. In this context, a common feature with regard to policy making for "go-to-development countries" is the problem-driven iterative adjustment process (PDIA). Thus, in policy making, a one-size-fits-all approach cannot be applied, and while learning from others' successes and failures in development, one has to look for solutions of their own in light of specific (and perceived) pressing problems and a uniqubureaucracy

The main difference between successful and less successful countries can be traced back to the application of the pragmatic approach to economic reforms, the nature of the reforms and the ability of countries to benefit from market forces. At the same time, there is a major difference in choosing between orthodox or non-orthodox policies, the latter relying on a much broader set of active state interventions, and thus requiring a more capable government with a high-quality public bureaucracy.

In the capacity-to-development approach, the only way to define social and economic development objectives is through the democratic agreement process. Since one of the most important of these human capacities is the ability to choose, the participatory process is not only a 'means', but is also an 'end' of development in itself. At the same time, the participating political institutions must be considered as intermediate institutions that help to elicit and accumulate local knowledge and thus It leads to an institutional learning process through which you can become more effective. To build and run better organizations than other types as well.

**Development-oriented public policy bias:**

We argue that at the level of economic policies, there are sufficient commonalities between countries that succeed in one dimension of development or the other with respect to some drivers of success, in order to formulate some guiding principles for other less successful countries that share some similar characteristics. If we also look at a broader body of academic literature (related to development economics or the middle-income trap ), it appears that there is a certain package of economic policies that can be considered a general compass if they are applied with sufficient flexibility, and are adapted to local conditions and conditions.

**Social policies and raising the level of human capabilities:**

Both the capacity approach to development and the restructuring of the economy lead to an appreciation of the role of human capabilities, as these have become the main driving forces behind development in the twenty-first century. Accordingly, investments in improving human resources and investments in legal (and physical) infrastructure that provide access to information and knowledge gain central importance in development policies and strategies.

Investments in expanding human capabilities tend to remain socially suboptimal due to market logic (because of the difference between social and private returns, higher risk and longer period of return). Public investment is the only reasonable way to reach optimal levels of investment in human capabilities. Thus, we cite this as one of the most important reasons for the existence of the developmental state in the twenty-first century.

**Investments in infrastructure and industrial policies:**

In the case of developing countries, besides the need for human capital development, other infrastructure bottlenecks often constitute important constraints to development. At the same time, private sector actors are often able to obtain returns on public investment, the best example being precisely the case of relatively mobile human capital. To avoid these risks, the solution may be to improve the complementary business environment (through increased public investment), which in turn may lead to increased demand for human capital. According to this logic, it is important to balance human and other more traditional investments (such as physical, economic and legal) in infrastructure in order to improve the business environment and thus provide incentives for the best equipped to survive. An appropriate balance between different infrastructure investments (human, economic, institutional, and physical) may not only reduce incentives to exit human capital, but may also often act as a booster to attract or maintain foreign direct investment (FDI). In an ideal case, it may lead to diversification of economic activities and technological development.

In the case of twentieth-century development nations (at least in its traditional interpretation), industrial policy played a central role. In the latest development approach, industrial policy has returned to the development agenda, but it is easy in the light of the cross-sectional literature (3) to see that this renaissance of industrial policy goes hand in hand with the emergence of a specific scientific, technological and innovative policy on a larger scale. At the same time, it should be noted that, in most cases, the traditional management was not satisfied with financing the investments of sites and equipment. (Physical Infrastructure), but also facilitated the access of companies. It also encourages companies to move towards economic activities that create new knowledge (thus gradually moving up the value chain)

Regarding their industrial structure, developing countries in today's technology-driven global economy cannot thrive without a knowledge-based development strategy, although different focal points are certainly needed in the case of a predominantly underdeveloped agricultural economy, as in a middle-income industrial country. An important consequence of new technologies and recent economic structural change is that certain stages of industrial modernization can today be skipped. At the same time, price changes in the market facilitate gradual step-by-step development, and thus may hinder significant changes in the state of innovations and economic diversification. To make these possible changes, active state interventions are needed, and this is the second argument in favor of why the developmental state exists for the twenty-first century.

The role of the state's "new old" industrial policy is still subject to heavy academic debate in economics. The authors of the recent DS developmental state literature mostly argue for a proactive and entrepreneurial state and mostly oppose the prevailing traditional view, which has a more sector-neutral stance, and favors an improvement in the public business environment and institutional infrastructure to attract producers. Private capital and reduce the risks of out-migration of human capital (funded by the state).

In contrast to these prevailing views, "industrialists" assert that in times of a knowledge economy, the state should make active industrial policy interventions to promote job creation and innovative risky activities that the private sector does not, in their reasoning, the state should go beyond financing (long-term, committed to "patience") for basic and applied research (activities that are accepted and highlighted by lay economists).

**Development Finance:**

Development finance used to be a nerve point in the classic development country literature, since in the case of the classic DS development country of Northeast Asia there is a very specific and unique context (financial

development aid from the United States and Japan, traditionally high domestic savings rates, regulations (Relatively closed economies, repressed domestic financial markets) contributed to the fiscal viability of the national development model, the financial difficulties (not least indicated by the debt crisis of the 1980s) of the development experiences of Latin American counterparts in the last century provide a contrast.

And taking into account the current stage of financial globalization and the recent experiences of global financial (and economic) crises, we can say that the DS developmental state. In the twenty-first century it has much narrower room for maneuver to fund its (much wider) economic growth (development), as their classical predecessors did in the middle of the last century. In our financially globalized global economy, securing macroeconomic stability becomes pivotal, as a strong macroeconomic position may build good business confidence and thus encourage investors and attract foreign direct investment. Although today's developing countries may also rely on external sources (along with foreign direct investment, foreign aid and credit) while implementing their development strategies, in the short term and only temporarily, in the long run a more balanced development budget and a role that cannot be overemphasized is required. Estimating local resources. Incentives for domestic savings, rationalization of government spending, and the national tax system, as well as the capacity of the government to collect those taxes, are fundamental to development.

### **Heading outward;**

In the third decade of the twenty-first century, it has become clear that outward-oriented development strategies are superior to any other unrelated national economic strategies. The experiences of the classical developmental countries (Northeast Asia) have also demonstrated the benefits of an outward-oriented development strategy for long-term economic growth and development. In the classical cases, export orientation tacitly assumed that bureaucratic guidelines were compatible with international market forces, and thus, taking into account and relying on international market incentives was at the heart of the classic DS model of development.

However, in the third decade of the twenty-first century, we have to go beyond formulating outward-oriented economic strategy, and in order to achieve export-driven economic growth, the role and upgrading of domestic enterprises is inevitable. Phrases of outward orientation must go hand in hand with increased competition in the local market and local institutional capacity building (improving macroeconomic stability and strengthening institutional and human infrastructure). In light of the latest global financial and economic crises, economic diversification (not only in terms of export products but also in export markets) is not only important for long-term economic growth, but plays an important role in securing economic stability (or in other words). to reduce economic vulnerability). External orientation (and economic diversification) complements (and does not replace) the development of the domestic market. Most recent experiences of successful large emerging markets (eg China) emphasize the need for this complementary approach, while some of the less successful cases (eg Brazil) provide a cautionary tale.

### **Public Sector Reform;**

The social changes in the twentieth century, globalization and the consequential changes in domestic politics led to an appreciation of the role of the capabilities and efficiency of political institutions in setting development goals effectively. This not only assumes a new type. A bottom-up relationship between the state and society, but also focuses on the role of information dissemination, collection and processing, and also appreciates the capabilities and competence of the public sector to fulfill these new tasks. Merit, well-educated, efficient, well-paid bureaucracy, and of relatively isolated (but still ingrained) political power was a central component of the classical model of DS. In the new DS developmental state approach, not only technocratic qualities are required, but also, more political qualities are inevitable on the one hand to collect, examine and process information in the knowledge economy and society, and on the other hand also to define collective goals in a participatory and consultative manner and to reorganize relations with Business and civil sector.

In the current economic dynamics of a globalized world economy and lagging capital production gains for some interest groups (such as the most competitive parts of domestic and transnational capital) far outweighing the rewards for the less fortunate (the least competitive parts of capital and labour), this poses important challenges. Regarding the classical (ideal) relations between state and capital as is known from the classical developmental models of the state - it is called autonomy. The call here comes to strip the independence of public bureaucracies (and more broadly development institutions) to rebuild and reshape the developmental states in the twenty-first century.

**Finally**

We would like to stress once again that all these factors mentioned must be considered as complex, a mixture of policies, and that transition, (just choosing this or that) will not lead to an appropriate outcome. To be clear we can mention for example with respect to the last mentioned factor, that a capable and coherent bureaucracy is necessary but not sufficient to build successful development countries in the twenty-first century. In this context, we summarize by saying that a special mix of economic policy can be identified to build a new development agenda in the twenty-first century, and this includes at least investments in expanding human capabilities, which are broadly defined transformative social policies (including investments in education and health services and reforms labor market), public sector reforms as well as stable macroeconomic management and industrial policies (including science, technology and innovation), but also extends to trade and tax issues.

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