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Globalization and the Transformation of East Asian Developmental States

Ahn Seung-gook

INTRODUCTION

In the 1990s, East Asian counties including Korea, Taiwan, Thailand, Malaysia, and Singapore were forced to meet the challenges of transition, and especially critical was how they would deal with globalization. Regardless of strategies that an individual country employed to address such an important task, the fundamental aim for all states was to readjust and modify the role of the state. The neo-mercantile developmental state model, the locomotive behind the phenomenal growth of the past four decades, had lost most of its efficiency, with the globalization of products, services and capital evolving around the market, not around the state. State policy had become less effective and more problematic even in the domestic domain. Against this backdrop, East Asian countries were in dire need of a new state model that focused on curtailing excessive intervention of a state and, instead, promoting economic dynamism and economic equality. Increasing accessibility of businesses to the international capital market significantly reduced their financial dependence on the state. With easier access to international capital, businesses and global markets refused state intervention. The increasing movement of international capital posed a serious challenge to the role of the developmental state, which necessitated a change in the state model that had traditionally controlled the market through its ability to allocate funds. As the market increasingly depended on the international financial market, through capital replacement, however, the market no longer had to obey the state. At the same time, authoritarian governments made way for democratically elected officials, calling for changes in the old developmental state model.

Yet, rising international capital inflow also required the state's supervisory role. In the volatile international capital market, the state had to properly monitor capital movement. In the globalizing world, economic growth depends on deregulation, free trade and attraction of foreign capital. From the early 1990s, the driver for growth shifted from state financing to international capital, which streamlined the liberalization and deregulation process in the domestic market. In an effort to address the issue of foreign debt and to attract investment, developing countries accepted the free market's role of allocating economic resources and voluntarily joined the World Trade Organization.

Globalization not only stresses the importance of a self-regulatory market, it also guarantees the right to participate in the global market. The central question of this paper is whether the role of East Asian states has been successfully replaced by the self-regulatory market. It appears that East Asian countries have a more flexible state role than in the old state model, which retains some characteristics of a developmental model. Therefore, the study will also discuss how the state's role must evolve in order to achieve development in the globalization era.

For this, the paper first looks at the changes taking place in terms of the role of East Asian states. First, there is a discussion on the developmental state, which leads to discussion of globalization's influence on developmental states. Second, this study proposes a flexible developmental state modified from the traditional model. Third, options are presented for East Asian countries: a neo-liberalistic regulatory state or a flexible developmental state.

THEORIES ON THE DEVELOPMENTAL STATE

Developmental State and Industrial Policy

The term “developmental state” refers to a state that plays a critical role in economic development through planning and organization based on strategic targets. In this context, developmental states can be defined as follows[1]: First, East Asian developmental states found priority in economic development in which the key goals were growth, productivity and competition. Second, in pursuit of economic success, the state aggressively intervened in the market, guiding and controlled it and the private sector by the strategic allocation of resources. Third, behind the success of the state’s strategic intervention lay an efficient and rational bureaucracy. Bureaucratic autonomy free from social pressure, in particular, didn’t result in rent-seeking or looting.

Studies on the developmental state burgeoned after state intervention was widely acknowledged in the 1980s as a main force behind the economic success and rapid industrialization of East Asian countries.[2] Chalmers Johnson pioneered studies on the

1) The foundation of East Asian developmental states are: the presence of centralized state and bureaucracy; overdeveloped state under the Cold War structure; vulnerability of capitalists and workers and weakening of landlords caused by land reforms. A developmental state is based on Weberian bureaucratic organization, which is characterized by hierarchical organization, specialized job responsibilities, merit-based hiring, performance-based promotion, rule of law and occupational officials.

2) The theory of a developmental state is a second-generation theory that explains economic development in East Asia. The first-generation theory, presented by neo-

developmental state,[3] examining the keys to phenomenal growth of East Asian economies based on his capitalist developmental state concept. The developmental state's foremost goals were growth, productivity and competitiveness, culminating in economic development that employed strategic industrial policy to realize the goal. The developmental state offered financing, planning, production and allocation. In particular, the developmental state led while the market followed, a concept consistent with the one followed by post-war Japan. Johnson's study criticized the neoclassical political economy under which state intervention invariably resulted in inefficiency and led to rent-seeking and corruption, and presented a new state concept.

In another study, Alice H. Amsden and Robert Wade analyzed the characteristics and impact of economic performance of industrial policy.[4] Amsden pointed out that performance-based subsidies played a significant role in late industrialization. State intervention in East Asia was focused on price controls in an attempt to funnel into economic activities on investment. Industrial policy also meant state control over businesses. Since the state offered businesses subsidies based on performance, price distortions could be minimized, and resources efficiently distributed and utilized.[5] This

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classical economists and the World Bank, emphasized that dynamic economic development of East Asia was possible because of *laissez-faire* and open economy and that state intervention itself complies with market principles. For the first generation theory, refer to Bela Balassa, *The Newly Industrializing Countries in the World Economy* (New York: Pergamon, 1981).

3) Chalmers Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975* (Stanford: Stanford University Press, 1982).

4) Alice H. Amsden, *Asia's Next Giant: South Korea and Late Industrialization* (New York: Oxford University Press, 1989); Robert Wade, *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization* (Princeton: Princeton University Press, 1990).

5) Industrial policy of developmental state in East Asia channeled investment into sectors with growth potential. This aspect of East Asian policy makes it different

being the case, financing held fundamental significance in the success of industrial policies in East Asia.

Amsden's analysis of South Korea is consistent with Johnson's view on the Ministry of International Trade and Industry and its industrial policy in Japan. Amsden concluded that Korea is the epitome of a disciplined market economy based on plan rationality. Unlike a free market economy, in a disciplined market economy, market rationality is restricted by the priority of industrial policy. The state curbed internal and external market pressures, and aligned business interests with national economic interests. In addition, the state financially supported and supervised businesses to strengthen their international competitiveness. However, industries that were not so-called strategic industries were isolated from financial support and forced to compete in the market. Such strategic selection lay at the core of industry policy. The market, therefore, was led by a long-term investment rationality perspective. The state created a safe and predictable investment environment for businesses to mitigate long-term risk. And the high profit potential in the global market determined strategic industries.

According to Johnson, economic growth of East Asian countries like Korea and Taiwan is fundamentally attributable both to the external factor of a new international division of labor and to internal factors of market creation induced by state intervention, the role of domestic capital and efficient production controls. That is, the state enforced import restrictions and established tariff barriers to protect local industries while utilizing state-controlled financial institutions as a vehicle to lead industrialization.[6] As Stephen

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from Western Europe's industrial policy, which sank investment into financially risky declining industries and distressed companies.

6) Chalmers Johnson, "Political Institutions and Economic Performance: The Government-Business Relationship in Japan, South Korea, and Taiwan," in Frederic C. Deyo, ed., *The Political Economy of the New Asian Industrialism* (Ithaca: Cornell University Press, 1987).

Haggard stated, the state took on the role of mitigating risk when inducing foreign capital, expanding infrastructure, providing technology support and offering market information.[7] East Asian countries, lacking technology competitiveness pursued economic growth through state-offered incentives. Incentives went beyond a simple tariff measure or import restriction for local industry protection to include financial support, tax benefits and intensive investment to nurture promising industries. In the process of industrializing, East Asian countries took on a relatively broad role of leading and regulating the market. Amsden emphasized that the state provided companies credit on favorable terms and tax benefits in order to drive exports.

Gordon White and Robert Wade attempted to identify constraints that now face states, and also followed the changes that have occurred in terms of the nature of state intervention. Their study asks how the state will influence the economy in the context of globalization and they attempt to explain the confidence risk of economic development and the justification risk of development planning.[8] Wade, in particular, pointed out that analysis of institutional economics that concentrated on an effective combination of capitalist institutions failed to show how political factors affected economic performance.

He presented a state-governed market as an alternative to previous studies, sharing that economic performance in East Asian countries was driven by investment in strategic industries, state support, regulation and guidance for strategic industries and non-strategic industries' competition in the global marketplace. His analysis focused on the state's role of decision-making or goal-

7) Stephen Haggard, *Pathways from the Periphery: The Politics of Growth in the Newly Industrializing Countries* (Ithaca, NY: Cornell University Press, 1990).

8) Gordon White and Robert Wade, "Developmental States and Markets in East Asia: An Introduction" in Gordon White, ed., *Developmental States in East Asia* (Sussex: Macmillan Press, 1988).

setting regardless of objections from citizens.

Peter Evans also pointed out that the state facilitated the industrialization of developing countries. His developmental state idea focuses on functional links between state and private sectors. That is, links between state and businesses are prerequisite to economic development and industrialization. Evans stressed that the developmental state is characterized by the state's role, based on a bureaucracy free of special interests. He claimed that the state has enough autonomy to set its own objectives, and it establishes an industrial network to implement those objectives. The concept of an embedded autonomy originated from the question of how a developmental state puts development objectives into practice. In that regard, Evans said that the immanence of the state made a successful economic transformation possible. According to Evans, the developmental state must have a link with the social sector, while preserving its independence from plural interests.

At the same time, Evans emphasized the developmental state's connection to the society and introduced the concept of embeddedness, focusing on actors and institutions. He defined the developmental state's characteristic as an embedded autonomy, which is the combination of linkage and autonomy, and analyzed the impact of state intervention on economic performance. Depending on state intervention, there could be three types of state: developmental state, predatory state and intermediate state.[9]

The developmental state can obtain a fine economic performance because it rises above the short-term pursuits of private businesses.

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9) A predatory state draws economic surplus that could be invested, while providing no support for economic development or industrial transformation. A developmental state, meanwhile, motivates businesses to engage in production and investment and provides long-term plans. Evans took Zaire, under the Motubu regime as the epitome of a predatory state. He cited Japan, South Korea and Taiwan as developmental states and Brazil and India as intermediate states. Peter Evans, *Embedded Autonomy: States and Industrial Transformation* (Princeton, New Jersey: Princeton University Press, 1995), pp. 45-70.

The state, from a long-term perspective, enhances the international competitiveness of private businesses through strategic investment, and promotes industrial structure and technology. The developmental state not only cultivates domestic businesses, but also grows industry by taking on a supervisory role. To this end, the state implements a selective, strategic protectionist policy.[10)]

Therefore, at the heart of the economic development of East Asian countries exist the state's legal and institutional supports. The state has autonomy based on the classical Weberian concept of bureaucracy. Fundamental to such a state are capability-based recruits and promotion and procedural/rational norms. Autonomy guaranteed by bureaucrats has set state development as the primary objective, and linkage has allowed the state to collect information and mobilize resources. Given the distinction, the developmental state of East Asia can be deemed as a bureaucratic developmental state.

Under statism, the state ignores the importance of public consensus given that it is the sole actor in policy decision and is superior to social groups.[11)] As Joel Migdal states, however, even an authoritarian state needs support from, and linkage with social organizations in order to implement industrial policy.[12)] To that end, the state selects certain industries with political linkage to social groups and thus, the pattern of industrialization is created.

In other words, the state relies on cooperative relations with society for economic success. Collaboration between the state and businesses has led to two very important results as follows: First,

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10) Ziya Onis, "The Logic of the Developmental State," *Comparative Politics*, Vol. 24, No.1 (October, 1991), pp. 111-113

11) Despite the criticism that developmental state is not always a sole actor, the internal structure of state does not necessarily have to be singular. A state decision on policy could result either from conflict or agreement among internal organizations.

12) Joel Migdal, *Strong Societies and Weak States: State-Society Relations and State Capabilities in the Third World* (Princeton: Princeton University Press, 1988).

separation of economic decision from political influence allows long-term planning and adjustment, which are critical to economic development. Second, the state is able to set and prioritize objectives of intensive development in collaboration with business groups.[13] However, the bureaucratic developmental state maintains close links with capital but excludes labor.[14] The dilemma of a bureaucratic developmental state is that as domestic businesses grow and gain international competitiveness, the alliance between state and business weakens. In the 1990s, East Asian businesses' internationalization and integration into the international financial market threatened the state-capital alliance, which had served as a cornerstone of growth in the region.

GLOBALIZATION AND THE FLEXIBILITY OF DEVELOPMENTAL STATES

The evolution of globalization has brought about theoretical debate among statists and globalists as to the role of a state. Views vary, not only on the concept and characteristic of globalization, but also on the weakening of national sovereignty. Production and consumption on the global level and the globalization of finance have drastically changed the state's role in the economic sector. That is, a state's power to control is restricted by external power. The development of transport and communications and the fledgling supranational companies are transcending territorial boundaries. According to this view, the role and capacity of a state-driven economic policy has weakened, while transnational corporations

13) Linda Weiss and John M. Hobson, *States and Economic Development: A Comparative Historical Analysis* (Cambridge: Polity, 1995), p. 178.

14) Frederic C. Deyo, "State and Labor: Modes of Political Exclusion in East Asian Development," in Frederic C. Deyo, ed., *The Political Economy of the New Asian Industrialism* (Ithaca: Cornell University Press, 1987).

have increased their impact.[15] Therefore, a state's economic policy is considerably affected by the WTO and the changing international market. Globalists also emphasize that a nation state is affected by globalization, and the action taken by nation state is developed on a global level. In other words, the retreat of state power and the contraction of its role are related to globalization. Production, distribution, and globalization of finance have changed the role of a nation state in the area of international political economy at a rapid pace.[16] Improvement of transport and communications, and the expansion of transnational corporations have enabled economic activities to reach beyond the territorial borders that divide nation states.

On the contrary, from the perspective of statism, a state still plays an important role in maintaining sovereignty and policy-making irrespective of the globalizing economic sector. Statists insist that a global economy does not exist in actuality and that globalization itself is a myth. That is, although internationalization that recognizes the central role of a state may have evolved to a considerable degree, the existence of globalization in terms of scale and intensity is overstated. Thus, statists claim that the role of a nation state in policy-making is underestimated. Statists emphasize the role of a state that corresponds to globalization.[17] They not only raise doubts about the concept of a global economy but conclude that the integration of the global economy is exaggerated: internationalization has progressed in the economic sector but the globalization is an illusion. While statists acknowledge the independent role of a state in economic policy, they also recognize

15) Susan Strange, *The Retreat of the State* (Cambridge: Cambridge University Press, 1996).

16) Kenichi Ohmae, *The End of the Nation State: The Rise of Regional Economies* (New York: The Free Press 1995).

17) Robert Boyer and Daniel Drache, eds., *States against Market: the Limit of Globalization* (London: Routledge, 1996); Paul Hirst and Graham Thomson, Globalization in Question (Cambridge: Polity, 1996).

that the state's influence has weakened over time.[18)]

While there is a gap in perspective between statists and globalists, they share the idea that globalization has expanded on the level of international political economy, along with the changing role of the nation state. In particular, it is true that the extent and possibility of a nation state's involvement in its macroeconomy within the framework of newly constructed global economy is being sharply reduced.

Against this backdrop, East Asian nations continue to play a supporting role in the development of national economy. From this view, privatization and economic reform are understood as part of the reconstruction of a state's capacity. Therefore, the core controversy over a state's role in the globalization process is not a matter of the market replacing the state's role, but of the state's adaptation in order to attract foreign capital and support local capital in the course of globalization.

Until now, the developmental state has managed to practice cronyism, and to encourage cartels and monopolies, but these practices are no longer possible in the era of globalization. Bureaucratic developmental states led the confederation of corporate group, bank and national institutions, a strategy that helped the economy to develop in the long term, but states soon faced an economic crisis due to the lack of flexibility. The centralized economic system lost competitiveness in the production market, where competitiveness is gained though the decentralization of the inter-corporate network. Also, because of inflexibility, the bureaucratic developmental state was limited in its ability to mobilize internal and external networks needed for technology innovations.

As globalization is thus threatening the existing conditions in East Asian developmental states, the question is how to alter the developmental state's role, and how to channel the state's

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18) Hirst and Thompson, *op. cit.*, pp. 143-149.

involvement more effectively. The key issue is whether East Asian states should become neo-liberal or developmental in this age of globalization.

East Asian states have attempted to promote the state's adaptability in the face of globalization. In other words, the developmental states have been able to utilize the very process of globalization as a strategy for national economic development by adapting themselves to globalization rather than going against the globalization process. In this context, East Asian states have actively sought to readjust production networks, given assistance to overseas development, and attracted foreign direct investment.[19] This adaptability has streamlined the search for new types of cooperation with private firms that are expanding corporate activities on a global scale.

However, despite the changes in the financial system—a core part of developmental states—into a market-based one, there is no clear evidence that the developmental state has transformed into a regulatory state. First, the political, economic and social conditions in which a regulatory state can exist have not been created. And what is most important, market rationality is not sufficiently in place for the East Asian state to remain as a regulatory state. There is still a need for the developmental state to play a role in the growth of strategic industries and state intervention in the financial reform process. But these circumstances do not imply the perpetuity of a bureaucratic developmental state. Since the internal and external conditions that helped to sustain a bureaucratic developmental state are undergoing change, it can be said that East Asian states are in a transition period.

Unlike developmental states, the regulatory state is a national model based on open market principles. A regulatory state, contrary to a developmental state, is guided by regulations for fair market competition, rather than by blanket intervention in economic affairs.

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19) Linda Weiss, *The Myth of the Powerless State* (Ithaca: Cornell University Press, 1998), pp.202-204.

Table 1. Comparison Between Regulatory State and Developmental State

	Regulatory State	Developmental State
Basis of rationality	Market – Rational	Plan – Rational
Main goal	Regulation	Development
Pilot agency	No	Yes
Industrial policy	No	Yes
Source of capital supply	Stock / bond market	Financial / market
Economic orientation	Short-term, tactical	Long-term, strategic
Impetus to growth	High consumption rates	High savings rates
Market orientation	Domestic market	International market

Consequently, the regulatory state does not cause market distortions by promoting strategic industries, rather, it is the product of institutional regulations that facilitate the functions of an already mature market.[20]

As can be seen in Table 1, the regulatory state, unlike the developmental state, relies on the stock market or the bond market for capital funding and uses a short-term economic strategy that focuses on shareholder gains and investor profit. In contrast to the developmental state, the regulatory state targets regulation itself and is oriented toward the domestic market. Moreover, a regulatory state typifies high consumption, high taxation, and high welfare costs, whereas a developmental state is characterized by high savings and investment.

Transitional East Asian states differ from regulatory states representing neo-liberalism. In the wake of the economic crisis, East Asian states have pursued neo-liberalist reforms in order to address problems, yet these states are still characteristic of developmental states. The newly emerging states in East Asia are willing and able to

20) Andrew Gamble, "Economic Governance," in Jon Pierre, ed., *Debating Governance: Authority, Steering, and Democracy* (Oxford:University Press, 2000), pp. 128-132.

Table 2. State-Society Relationship Pattern

	Strong state	Weak state
Strong society	3. Flexible developmental state Japan since 1970s Korea / Taiwan since 1980s	4. Regulatory state Britain, USA
Weak society	2. Bureaucratic developmental state Japan between WW2 and 1970s Korea / Taiwan between 1960s and 1980s	1. Predatory state African countries

intervene in strategic industries, but at the same time, by refraining from excessive intervention they aims to enhance market freedoms. Given these facts, explaining the transition of the East Asian state based on the regulatory state model would be both inappropriate and inaccurate.

If this is the case, how can we define the characteristics of East Asian states that are changing to adapt to a globalized economy? This paper highlights the flexibility of developmental states. A flexible developmental state is similar to a regulatory state under neo-liberalism in that it does not manipulate pricing and exchange rates and does not erect trade barriers, but only intervenes in the economy in order to create appropriate conditions for development. Unlike a bureaucratic developmental state, however, a flexible developmental state intervenes on a small scale and in a flexible manner. A flexible developmental state is based upon tight fiscal expenditures, the maintenance of appropriate wage levels and foreign investment. In terms of policy, a flexible developmental state combines a liberalistic macroeconomic policy and a restrictive intervention policy.

Therefore, a flexible developmental state's neo-liberalistic policy includes stringent fiscal expenditures, tax cuts and wage freezes, whereas its developmental policy includes education and training, propelled by a state-driven plan to establish infrastructure. Also, a bureaucratic developmental state seeks micro-intervention in favor of large corporations, which a flexible developmental state provides more opportunity to small- and medium-sized companies.

The most commonly applied patterns in East Asia are "2" and "3." Both have an overall strength in their ability to pursue development goals but their social features differ widely. And as the society becomes more powerful, the state's power is not weakened: It still has the ability to intervene.

A flexible developmental state assumes the role of facilitator. It supports corporate establishment, attracts foreign capital, and offers local companies the opportunity to produce foreign company goods. Unlike a bureaucratic developmental state, it does not provide protection to local companies from the market, and it does not encourage local firms to enter a particular industrial sector. As such, a flexible developmental state is built on the premise of local companies' motivation to participate. What the state does is provide companies the opportunity.

A state must secure flexible wages in its labor market by forming social partnerships, so that local firms are competitive in new industrial areas. An important question at this point: What are the conditions in which flexible developmental states can prolong their existence? Flexible developmental states are dependent on the consensus between labor unions and business associations and without this consensus their role is restricted. Also, flexible developmental states relying on foreign capital influx are susceptible to global economic cycles, which can cause uncertainties in capital intake.

East Asian bureaucratic developmental states transformed themselves into flexible developmental states in the 1990s. And in the age of globalization, flexible developmental states have the capacity to create network for production and technology innovation, attract foreign investment, and link local firms with transnational corporations to promote development. This ability is based on multiple embeddedness.

In other words, states have the ability to effectively manage the economy through flexible government structure and the connection between local and supranational firms. Flexible developmental states provide information on transnational corporations to local firms to accelerate their connection, but the opportunity to utilize this connection is left to local firms.

States offer incentives to transnational corporations by implementing macroeconomic policies. Investment by transnational corporations follows neo-liberalistic policies, such as deregulation, however, the lack of regulation may cause vulnerability to international capital flows.

In the age of globalization, the role of developmental states, as opposed to existing developmental states, is to guarantee ownership and to supply public needs, such as health care and education. States must guarantee macroeconomic stability, but at the same time, should not distort prices or disrupt trade and investment, which could undermine state development. Price distortions fuel inflation, which hinders growth, and such barriers to trade and investment ultimately curtail growth as well. Thus, the primary role of developmental states should be limited to providing infrastructure for development and guaranteeing market freedom. Second, developmental states should act as sponsors assisting the establishment of new firms. Such facilitation is accomplished through legal institutions, ownership, privatization of infrastructure, and liberalization of trade and investment.

In summary, the role of a flexible developmental state manager is confined to completing the infrastructure, and creating an environment conducive to investment by transnational corporations.[21] That is, the focus should be on nurturing personnel

21) Frederic C. Deyo and Richard F. Doner, "Introduction: Economic Governance and Flexible Production in East Asia," in Frederic C. Deyo, Richard F. Doner, and Eric Hershberg, eds., *Economic Governance and the Challenge of Flexibility in East Asia* (Boston: Rowman & Littlefield, 2001), pp. 18-21.

resources, improving labor technology and creating a flexible labor market. To this end, states must form a link between business associations and labor unions pursuant to cooperative tripartite agreements. States should also organize a consensus on the national level to secure labor flexibility. This type of state role can be seen as transcending the role of a neo-liberalism regulatory state. Moreover, the model is acceptable to labor unions since it creates jobs, thus lowering the jobless rate. It is also acceptable to corporations since it raises profitability. In the end, flexible developmental states pursue market-oriented economic policies and set the direction for overall development plan, and place the emphasis on industrial policy, which induces corporate economic activity. These abilities separate flexible developmental states from regulatory states.

CONCLUSION

A state's ability is not only related to the formation of industrial policy, but also to the reduction of state intervention. The irony is that the more effective a state's economic intervention, the stronger its private sector power and interdependence. As a result of successful economic development in East Asia, private companies have enhanced their capacity and the states are undergoing transition so that their roles meet the changing conditions.

In this context, East Asian states are gradually expanding cooperative ties between government and business, and moving away from bureaucratic controls. Businesses are no longer considered subordinate to states, but they are receiving assistance from states as partners. States are encouraging direct loans from international financial institutions, direct investment in foreign capital, and the reshuffling of production networks so that companies can adapt to international markets.

Strategic intervention of flexible developmental states may give East Asian states comparative leverage. Moreover, transition of developmental states enables parallel development of democratic systems. In the early, underdeveloped stage, developmental states were influenced by an authoritarian system, but with the development of industrialization, developmental states were able to integrate democratic mechanisms into their systems.

Currently, East Asian states are poised at the juncture of transforming into the development model by capitalizing on the reforms they undertook following globalization and economic crisis. There is a demand for the transition from a developing model to a developed model. It is inevitable for East Asian states to break away from the developmental state model and move toward a neo-liberalistic regulatory state in the long run, but rapid contraction of the state's role may bring about negative effects. In this sense, the transformation of East Asian states should be neither developmental state nor regulatory state but should follow a third alternative that satisfies both the need to form actual market principles and allows for appropriate state intervention. In other words, deregulation is necessary to defuse side effects from state-driven industrialization and establish market principles, but overall regulation is also needed to promote economic reform. Therefore, the transformation of the development model is dependent on blocking excessive state interference, while finding the appropriate level of state intervention. In this case, the flexible developmental state that guarantees effective state intervention is suggested as an alternative.