

Is a Strong State a Prerequisite or Obstacle to Economic Growth?

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Abstract

Is a strong state a prerequisite or an obstacle to economic growth? Through analyzing the three main attributes - capable bureaucracy and national project, embedded autonomy, and developmental political settlements - of a developmental state, this essay explores how and why China has successfully minimized its short-term economic loss and maximized the potential of achieving long-term economic growth by comparing its coping strategies toward SARS and COVID-19. Collecting data from news and official healthcare documents, this article employs a case study method to delineate and analyze China's effort of combating epidemics as a strong state. This article concludes that a strong state is a prerequisite to economic growth.

Keywords: Developmental State, China, SARS, COVID-19

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1. Introduction

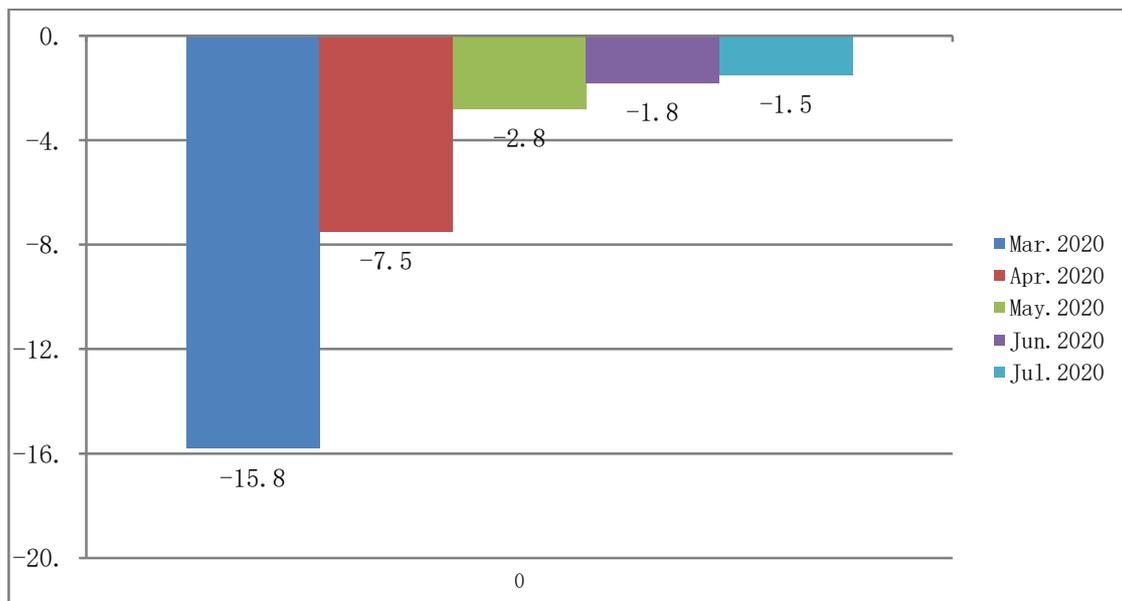
In this essay, the “state” is perceived as incorporating not only executive, legislative and judicial branches, but also bureaucratic functions and ministries (Routley, 2012). As a “strong state” largely resembles the conceptualization of “developmental state” in political science literature, this essay uses these two phrases interchangeably. The concept of “developmental state” was initially put forward by (Johnson, 1982) in the context of the economic policies that were adopted in East Asia to generate rapid industrialization. Nevertheless, there is a broader definition that is not tied to particular industrial policies but stresses state objectives and the institutional arrangements by which the state goes about implementing them (Knight, 2014). The latter definition is adopted by this essay.

Evans’ work builds on Amartya Sen’s capability approach to focus on the development of capabilities of individuals rather than economic gains as the focus of the developmental state (Evans, 2010). The work of (Sandbrook, 2007) states as a key player in development but sees the developmental outcomes of these state-led projects to center on building a society without poverty and social exclusion. Although strong states could potentially lead to economic development in general, this essay only discusses a narrower aspect than development - economic growth.

Countries that were frequently characterized as developmental states, such as China, Japan, South Korea, and Singapore, have experienced rapid economic growth through state-led interventions. The following are the main attributes from the definition of a developmental state: (1) A capable, autonomous and embedded bureaucracy (Evans, 2012); (2) A close, often mutually beneficial relationship between states and industrial capitalists (Johnson, 1982); (3) Successful state-led policy interventions that promote economic growth (Wade, 2004).

China’s impressive economic success has led a number of scholars to see it as having been in line with the developmental state model since the mid-1980s (Evans, 2012). The institutions and methods that were introduced in China, in particular, the incentive structures that leadership used to solve the principal-agent problem implicit in having centralized political control but decentralized economic management are crucial factors resulting in China’s outstanding growth performance (Knight, 2014). Since 1978’s reform and opening-up, China has been learning from history and continuously been adapting its governance over the years. Therefore, China serves as a case study to understand how the vital aspects of a strong state are prerequisites to achieve economic growth. As shown in Figure 1, we can see that although there was a dramatic decline in monthly percentage increase in total retail sales of consumer good in March, right after the peak of COVID-19 outbreak, the economy has been recovering fast, with only -1.5% monthly percentage increase in total retail sales of consumer good in July.

Figure 1: Monthly Percentage Increase in Total Retail Sales of Consumer Good



Collecting data from official media and healthcare documentation, this study adopts a case study method to answer if a strong state is a prerequisite or obstacle to economic growth. Holding the studied country as constant, this paper utilizes two pandemic occurred at different time periods to analyze how a strong state played a role in combating crises.

The following sections analyze in detail how China's strong state attributes facilitate economic recovery by comparing China's responses to SARS and COVID-19 crises.

2. Case Study: China

2.1. Capable bureaucracy and national project

The national government, elite and popular commitment to a national project or vision focused on growth and improvement in living standards is regularly cited as a key feature of developmental states (Wade, 2004; Fritz & Menocal, 2007; Lin et al., 2011). It is the mobilization of the population to make sacrifices to achieve developmental ends which Johnson identifies as the key advantage an authoritarian system has over a democratic one regarding its developmental potential (Johnson, 1999).

When SARS broke out, the Chinese government took the following actions to prevent the spreading of the pandemic and to minimize the regression of the country's economic

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growth. On April 29th, 2003, the Ministry of Finance and the Ministry of Health of China stipulated that free medical treatment should be provided to poor SARS patients, and the incurred medical treatment expenses shall be borne by the government (Ma, 2003). On May 2nd, 2003, China banned foreign tourists from traveling to Tibet and other western regions to further control the spread of SARS. Although the ban on traveling and the policy on free provision of medical treatments were disadvantageous towards China's short-term economic situation, they are beneficial for China's economic recovery and future growth in the long term (China Medical Tribune, 2003). As the central government offered free medical treatments to poor SARS patients at an early stage, high expenses of curing poor people when their condition got worse can be avoided.

Confronting the COVID-19, on March 10th, 2020, the State Administration of Taxation issued a new version of "Guidelines on Preferential Tax and Fee Policies in Response to the New Coronary Pneumonia Epidemic Situation". This document declares the postponement of tax payment, real estate tax reduction, and preferential tax policies regarding VAT and consumption tax, to help taxpayers weather the crisis promptly. For small and medium-sized enterprises that could not file tax returns on time due to the pandemic were granted deferred tax payment according to law, with a maximum period of no more than three months defer (The State Administration of Taxation, 2020).

Compared to China's response to the SARS, national projects launched by the government in response to the COVID-19 were more timely and on a larger scale. National policies on curbing the virus were issued at around the end of February 2020, when COVID-19 broke out in February. However, the first national policy issued for combating the SARS was issued in late April when the SARS broke out in February 2003. With a capable bureaucracy under the leadership of strong central power, economic performance could be positively significant. With the aid of multiple well-enforced national projects, a strong state is more of a prerequisite than an obstacle to economic recovery and economic growth.

2.2.Embedded Autonomy

Evans (2012)'s concept of embedded autonomy proposes that developmental state's achievements require a meritocratic rationalized bureaucracy. The bureaucracy can operate autonomously from the pressures of society. China's decentralized government implements policies that are suitable for the local conditions while following the direction from the central government in achieving economic growth.

In response to the SARS crisis, the Shenyang Municipal Government issued "Several Policies on Reducing the Impact of SARS and Accelerating Economic Development" to alleviate the adverse effects of SARS. All cultural relics and cultural entertainment venues that have been temporarily closed due to the pandemic are exempted to file

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various taxes such as business tax, real estate tax, and education surcharge. Besides, various fees such as the management fee for individual industrial and commercial households and environmental monitoring fees are reduced by 20% to 50% (Shenyang Evening News, 2003).

The Beijing government also took its actions to reduce the economic loss imposed by SARS. It increased investments to ensure the smooth progress of 60 key projects that were identified at the beginning of the year. It also strived to create a benign environment to promote social consumption to achieve the 200-billion-RMB goal determined at the beginning of 2003 (Shenyang Evening News, 2003).

Combating COVID-19, the Beijing government also issued its policy to assist its local population: (1) Businesses' payment of social insurance premiums in early 2020 can be postponed to the end of March 2020; (2) Patients who could not return to Beijing on time due to traffic and government regulations could be treated locally. The medical treatment expenses could be entrusted to the medical insurance department for reimbursement after returning to Beijing (Xinhua News, 2003).

After the lockdown since January 23rd, the Wuhan government made use of the city's sports stadium and two convention centers and renovated them into three mobile cabin hospitals to offer a total of 3,400 beds to treat COVID-19 infected patients with mild symptoms (China Daily News, 2020). Even though Wuhan was considered as the epicenter of the outbreak, the effective implementation of the local government concentrated the COVID-19 patients and prevented the pandemic from spreading across the country, which further lowered the risk of economic loss in China. Furthermore, the China State Construction Engineering Corporation completed the construction of Huoshenshan Hospital in 10 days and the construction of Leishenshan Hospital in 12 days in Wuhan (Shuangzi Official Media, 2020). Not only was the local government supportive and goal-oriented, but also the nation backed the city up with its central power and efficient national project.

The policies that the Beijing government has implemented were commendable during SARS. However, even though the policies saved Beijing from huge economic loss, they did not specifically target at fighting against the pandemic. Laudably, in response to the COVID-19, local governments like the Wuhan government took measures in a timely manner and issued a series of policies aimed at combating the outbreak and alleviating the economic pressure imposed by the pandemic. With a capable strong state that centralized power, China's local governments at various levels have also had the autonomy to implement policies that are suitable for their specific locality situations. The autonomy local states have, and the collaboration they have with the central

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government, have all contributed to the fast recovery of the economy and nicely-handled response to the crises.

2.3. Developmental Political Settlements

Developmental states are the production of development agreements and/or coalitions (Leftwich, 2010). In responding to SARS and COVID-19 crises, China has launched several political settlements with private sectors. The active business-state relations not only satisfied the current need for providing help to weather the crises but also facilitated immediate economic recovery and future economic growth.

Since the outbreak of SARS, many companies in Qingdao, Shandong Province, have responded to the call of supplying facial masks by production conversion and expansion to unitedly fight against the pandemic. For instance, in March 2003, Qingdao Zhuangzheng Professional Apparel Co., Ltd. in Shibei District switched from being a platform for producing designer clothes to PPEs (Qingdao News, 2020). On April 30th, 2003, the president of Beijing New Oriental announced that all schools in the country would be closed to follow the announcement of the Beijing government. He raised 20 million RMB to refund students' registration fees (He, 2020).

To better meet people's hygiene demands in the epidemic, car factories have transferred to producing facial masks and disinfectants. The BYD Co., Ltd. announced in February that the company's production conversion to facial masks and disinfectants has entered the production stage, and it is expected to be mass-produced and shipped around February 17th. Five million facial masks could be produced per day at the end of February and 50,000 bottles of disinfectants could be made per day till the end of the pandemic (Tencent Website, 2020).

It is the cooperation between the state and businesses that showcases the power and economic growth that a strong state like China could lead to. The experiences that the Chinese government has obtained from fighting against SARS helped the country to better survive during the outbreak of the COVID-19. Compared to the government response to SARS, the government established more business-state coalition agreements this time. Various levels of governments provided investment and financial support to help the local businesses to survive and throughout the pandemic. The win-win situation that China has gotten itself in, even during crisis time like COVID-19, demonstrates that China has learned from past experiences and utilized the advantages of enhancing developmental political settlements.

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3. Conclusion and Discussion

A strong state is a prerequisite to economic growth. However, it is by no means a sufficient condition. Future research may focus on factors other than strong states in contributing to economic growth. Not only China, but South Korea also succeeded in impeding the spread of COVID-19. To curb transmission, the government established more than 600 COVID-19 screening sites, allowing more than 15,000 screening tests to be performed per day. It demonstrates how a strong state can effectively cope with the pandemic with a capable (Her, 2020).

The aforementioned effective prevention method avoids potential increment and spread of the disease and hence reduces the economic loss from the pandemic. Nevertheless, Japan, which is often seen as the first developmental state (Johnson, 1982), has not been handling COVID-19 ideally. It has been estimated that the COVID-19 state of emergency, if implemented through the end of May, would result in the loss of 7 million jobs, leaving nearly three-quarters of a million people without pay checks and their families (Miura, 2020). Therefore, factors other than having a strong state must be in place, and we should analyze countries case by case in future research.

Looking at how China responded to SARS and COVID-19, we can see that with its capable bureaucracy, embedded economy, and developmental political settlement, China as a strong state is firstly able to recover its economy shortly after the crisis and promote its overall economic growth in the near future.

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