

# Convergence between Capitalism & Developmentalism

By Noboru Hatakeyama

There are two types of economies in the world as of now. The first one is an economy under Capitalism and the second one is an economy based on Developmentalism.

In order for Capitalism to function smoothly there was an important assumption that basic ethics must be respected by all players. Ethics here includes being stoic, honest, abiding by rules and so forth. This internal discipline gave Capitalism autonomous freedom. However, this assumption was not observed in many economies and that was one of the fundamental reasons for recent crises. In the case of sub-prime loans, the bankers in question became so greedy as to lend money to poor people who were hardly able to return the borrowed money.

The current sovereign debt crises in Europe which started from false reports were also deeply rooted in ethical issues. It is surprising even for banks, which should deem trust as the most important element in their business, to have come up with false reports (relating to LIBOR).

Thus since internal discipline has gone, external regulations have come instead.

All in all, including public fund injections into banks in the United States and Europe and the bailing out of General Motors, the nature of Capitalism may have changed in the direction of accepting more governmental control than before.

On the other hand, Developmentalism has been learning a lot from Capitalism. It has introduced the market economy and broadened the allowance of human rights politically. It will continue to do so. Russia's participation last August in the WTO is one such example.

Capitalism will approach Developmentalism and *vice versa*. Thus we will see a kind of convergence between Capitalism and Developmentalism. Therefore what Capitalism and Developmentalism should do to improve the world economy is to pursue some commonality in certain cases. For example, Capitalism is not completely free yet. Therefore it has to pursue further liberalizations, especially in the area of trade in services and foreign direct investments (FDIs). Developmentalism should also aim at the same thing.

Both kinds of economies have been criticized for expanding the gaps between rich and poor. However, gaps in general, domestic or international, are not necessarily a bad thing, as the late Deng Xiaoping had pointed out, saying in effect that "If you can become rich quicker than others, do not hesitate." These gaps will stimulate the competitive ambitions of your neighbors.

Many governments under Developmentalism have been using SOEs as a convenient tool to conduct their industrial policies. Recently SOEs have been used in Capitalism economies as well. South Korea and Singapore, for example, have many SOEs.

A traditional concern about SOEs was that if they spread all over a country, economic vitality acquired through fierce competition among private companies would be reduced. This concern would be justified if the market is closed. However, if the market is open, there are many competitors coming in from abroad, even when you establish many SOEs domestically.

The US was always criticizing SOEs for distorting market mechanisms, pointing out that their private companies would be unable to compete against a governmental safe. The US government is now said to be interested in establishing international rules for SOEs in trade negotiations such as the TPP.

It was ironic that the US government used its investments to bail out a private company from this crisis. Its purchase of stocks in GM, the most typical private company in the US, was as big as 60% at first and the ratio is still 30%.

Regarding banks, the US Treasury injected public funds and the European Central Bank announced it would be ready to purchase euro-zone countries' short-term bonds in the secondary market.

These governmental interventions in private entities looked similar to those conducted by Developmentalism, at least ostensibly.

There may be a point that Capitalism has to learn from Developmentalism – namely, whether there is a lesson in terms of land ownership by the state. It is said that Chinese public works are very efficient thanks to state ownership of the land. When condemnation of land becomes necessary, to convert a piece of agricultural land for constructing a part of infrastructure, for example, road construction is very efficient in China, although there may be some cases where from the standpoint of protecting human rights some criticism can be raised against too impatient condemnation.

Big investors are always welcome wherever they invest. In this regard, international FDI rules are not necessarily essential for them. Now however, there are many FDIs being conducted by Small or Medium-Sized Enterprises (SMEs). But they don't always have enough knowledge of FDIs or close relations with politicians and high officials in the receiving countries. So what is important now is to establish international FDI rules, a proposal that was rejected from the discussion agenda for the Doha Development Round in 2001.

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