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Moving the Center: Adapting the Toolbox of Growth Model Research to Emerging Capitalist Economies

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Moving the Center: Adapting the Toolbox of Growth Model Research to Emerging Capitalist Economies

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Abstract
The growth model perspective has provided positive momentum for Comparative and International Political Economy. This article seeks to move beyond the existing geographical confines of this perspective to elaborate on its potential for enhancing our understanding of the trajectories of different emerging capitalist economies (ECEs), the center of global economic growth during the last decades. Using national accounts data, we calculate the relative contributions of demand components to GDP growth for nine large emerging economies in the period from 2001 to 2016. Departing from the prevalent juxtaposition of consumption-led and export-led growth models, we add an investment-led model within a variegated set of ECE accumulation strategies. Subsequently, we employ case vignettes from Brazil, China, India and Indonesia to highlight ECE specificities in (1) the effects of international interdependencies on growth models, (2) the political underpinnings of growth models through social blocs, and (3) the existence of structural productive heterogeneities leading to regional growth models in very large economies. We conclude that these macro-political and institutional specificities should serve as a point of departure for a more global research agenda on growth models.

Keywords: Comparative capitalism, growth models, emerging capitalist economies, commodity super cycles, social blocs

JEL codes: 011, 019, 043, 057, P52

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Introduction

In recent years, a perspective developed in Post-Keynesian Economics (PKE) that analyzes advanced capitalist economies in terms of their mutually constitutive growth models has provided positive momentum for Comparative Political Economy (CPE) and International Political Economy (IPE).[1] In their seminal contribution, Baccaro and Pontusson[2] trace the emergence of two interdependent types of growth models in the OECD: a consumption-led growth model, partly bolstering domestic demand through household debt, and an export-led growth model, that replaces domestic with external demand. Their Post-Keynesian and also Regulation-School inspired intervention triggered an ongoing debate in the field about the relative importance of supply and demand factors for growth and the interplay between them,[3] reflecting a renewed interest among CPE and IPE scholars in macroeconomics and their relation with political institutions.[4] Importantly, the growth model approach has been applied to explain international economic imbalances, both in the Eurozone and beyond.[5] In addition, several

1 E.g., Lucio Baccaro and Jonas Pontusson, "Rethinking comparative political economy: the growth model perspective," *Politics & Society* 44, no. 2 (2016): 175–207; Lucio Baccaro and Jonas Pontusson, "Comparative political economy and varieties of macroeconomics," MPIfG Discussion Paper 18/10 (Cologne: Max Planck Institute for the Study of Societies, 2018); Eckhard Hein, Walter Paternesi Meloni, and Pasquale Tridico, "Welfare models and demand-led growth regimes before and after the financial and economic crisis," *Review of International Political Economy* 28, no. 5 (2020): 1196–1223; Engelbert Stockhammer, "Post-Keynesian macroeconomic foundations for comparative political economy," *Politics & Society* 50, no. 1 (2021): 156–187; Engelbert Stockhammer and Karsten Kohler, "Learning from Distant Cousins? Post-Keynesian Economics, Comparative Political Economy and the Growth Model Approach," Working Paper no. 2210 (Post-Keynesian Economics Society, 2022); Anke Hassel and Bruno Palier, "Tracking the Transformation of Growth Regimes in Advanced Capitalist Economies," in Anke Hassel and Bruno Palier, eds., *Growth and welfare in advanced capitalist economies: How have growth regimes evolved?* (Oxford: Oxford University Press, 2021), 3–56; Herman Mark Schwartz and Mark Blyth, "Four Galtons and a Minsky: Growth Models from an IPE Perspective," *forthcoming* in Lucio Baccaro, Mark Blyth, and Jonas Pontusson, eds., *Diminishing Returns: The New Politics of Growth and Stagnation* (Oxford: Oxford University Press, 2022).

2 Baccaro and Pontusson, "Rethinking Comparative Political Economy."

3 See Daniel Hope and David Soskice, "Growth Models, Varieties of Capitalism, and Macroeconomics," *Politics & Society* 44, no. 2 (2016): 209–226; Stockhammer, "Post-Keynesian macroeconomic foundations;" Hassel and Palier, "Tracking the Transformation;" *Author*, 2021a.

4 Bruno Amable, Aidan Regan, Sabina Avdagic, Lucio Baccaro, Jonas Pontusson, and Natascha van der Zwan, "New approaches to political economy," *Socio-Economic Review* 17, no. 2 (2019): 433-459; Baccaro and Pontusson, "Comparative political economy and varieties;" Mark Blyth and Matthias Matthijs, "Black Swans, Lame Ducks, and the mystery of IPE's missing macroeconomy," *Review of International Political Economy* 24, no. 2 (2017): 203–231; Herman Mark Schwartz and Bent Sofus Tranøy, "Thinking about Thinking about Comparative Political Economy: From Macro to Micro and Back," *Politics & Society* 47, no. 1 (2019): 23-54.

5 Ferdi De Ville and Mattias Vermeiren, "The Eurozone crisis and the rise of China in the global monetary and trading system: The political economy of an asymmetric shock," *Comparative European Politics* 14 (2016): 572-603; Alison Johnston and Aidan Regan, "European Monetary Integration and the Incompatibility of National Varieties of Capitalism," *Journal of Common Market Studies* 54, no. 2 (2016): 318-336; Peter Hall, "Varieties of Capitalism in Light of the Euro Crisis," *Journal of European Public Policy* 25 (2018): 7-30; Ümit Akcay, Eckhard Hein, and Benjamin Jungmann, "Financialisation and macroeconomic regimes in emerging capitalist economies before and after the Great Recession," Working Paper no. 158/2021 (Berlin: Institute for International Political Economy Berlin, 2021).

scholars have advanced the approach by mapping the variety of growth models in advanced capitalist economies.[6]

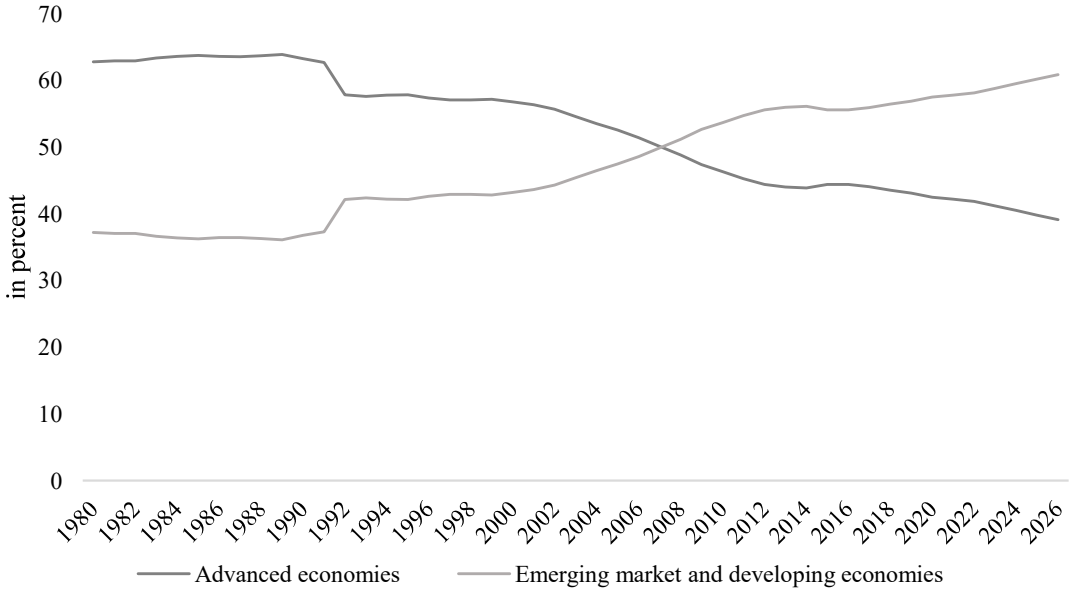
This paper seeks to develop an empirical research agenda that moves beyond the existing geographical confines of the growth model perspective (GMP) by exploring its applicability to so-called emerging capitalist economies (ECEs). ECEs are conventionally understood as countries transitioning from low-income, low-productivity economies with informal institutions toward higher-income economies, with developing domestic markets and an accommodating regulatory infrastructure for capitalist institutions with respect to financial systems, property rights and industrial organization. India, Mexico, Brazil, Turkey and China are just a few of the countries in this highly variegated group. From our point of view, extending the GMP to emerging economies is an analytical endeavor that is well overdue. First, it applies the perspective to those regions where most of global economic growth has taken place in recent decades. We would expect an approach centered on 'growth' to provide meaningful insights about high-growth economies, especially China. Second, extending the application of the model in this way may help to differentiate conventional wisdoms about the sources of growth in ECEs – given that the common narrative of the East Asian 'tiger states' but also the rise of China heavily focuses on export-based growth. Thereby, it examines the GMP's relevance for big questions about economic development and appropriate policies. Moreover, by increasing the number of cases covered, the geographical broadening of the GMP should also bolster the explanatory potential of the approach itself. Since the GMP promises to offer a more dynamic framework than traditional Comparative Capitalism research, this is especially helpful in shifting the focus to the often more volatile economic development in ECEs.

Hence, our starting point is a shift in the global distribution of economic growth. This process started in the early 1990s and is often attributed to the rise of China and the BRICS on the one hand and the exhaustion of the post-war growth regime in the West on the other.[7] The center of growth in the global economy has moved in the last decades. Around the year 2008, emerging and developing economies began to account for more than half of global GDP – a trend expected to continue notwithstanding the effects of the global pandemic (Figure 1).

6 Hope and Soskice, "Growth Models;" Hein, Paternesi Meloni, and Tridico, "Welfare models and demand led growth;" Georg Picot, "Cross-National Variation in Growth Models," in Ankel Hassel and Bruno Palier, eds., *Growth and Welfare in advanced capitalist economies: How have growth regimes evolved?* (Oxford: Oxford University Press, 2021), 135-160.

7 Blyth and Matthjis, "Black Swans, Lame Ducks."

Figure 1: GDP based on purchasing power parity (PPP), share of world GDP, 1980–2026



Source: IMF Data Mapper, accessed 27 July 2021, estimates from 2021 onwards

Nevertheless, although most growth model research to date has focused on advanced capitalist economies, first inroads have been made with regard to ECEs.[8] Moreover, country case studies and paired comparisons have used the framework to analyze stability and change in emerging capitalist economies[9] while others have leveraged the economies of Central and Eastern Europe to explore the political economy of FDI-led growth.[10] Recently, Akcay, Hein and Jungmann[11] mapped the growth models of nine large emerging economies and revealed not only variegation between the countries but also a temporal shift in their growth models towards domestic

8 Eckhard Hein and Matthias Mundt, "Financialisation and the requirements and potentials for wage-led recovery – a review focusing on the G20," Conditions of Work and Employment Series No. 37 (Geneva: International Labour Office, 2012); *Author,* 2021a; Geoffrey Wood and Gerhard Schnyder, "Intro: Comparative capitalism research in emerging markets – a new generation," *New Political Economy* 26, no. 4 (2021): 509-513. As the growth model research program in CPE (and parts of PKE) is confined to identifying 'growth models' (in the narrow sense) and their interplay with politics and institutions in national political economies, we do not factor in the vast PKE literature on 'demand regimes' in ECEs, i.e. studies estimating the effects of distributional changes on overall demand and its components. See Akcay, Hein, and Jungmann, "Financialisation and macroeconomic regimes;" Jan Behringer and Till van Treeck, "Income Distribution and Growth Models: A Sectoral Balances Approach," *Politics & Society* 47, no. 3 (2019): 303-332.

9 Glenn Morgan, Heike Doering, and Marcus Gomes, "Extending Varieties of Capitalism to Emerging Economies: What can We Learn from Brazil?," *New Political Economy* 26, no. 4 (2021): 540-553; *Author*, 2021b.

10 Cornel Ban and Dragos Adascalitei, "The FDI-led Growth Regimes of the East-Central and South-East European Periphery," CBDS Working Paper No. 2020/2 (Copenhagen: Copenhagen Business School, 2020); Sonja Avlijaš, Anke Hassel, and Bruno Palier, "Growth Strategies and Welfare Reforms in Europe," in Anke Hassel and Bruno Palier, eds., *Growth and welfare in advanced capitalist economies: How have growth regimes evolved?* (Oxford: Oxford University Press, 2021), 372-436; Dorothee Bohle and Aidan Regan, "The Comparative Political Economy of Growth Models: Explaining the Continuity of FDI-Led Growth in Ireland and Hungary," *Politics & Society* 49, no. 1 (2021): 75-106.

11 Akcay, Hein, and Jungmann, "Financialisation and macroeconomic regimes."

consumption which mirrors a reverse shift towards increasing exports for the growth models of advanced economies.[12] These and other studies on the political economy of ECEs have suggested several factors that fundamentally enhanced our understanding of growth, stagnation and crisis in these countries. These factors, we argue, need to be more systematically integrated into the empirical growth model research program. This paper aims to do so with respect to what we think are the four most important factors that have to be reflected in the study of growth models in emerging economies:

1. There is a much stronger role for *investments* in many ECEs, due to the need to expand infrastructure and productive capacities as well as corresponding developmental strategies. However, it matters considerably whether investments are public or private, of domestic or foreign origin, and in which sector they take place, so that differentiation is needed here.
2. The *international context* is important in a different way for most ECEs than for Western economies. Growth in ECEs depends more strongly on how the country is integrated into global economic hierarchies and on systemic dynamics that come in the form of commodity cycles (which undergird many export-led growth models),[13] in the form of dependency on foreign capital (for example via foreign direct investment) and through processes of financial subordination magnified by global financial cycles.
3. Growth and stagnation in ECEs depend differently on the *embeddedness of economic sectors and actors in the political sphere* than in other economies. While social blocs and state-business relations are likely to define growth models across political economies, the mechanisms through which politics shape particular growth trajectories in ECEs will usually differ from Western systems of liberal democracy.
4. As some ECEs are very large and characterized by structural productive *heterogeneities*, we should be wary of notions of a 'Chinese' or 'Indian' growth model. Not only there are regional growth models within one country in these cases, there might also be some

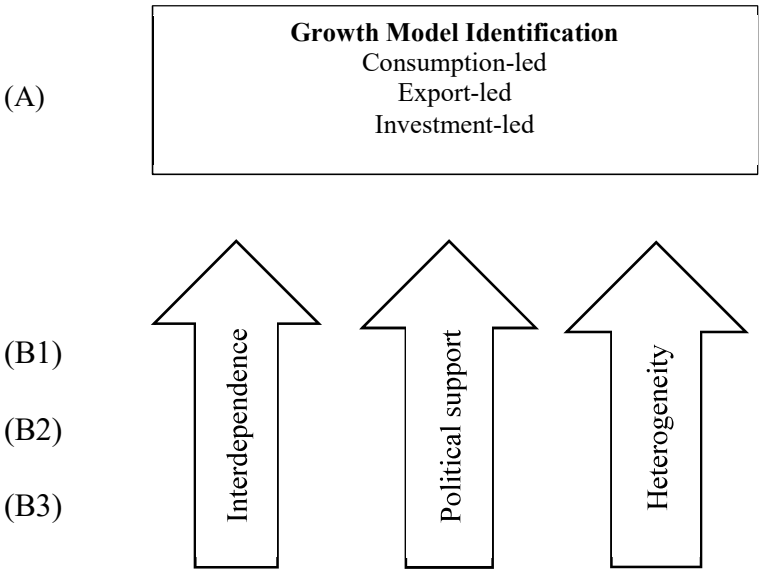
12 On this, see Hein, Paternesi Meloni, and Tridico, "Welfare models and demand-led growth."

13 While the growth model literature on OECD economies automatically assumes that export-led growth refers to manufactures, a well-established research tradition in development economics demonstrates 'what you export matters', particularly highlighting the better growth performances of countries that export goods associated with higher productivity levels. See, e.g., Ricardo Hausmann, Jason Hwang, and Dani Rodrik, "What you export matters," *Journal of Economic Growth* 12 (2007): 1-25. For a recent empirical study see Isabella Weber, Gregor Semieniuk, Tom Westland, and Junshang Liang, "What You Exported Matters: Persistence in Productive Capabilities across Two Eras of Globalization," Economics Department Working Paper Series no. 299 (Amherst: University of Massachusetts Amherst, 2021). The latter are less likely to experience balance of payments constraints due to higher income elasticities of demand. On the debate about balance of payments constrained growth see Anthony Thirlwall, "Balance of payments constrained growth models: history and overview," *PSL Quarterly Review* 64, no. 259 (2011): 307-351.

form of complementarity between these models which in itself contributes to macroeconomic balance.

The selection of these four points is based on the literature on the political economy of ECEs during the last decades. This literature stresses that investments are particularly important for catch-up industrialization, that the insertion of emerging economies took place under different circumstances than those of the advanced economies, that political structures in these economies often differ from advanced economies and that emerging economies are structurally more heterogeneous. Based on this literature we are suggesting a more comprehensive research program for the GMP in ECEs that not only studies macro-economic growth contributions, but also systematically reflects on their institutional and macro-political embeddedness.[14]

Figure 2: Schematic representation of the GMP extension to ECEs



Source: Own elaboration.

Figure 2 shows how the four elements of our argument relate to each other. The upper part (level A) indicates the requirement to identify the systemic character of growth contributions based on macroeconomic constellations,[15] locating the primary source of growth in terms of national accounting. However, growth models do not breed themselves in a natural process but are subject to various macro-political and institutional factors. The three of those we find critical

14 The references to the relevant literature on the political economy of ECEs are provided in the sections below. This literature, in turn, gains from the combination with the GMP a more systematical reflection on the sources of economic growth in ECEs.

15 See Baccaro and Pontusson, "Rethinking Comparative Political Economy," 8.

for extending the GMP to ECEs can be found in the lower part (level B). In other words, the four factors highlighted above operate on two different levels of analysis.

In line with this reasoning, we are using different methods for tackling the identification of growth models in ECEs on the one side and the macro-political and institutional factors on the other. For the detection of ECE growth models, we employ simple statistical reasoning, whereas our study of the institutional and political factors sustaining these models will be based on vignettes. Vignettes, which have found their way from social psychology into other social sciences, are commonly understood to present case histories for the purpose of illustrating important traits of a situation or constellation. Importantly, they are considered to lend themselves particularly well to the development of a research agenda, in comparison to other traditions of case study research that require thick descriptions.[16] Our vignettes are short case studies on the institutional and political factors supporting specific growth models, employing interviews, documents and secondary empirical literature. They do not claim to provide comprehensive evidence, but rather to illustrate a conceptual point. Correspondingly, the selection of country cases is not only based on their representative character for the conceptual point at hand, but also on data availability.[17]

Against this backdrop, the paper first employs national accounts data to identify growth models in large ECEs over the past 20 years (A, Section 2). Based on this descriptive dataset, it elaborates on the relevance and fragilities of an 'investment-led growth model', which has received insufficient attention in the current GMP as of yet. The paper then lays out the small-N case universe from which we draw subsequent illustrative vignettes, which also serve to identify research avenues for the further study of ECEs. The first one highlights how ECE growth models are shaped through international interdependencies by analyzing the experience of Brazil and Indonesia during and after the recent commodity boom, given that these are major exporters of primary resources (B1, Section 3). The second one analyzes the interaction of growth models and social blocs in non-Western political settings by reflecting on the political support for the growth trajectories of Brazil, China and India – three cases with very different

16 Catherine Welch, Rebecca Piekkarim, Emmanuella Plakoyiannaki, and Eriikka Paavilainen-Mäntymäki, "Theorising from Case Studies: Towards a Pluralist Future for International Business Research," *Journal of International Business Studies* 42, no. 5 (2011): 740-762, 751-752; Pablo Fernández, Ignasi Marti, and Tomás Farchi, "Mundane and Everyday Politics for and from the Neighborhood," *Organization Studies* 38, no. 2, 201-223; Agnieszka Leszczynski, "Glitchy vignettes of platform urbanism," *Environment and Planning D: Society and Space* 38, no. 2 (2019): 189-208.

17 Methodologically, this is based on the triangulation of data sources from two larger research projects (which have conducted comparative case studies in China, India, and Brazil), including national statistics, policy documents, newspaper articles, secondary literature and expert interviews.

degrees of growth model stability (B2, Section 4). The third vignette identifies different regional growth models in very large ECEs, based on the case of China, which displays considerable in-country differences in the wake of the recent re-orientation away from exports (B3, Section 5). Lastly, the paper concludes with a summary of the results and discusses the implications and additional research needs for the growth model perspective in particular and IPE/CPE more broadly.

Contours of growth models in emerging economies

Kohler and Stockhammer[18] rightly doubt that there exists just one single (successful) growth model for ECEs. Conventionally, the rise of developing countries has been attributed to export-based growth – whether the East Asian 'tiger states' in the 1980s[19] or the rise of the BRIC countries, especially China, in the 2000s.[20] Current research on ECEs, particularly on state-led catch-up strategies that are often based on high levels of investment, points towards a range of factors affecting growth, which differ from these accounts – and indeed from experiences in advanced economies. This discourse already suggests that we may need to go beyond the conventional distinction between consumption/debt- and export-led growth models that dominates the analysis of advanced capitalist economies and consider an investment-led model in the analytical tool-kit.

Though aware of the limitations of this method,[21] we use the relative contributions to GDP growth in order to develop a first empirical approximation to growth models in ECEs. Our sample comprises the nine ECEs that belong to the top 15 countries with the largest proportion of global GDP (according to the IMF) with the addition of South Africa as the remaining BRICS country. This is where global growth has been attributed to, based on purchasing power

18 Karsten Kohler and Engelbert Stockhammer, "Growing differently? Financial cycles, austerity, and competitiveness in growth models since the Global Financial crisis," *Review of International Political Economy* (Online April 21, 2021), https://doi.org/10.1080/09692290.2021.1899035.

19 World Bank, *The East Asian Miracle: Economic Growth and Public Policy* (Oxford: Oxford University Press, 1993).

20 Robert Feenstra and Shang-Jin Wei, eds., *China's Growing Role in World Trade* (Chicago: University of Chicago Press, 2010).

21 Kohler and Stockhammer, "Growing differently?," 6; Stockhammer and Kohler, "Learning from Distant Cousins?," 10-12.

parities.[22] Following Hein, Paternesi Meloni and Tridico[23] we then calculate the relative contributions to GDP growth by dividing the change in one aggregate demand component (e.g. C for private consumption) by the change in GDP (Y: dC/dY). Table 1 displays the results for the nine selected ECEs as well as Germany and the UK for comparison as two paradigmatic export-led and consumption-led models respectively. While ECE annual growth rates are, on average, much higher than in the two European countries, data for Russia, Brazil and South Africa also show a steep decline from the 2000s to the 2010s.[24]

According to this data, there is not *a* single growth model for ECEs (Figure 2). South Africa appears to align with the consumption-based model of the UK, although government consumption in South Africa is much higher. Data for India, Russia, Mexico, Turkey and Brazil (particularly after the GFC) also suggest a significant role for private consumption in economic growth in line with the UK's paradigmatic consumption-led growth model, raising the question how far credit creation has been driving this trend. In China, too, there is evidence of private consumption playing a growing role, particularly in the period 2009-2016. Notably, China and Turkey display a strong investment-led profile similar to that of India and Mexico, though this tendency is declining in the latter case. In sum, investment and private consumption are the key contributors to growth in those ECEs, while government consumption is less significant. Net exports are very volatile and, with the exception of Korea and Indonesia (and to some extent also Brazil during the 2001–2008 commodity boom), not even close to the paradigmatic German export-led growth model.

22 We rely on national accounts data from the IMF Data Mapper (accessed 25 March 2020) for this selection and from here onwards on the OECD National Accounts Dataset and statistical yearbooks (see note for Table 1). Although Linsi and Mügge have shown that 'national accounting templates … capture current realities less and less well,' they remain the main source of data in the debate we are addressing. Lukas Linsi and Daniel Mügge, "Globalization and the growing defects of international economic statistics," *Review of International Political Economy* 26, no. 3 (2019): 361-383, 375.

23 Hein, Paternesi Meloni, and Tridico, "Welfare models and demand-led growth."

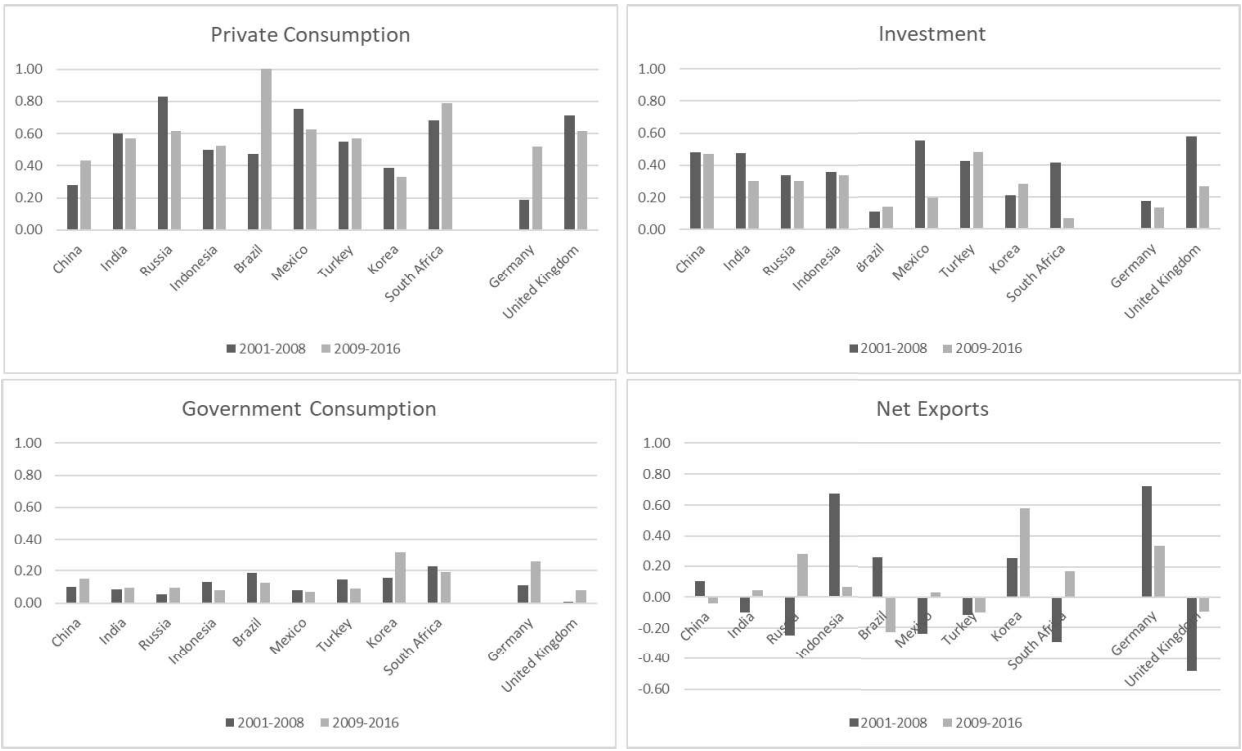
24 Our choice for the period of observation was strongly influenced by the availability of harmonized data (mostly 2000–2016), which we further split into two sub-periods (2001–2008, 2009–2016) to reflect the change in economic and political power usually associated with the global financial crisis.

Table 1: Relative contributions to GDP growth in emerging capitalist economies, Germany, and the UK, 2001–2016

			Relative Contributions to GDP Growth							
	GDP Annual Growth		Private Consumption		Government Consumption		Investment		Net Exports	
	2001-2008	2009-2016	2001-2008	2009-2016	2001-2008	2009-2016	2001-2008	2009-2016	2001-2008	2009-2016
China	10.70	8.26	0.28	0.43	0.10	0.15	0.48	0.47	0.10	-0.04
India	7.08	7.49	0.60	0.57	0.08	0.09	0.48	0.30	-0.10	0.04
Russia	6.58	0.64	0.83	0.62	0.05	0.09	0.34	0.30	-0.25	0.28
Indonesia	5.19	5.47	0.50	0.53	0.13	0.08	0.36	0.34	0.67	0.07
Brazil	3.71	1.24	0.47	1.02	0.19	0.13	0.11	0.14	0.26	-0.20
Mexico	1.90	2.19	0.75	0.62	0.08	0.07	0.55	0.19	-0.24	0.03
Turkey	4.71	5.33	0.55	0.57	0.15	0.09	0.43	0.48	-0.12	-0.10
Korea	4.91	3.23	0.39	0.33	0.16	0.32	0.21	0.28	0.26	0.58
South Africa	4.17	1.62	0.68	0.79	0.23	0.19	0.41	0.07	-0.30	0.17
Germany	*1.31*	*1.18*	*0.19*	*0.52*	*0.11*	*0.26*	*0.17*	*0.13*	*0.72*	*0.34*
UK	*2.38*	*1.22*	*0.71*	*0.62*	*0.01*	*0.08*	*0.58*	*0.27*	*-0.48*	*-0.10*

Sources: OECD National Accounts at a Glance, reference year 2015, GDP expenditure approach, extracted 26 February 2020; for China see National Bureau of Statistics of China, Statistical Yearbook 2019; own calculations. Note: While relative contributions to growth should in principle sum up to 1 (notwithstanding rounding errors), our calculations follow the practice of using *Gross Fixed Capital Formation* for measuring *Investment*, meaning that large swings in the *Change in Inventories* prevent this. Furthermore, for some countries—notably Indonesia (until 2007) and Russia (until 2013)—data were only estimated by the OECD, leading to overestimations of aggregate demand contributions. We have further excluded data irregularities for Mexico 2001/2002, Germany 2002, Brazil 2009.

Figure 3: Relative contributions to growth by demand component, 2001-2016



Source: see Table 1

Obviously, as private consumption plays an important role, it questions the popular diagnosis of ECE growth as being mainly export-led. Further juxtaposing ECE growth models with the consumption- and export-led models in advanced capitalist economies, we find investments to be heavily important for some ECEs, calling for the addition of an investment-led growth model to the typology of an extended GMP. For a theory of capitalist diversity this should not be a surprising point to make since investments should be at the core of any theory about growth – and in fact has been for political economy scholarship of the so-called 'golden age of capitalism'.[25] The question is whether it shapes the systemic character of a growth model or whether it is merely a way to achieve 'balanced growth'.[26] It stands that only investment expands productive capacity. Consumption and export growth affect demand and thus the utilization of the capital stock, yet only investments increase the capital stock. This point is particularly salient for ECEs since they usually have a lower capital stock than advanced economies and need to invest in order to catch up. At the same time, since higher investments yield additional capacity, there is also a need to find demand for this increased productive capacity. We cannot elaborate on this more deeply but want to highlight obvious interaction

25 Stephen Marglin and Juliet Schor, eds., *The Golden Age of Capitalism: Reinterpreting the Postwar Experience* (Oxford: Oxford Universitry Press, 1991); Schwartz and Tranøy, "Thinking about Thinking about."

26 Baccaro and Pontusson, "Rethinking Comparative Political Economy."

effects between investments, consumption and exports – consider, e.g. investments into infrastructure for the expansion of exports.

Systematically introducing the possibility of an investment-led growth model helps us to understand the various political-economic trajectories of high-growth economies. We can also learn from studies on former transition economies in Central and Eastern Europe as well as Ireland which also pointed to an 'FDI-led' model.[27] For instance, the macro-political and institutional factors that shore up and constantly challenge such an investment-led growth model vary with the latter's integration into the world economy and the kind of investments within that model. For this reason we later turn to a more qualitative vignette approach that is able to carve out potential causal effects arising from the factors introduced above.

After all, and it is worth repeating, the investment-led model is not dominant for ECEs as a group and requires as much differentiation as consumption-led and export-led growth models do.[28] Table 2 proposes such a differentiation with a view towards ECEs.[29] We posit that the considerable heterogeneity within the category of ECEs demands an institutionally sensitive process when classifying growth models. In order to substantiate this claim, we move from level A to level B through the study of export-led commodities-based growth (Brazil and Indonesia before 2008, section 3), investment-led domestically-based growth (China 2001–2016, section 4 and 5), and consumption-led wage-based growth (Brazil after 2008 and India 2001-2016, section 4); successively illustrating the importance of the various factors outlined above and representing constellations neglected in the study of growth models in the Global North.

27 Bohle and Regan, "The Comparative Political Economy."

28 For instance, Schwartz has stressed the distinction between Ricardian strategies, which rely on comparative advantage in, e.g., commodity trade and are fairly cyclical and market-confirming, vs. Kaldorian (catch-up) strategies, which aim at industrial upgrading through productive investments—none of which, however, emerge spontaneously. Herman Mark Schwartz, *States vs. Markets. Understanding the Global Economy*, 4th edition (London: Red Globe Press, 2019).

29 One might even add further distinctions in that quite different demand components are at play in other ECEs, for example small financial enclaves (such as Hong Kong and Singapore), or small commodity producers usually found in Sub-Saharan Africa (such as Equatorial Guinea or Chad).

Table 2: Growth models in emerging capitalist economies

Type	Consumption-led		Export-led		Investment-led	
Sub-type	Wage-based *e.g. Brazil 2009-2016*	Debt-based *e.g. South Africa 2001-16*	Commodities-based *e.g. Brazil & Indonesia 2001-08*	Manufacturing-based *e.g. Korea 2001-16*	FDI-based *e.g. Mexico 2001-2016*	Domestically-based *e.g. China 2001-16*

Source: Own elaboration.

International interdependencies of domestic growth models

In studying European political economy, IPE, CPE and PKE have converged on the importance of international interdependencies for the emergence of and interaction between export-led and consumption-led models, albeit with different emphases.[30] For emerging capitalist economies, however, different kinds of international interdependencies need to be studied, in particular global value chains, financial flows and commodity cycles. As mentioned in section 1, existing growth model research on emerging economies focuses on the first of those interdependencies, particularly how Central and Eastern Europe became dependent on foreign investment, while similar arguments have been made for Latin American economies.[31] Since FDI comes from multinational firms, it does not merely reflect macroeconomic conditions, but also business strategies and global power relations.[32] Here, IPE can help to take global corporations and their influence on national growth models seriously when studying ECEs,[33] thereby going beyond purely macroeconomic approaches but connecting to firm-centered arguments from CPE.

30 Supranational integration in the EU and the adjustment of EMU (European Monetary Union) economies after the Eurozone crisis play a particularly important role in the debate on European economies. However, they evoke an underexplored parallel with the evolution of ECE growth models to the extent that some of the latter may have been forged by structural adjustment programs pursued by the Bretton Woods institutions in the 1980s and after the Asian financial crisis. In both contexts, international institutions played a very powerful role with regard to domestic growth models. At the same time, the existence of different growth models also inhibits the evolution of powerful international institutions, for example with regard to the regulation of finance. See Thomas Kalinowski, *Why International Cooperation is Failing: How the Clash of Capitalisms Undermines the Regulation of Finance* (Oxford: Oxford University Press, 2019).

31 Ben Ross Schneider, "Hierarchical Market Economies and Varieties of Capitalism in Latin America," *Journal of Latin American Studies* 41, no. 3 (2009): 553-575.

32 Susan Strange, *The Retreat of the State: The Diffusion of Power in the World Economy* (Cambridge: Cambridge University Press, 1996).

33 Patrick Kacmarczyk, "Growth Models and the Footprint of Transnational Capital," Maxpo Discussion Paper no. 20/2 (Paris: Max Planck Sciences Po Center on Coping with Instability in Market Societies, 2020); Bohle and Regan, "The Comparative Political Economy."

Other important international interdependencies for ECEs stem from the integration of the latter in the global financial system. While Post-Keynesian Economics assert that the Global Financial Crisis has been a watershed for the development of growth models in advanced economies,[34] it has arguably played a similar role in some ECEs, where it fostered a change of growth models (see section 2). More specifically, global financial markets shape political economies in ECEs by means of subordinated financialization, potentially destabilizing domestic growth models via large-scale speculative financial flows and the dynamics of global financial cycles under US dollar hegemony.[35] Financial subordination thereby refers to many ECEs' strong reliance on external borrowing and the resulting vulnerability to sudden capital flows and exchange rate swings. Due to the still prominent role of foreign currency-denominated debt (famously called the 'original sin')[36] *and* foreign investors in local currency bond markets ('original sin redux'),[37] a large portion of ECE debt induces currency mismatches in the event of exchange rate depreciation which increases the risk of local financial crises. Since the demise of the Bretton Woods system, global financial flows have exploded and although many ECEs have sought to protect their economies against financial volatilities by imposing capital controls and accumulating foreign reserves, they still tend to be affected significantly.[38] As capital flows towards ECEs are predominately pro-cyclical, they tend to exaggerate boom-bust-cycles and seriously impinge on domestic macroeconomic stability.

Yet another underexplored form of international interdependency in the established debates on growth models with crucial repercussions for many ECEs are commodity price swings, especially in the form of commodity super cycles, where commodity prices rise sharply for several years before plummeting.[39] Commodity price fluctuations over proportionally affect

34 Hein, Paternesi Meloni, and Tridico, "Welfare models and demand-led growth"; Kohler and Stockhammer, "Growing differently?."

35 Annina Kaltenbrunner, "Financialised internationalisation and structural hierarchies: a mixed-method study of exchange rate determination in emerging economies," *Cambridge Journal of Economics* 42, no. 5 (2018): 1315-1341; Bruno Bonizzi, Annina Kaltenbrunner, and Jeff Powell, "Subordinate Financialization in Emerging Capitalist Economies," in Philip Mader, Daniel Mertens, and Natascha van der Zwan, eds., *The Roudledge International Handbook of Financialization* (London: Routledge, 2020), 177-187.

36 Cf. Barry Eichengreen, Ricardo Hausmann, and Ugo Panizza, "The Pain of Original Sin," in Barry Eichengreen and Ricardo Hausmann, eds., *Other people's money: Debt denomination and financial instability in emerging market economies* (Chicago: University of Chicago Press, 2005), 13-47.

37 Cf. Augustin Carstens and Hyun Song Shin, "Emerging Markets Aren't Out of the Woods yet," *Foreign Affairs* (online March 15, 2019), https://www.foreignaffairs.com/articles/2019-03-15/emerging-markets-arent-out-woods-yet, last accessed February 20, 2022.

38 Sarah Bauerle Danzmann, Thomas Oatley, and William Kindred Winecoff, "All Crises Are Global: Capital Cycles in an Imbalanced International Political Economy," *International Studies Quarterly* 61, no. 4 (2017): 907-923; Ilias Alami, *Money Power and Financial Capital in Emerging Markets: Facing the Liquidity Tsunami* (London: Routledge, 2021).

39 Bilge Erten and José Antonio Ocampo, "Super Cycles of Commodity Prices Since the Mid-Nineteenth Century," *World Development* 44, no. C (2013): 14-30; Andrés Fernández, Stephanie Schmitt-Grohé, and Martin

developing and emerging economies which, on average, are less diversified and more commodity-dependent than advanced economies. These price cycles do not only have a direct impact on export volumes and earnings, but also on macroeconomic stability, as economic activity in commodity-dependent ECEs closely mirrors the price movements of their major export items.[40] Here, we can draw on decades of development studies research which has pointed toward the significant macroeconomic effects of an overreliance on natural resources.[41] Even where advanced economies (such as Germany) have developed some kind of export extremism, they never fully tilt towards structural dependency — not least because the market structures for manufactured goods and commodities are fundamentally different. More specifically, avenues for structural change and diversification are limited for most ECEs and depend on sustained political efforts which are negatively affected by commodity price swings.[42]

In the recent past, very dynamic growth processes in large ECEs, especially China, increased demand (and prices) for commodities significantly.[43] This commodity super cycle came to a halt during the GFC and particularly after 2011, when commodity prices suffered greatly (see Figure 4).

Uribe, "Does the Commodity Super Cycle Matter?," NBER Working Paper Series no. 27589 (Cambridge, MA: National Bureau of Economic Research, 2020).

40 IMF, "World Economic Outlook: Growth Resuming, Dangers Remain," World Economic Outlook, April 2012 (Washington, DC: International Monetary Fund, 2012), 125.

41 E.g. the resource curse and Dutch disease phenomena. Cf. Paul Collier, "Primary Commidity Dependence and Africa's Future," World Bank Working Paper, April 2002 (Washington, DC: The World Bank, 2002).

42 UNCTAD, "Escaping from the Commodity Dependence Trap through Technology and Innovation," Commodities and Development Report 2021 (Geneva: United Nations Conference on Trade and Development, 2021).

43 World Bank, "How important are China and India in global commodity consumption?," Commodity Markets Outlook, July 2015 (Washington, DC: The World Bank, 2015).

Figure 4: Primary commodity price indices, 1990-2020

Source: Primary commodity price system (PCPS), International Monetary Fund

We argue that both financial flows to ECEs and commodity prices are connected and need to be studied jointly. Both dynamics are to a large extent determined by global business cycles as well as US monetary policy and are increasingly synchronized.[44] More specifically, capital inflows usually move in tandem with rising commodity prices, thereby aggravating the vulnerability of commodity-dependent ECEs to externally induced boom-bust-cycles.[45]

We can see the joint effect of these fluctuations on growth models by comparing Brazil and Indonesia, which are both commodity exporters and of a similar size. In both countries, the change in the growth trajectory at the end of the 2000s is striking, also in comparison with other major ECEs (see Table 1 and Figure 2). Whereas net exports were growth drivers for the two countries in the early 2000s, they were both hit hard by the strong reduction in the contribution to growth of exports after the end of the commodity boom that had been driven by China. In other words, the investment-led growth model in China created the demand for resources provided by extractivist suppliers with their export-led commodities-based growth model, only to increase pressure for adjustment when prices fell.

44 Silvia Miranda-Agrippino and Hélène Rey, "U.S. Monetary Policy and the Global Financial Cycle," *The Review of Economic Studies* 87, no. 6 (2020): 2754-2776.

45 Yilmaz Akyüz, "The Commodity-Finance Nexus: Twin Boom and Double Whammy," *Revista de Economia Contemporânea* 24, no. 1 (2020): 1-13.

The growth models of the two economies reacted differently to the end of the commodity cycle. Growth in Brazil collapsed, whereas it remained stable in Indonesia (see Table 1). While Indonesia was able to retain a high contribution of investments alongside private consumption when net exports dwindled, Brazil was unable to stimulate along similar lines (see also Section 4 below).[46] Furthermore, private consumption had to carry the whole burden of growth stimulation in Brazil in the medium-term, in line with the notion of reforms in favor of wage-based recovery but also rising consumer debt (see below). In other words, while Brazil moved from a commodity-based export-led model to a wage-based consumption-led model, Indonesia came to a more 'balanced' model based on investments and private consumption.

Openness toward the global economy and pressures from financial subordination seem to be core factors here. Brazil is much more open toward foreign finance and trade, whereas Indonesia has followed a more protectionist course since the GFC. Beginning during the second term of President Susilo Bambang Yudhoyono (2009–2014), Indonesia turned away from its previously rather orthodox neoliberal model.[47] In this case, protectionism refers both to financial flows — a legacy of the ill-fated opening of the financial sector after the 1998 Asian financial crisis[48] — and trade, where the risk of deindustrialization via open borders for Chinese imports has been taken much more seriously than in Brazil. This means, in turn, that Brazil was not able to minimize its structural dependency on foreign demand and finance in the same way as Indonesia.

The governments led by the Brazilian Workers' Party (PT) embarked on a program for stimulating domestic demand via private consumption when the PT took power in 2003.[49] Measures to alleviate poverty, raising the minimum wage and the promotion of credit access for private households (partly through social transfers) were successful in stimulating domestic demand and reducing inequality.[50] Yet, a large part of this additional demand was met by

46 The contribution of net exports to GDP growth in Indonesia fell from 43 per cent in 2009 to 3.6 per cent in 2011, turning even negative after 2012. In Brazil, net exports had lost traction already before the GFC, but dragged down annual growth by a third between 2008 and 2010, unable to recover after 2012 (OECD national accounts statistics).

47 Nicholas Jepson, *In China's Wake: How the Commodity Boom Transformed Development Strategies in the Global South* (New York: Columbia University Press, 2020).

48 Thomas Pepinsky, "The domestic politics of financial internationalization in the developing world," *Review of International Political Economy* 20, no. 4 (2013): 848-880.

49 Pedro Mendes Loureiro, "Class inequality and capital accumulation in Brazil, 1992-2013," *Cambridge Journal of Economics* 44, no. 1 (2020): 181-206.

50 Lena Lavinas, "The Collateralization of Social Policy by Financial Markets in the Global South," in Philip Mader, Daniel Mertens, and Natascha van der Zwan, eds., *The Routledge International Handbook of Financialization* (London: Routledge, 2020), 312-323.

foreign companies, most notably from China.[51] Furthermore, massive capital inflows led to a substantial overvaluation of the Real, proving a juggernaut for the domestic manufacturing sector and contributing to a sustained process of deindustrialization.[52] When the Brazilian economy recovered briefly after the GFC due to massive public investments in infrastructure and the expansion of subsidized credit, financial inflows surged to record levels, which then-Finance Minister Guido Mantega commented as a 'monetary tsunami.'[53] In this context, Brazil temporarily implemented capital controls and interventions in the foreign exchange market but powerful transnationally oriented financial capital prevented the introduction of really effective controls.[54] The broader macroeconomic trends, mainly rising Chinese demand for commodities, affected investment flows which mostly targeted the booming commodity sectors rather than manufacturing, counteracting industrial policies.[55] These industrial policies included huge tax exemptions for domestic industry under the so-called 'Greater Brazil Plan' launched in 2011 which, together with rising spending on pensions, social benefits and an array of subsidies to uphold domestic consumption, contributed to a rapidly deteriorating fiscal situation.[56] When tax returns shrank with the end of the commodity super cycle (and it became clear that expectations about the oil rents to be extracted from new hydrocarbon finds were overconfident), further stimulation of private domestic demand became highly contested and the consumption-based growth model turned sour.[57]

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51 Mauricio Mesquita Moreira, Marisol Rodríguez Chatruc, Filipe Lage, and Federico Merchán, „Trade, Productivity, Innovation, and Employment: Lessons from the Impact of Chinese Competition on Manufacturing in Brazil," IDB Working Paper Series No. IDB-WP-01141 (Washington, DC: Inter-American Development Bank, 2020).

52 André Nassif, Carmen Feijo, and Eliane Araújo, "The BRICS's Economic Growth Performance before and after the International Financial Crisis," *International Journal of Political Economy* 45, no. 4 (2016): 294-314; Daniela Magalhães Prates, Barbara Fritz, and Luiz Fernando de Paula, "Varieties of Developmentalism: A Critical Assessment of the PT Governments," *Latin American Perspectives* 47, no. 1 (2020): 45-64.

53 Kevin Gallagher and Daniela Magalhães Prates, "New Developmentalism versus the Financialization of the Resource Curse," in Ben Ross Schneider, ed., *New Order and Progress: Development and Democracy in Brazil* (Oxford: Oxford University Press, 2016), 78-104, 95.

54 Sacha Dierckx, "Capital controls in China, Brazil and India: towards the end of the free movement of capital as a global norm?," PhD Dissertation (Gent: Gent University, 2015), 154–155.

55 Francisco Costa, Jason Garred, and João Paulo Pessoa, "Winners and losers from a commodities-for-manufactures trade boom," *Journal of International Economics* 102, no. C (2016): 50-69; Mesquita Moreira, Rodríguez Chatruc, Lage, and Merchán, "Trade, Productivity, Innovation," 2.

56 Paulo Medas, "Modernizing Fiscal Institutions," in Antonio Spilimbergo and Krishna Srinivasan, eds., *Brazil: Boom, Bust, and the Road to Recovery* (Washington, DC: International Monetary Fund, 2018), 173-190; Márcio Holland, "Fiscal crisis in Brazil: causes and remedy," *Brazilian Journal of Political Economy* 39, no. 1 (2019): 88-107.

57 Otaviano Canuto, "The Brazilian Debt Hangover," Center for Macroeconomics & Development (Online January 25, 2017), https://www.cmacrodev.com/the-brazilian-debt-hangover/, last accessed August 23, 2021; *Author*, 2021.

Indonesia, in turn, has been more restrictive with regard to imports and financial flows, also as a reaction to previous destabilization: 'Since the 1997-98 Asian financial crisis, Indonesian economic policy has consistently prioritized stability over riskier pathways to economic growth.'[58] President Joko Widodo (in power since 2014) further strengthened the move toward neo-developmentalism, which began during the second term of his predecessor Susilo Bambang Yudhoyono.[59] Correspondingly, the government compensated for the end of the commodity boom with massive public investment, predominantly in construction and infrastructure projects, but also in 'downstreaming', where raw materials are processed domestically rather than exported. Similarly, the government has put into place a number of measures to limit imports, particularly of consumer goods. Together with expanding government social programs, the jobs created by these activities have contributed to strong growth of domestic consumption.[60] Similar observations can be made with regard to financial flows. Again, the Indonesian government has consciously put a premium on stability. Not only is the economy less integrated into global value chains than other countries in the region,[61] but the Indonesian government also puts a strong emphasis on limited vulnerability with regard to global financial markets. This includes capping external borrowing as well as the current account deficit, combined with the accumulation of considerable foreign exchange reserves.[62]

To sum up, both Brazil and Indonesia followed export-led growth paths during the commodity boom period, partly driven by demand from China. When the super cycle came to an end, Indonesia was less pressured by capital outflows than Brazil, enabling its government to expand fiscally and stimulate investment and consumption to boost growth. Brazil, in contrast, had — also fiscally — bolstered the expansion of domestic markets and consumption but, with rising public and private indebtedness, ran into crisis and stagnation.

The politics of growth models in emerging capitalist economies

There is widespread consensus that growth models require political support in one way or another. In the nascent GMP literature, the concept of 'social blocs' has been proposed as an

58 Roland Rajah, *Indonesia's economy: Between growth and stability* (Sidney: Lowy Institute, 2018), 2.

59 Eve Warburton, "Jokowi and the New Developmentalism," *Bulletin of Indonesian Economic Studies* 52, no. 3 (2016): 297-320.

60 OECD, "Indonesia," OECD Economic Outlook 2018, no. 2 (Paris: Organisation for Economic Co-operation and Development, 2018), 131–133.

61 OECD, "Indonesia," 133.

62 Rajah, *Indonesia's economy*, 3.

analytical angle to study the cleavages in advanced political economies.[63] The core idea behind the notion of social blocs is that growth models are supported by (cross-)class alliances unified by a common economic ideology. Conceptually, social blocs are at times associated with parliamentary majorities or sectoral coalitions.[64] Given the ongoing advancement of the GMP and its empirical application, however, there is no consensus about the precise dynamics that underlie the political dimension of growth models, particularly on when and under which conditions social blocs support the establishment of a stable growth model.

For adapting the toolbox of growth model research to emerging capitalist economies, we need to acknowledge that the political organization of growth might work out differently in most ECEs than in OECD countries, simply because social and political institutions differ strongly. As research on ECEs demonstrates, informality as a general trait plays a stronger role and hence, social blocs may also be established on the grounds of reciprocal, informal and interpersonal relations between capitalists and bureaucrats in non-democratic settings.[65] Political parties as well as sectoral associations are often less cohesive, less powerful and have fewer organizational capabilities than in advanced capitalist economies, which opens space for other forms of political coordination. At the same time, state bureaucracies in ECEs are often political actors in their own right,[66] which has to be reflected when we investigate the political support of macroeconomic growth models. The GMP has to be able to account for models in which a dominant state bureaucracy is able to support a growth model unlike in Western economies.

Such different types of state-business relations in ECEs raise the question whether we can assume a tight coupling between a specific growth model and a particular social bloc as we find it implicit in discussions about advanced capitalist economies.[67] Examining this question requires historically specific understandings of what can be considered a social bloc in 'non-pluralist' and 'subordinated' political-economic settings. When looking at ECEs through a

63 Amable, Regan, Avdagic, Baccaro, Pontusson, and van der Zwan, "New approaches to political economy;" Lucio Baccaro and Jonas Pontusson, "Social Blocs and Growth Models: An Analytical Framework with Germany and Sweden as Illustrative Cases," Unequal Democracies Working Paper No. 7 (Geneva: University of Geneva, 2019).

64 Bruno Amable and Stefano Palombarini, "A neorealist approach to institutional change and the diversity of capitalism," *Socio-Economic Review* 7, no. 2 (2009): 123-143; Peter Hall, "The Electoral Politics of Growth Regimes," *Perspectives on Politics* 18, no. 1 (2020): 185-199; Baccaro and Pontusson, "Social Blocs and Growth Models;" *Author*, 2021b.

65 Sylvia Maxfield and Ben Ross Schneider, eds., *Business and the State in Developing Countries* (Ithaca: Cornell University Press, 1997).

66 Atul Kohli, *State-Directed Development: Political Power and Industrialization in the Global Periphery* (Cambridge: Cambridge University Press, 2004).

67 Ban and Adascalitei, "The FDI-led Growth Regimes."

GMP lens, we must use historical descriptions about how growth models link to a specific kind of politics in these processes.[68] We attempt to do so by drawing on vignettes from Brazil, India, and China in light of the embeddedness of economic sectors and actors in the political sphere. These cases are particularly interesting, because they allow us to contrast cases with substantial changes in relative contributions to GDP growth (see Table 1) – China and Brazil – with a case of great stability (India).

Firstly, the Brazilian case allows us to illustrate the informal foundations of social blocs, since several large-scale corruption scandals have laid bare dense networks between politicians and capitalists that arguably supported the consumption-led growth model from the late 2000s onwards. The backbone of the bloc supporting this model have been large corporations in the construction, agribusiness, finance and steel sectors which benefitted the most from the consumption-led growth model and high commodity prices. The profits of these corporations were clearly bolstered by various economic policies of the PT governments which correlate with huge flows of campaign donations.[69] Besides huge public investments in infrastructure, the large construction conglomerates such as *Odebrecht* received nearly 12 billion US$ in BNDES loans for their foreign expansion.[70] Similarly, the meat processing giants JBS and Marfrig received substantial BNDES subsidies for their internationalization as 'national champions.'[71] These huge conglomerates fostered direct ties to members of the PT administrations.[72] The means to exert political influence ranged from vast campaign donations, powerful lobby groups in Congress – so-called parliamentary fronts (*frentes parlamentares*) – and several bribery and kickback schemes uncovered in a series of investigations, such as *Lava Jato*, *Carne fraca*, *Operation Bullish* and *Operation Calicute*.[73] The most disadvantaged sector was manufacturing, squeezed between limited export prospects and rising imports, whose companies and industry associations were most critical of key macroeconomic policies of Lula's presidency.

68 For a similar endeavor, see Aldo Madariaga, *Neoliberal Resilience: Lessons in Democracy and Development from Latin America and Eastern Europe* (Princeton, NJ: Princeton University Press, 2020).

69 Wagner Pralon Mancuso, Manoel Leonardo Santos, Ciro Antônio da Silva Resende, and Danilo Praxedes Barboza, "Financiamento Eleitoral e Compartamento Parlamentar: a relação entre doações da indústria e proposição de leis," Texto para discussão 2578 (Rio de Janeiro: Instituto de Pesquisa Econômica Aplicada, 2020).

70 Matthew Taylor, *Decadent Developmentalism: The Political Economy of Democratic Brazil* (New York: Cambridge University Press, 2020), 98.

71 *Author* 2020d, 37-8; Diego Finchelstein, "The role of the State in the internationalization of Latin American firms," *Journal of World Business* 52, no. 4 (2017): 578-590, 588.

72 Jawdat Abu-El-Haj, "Brazilian Left Bonapartism and the Rise of Finance Capital: A Critique of the Internal-Bourgeoisie Thesis," *Latin American Perspectives* 43, no. 2 (2016): 207-216; Taylor, *Decadent Developmentalism*, 138.

73 Taylor, *Decadent Developmentalism*, 131–155.

The social bloc began to disintegrate in 2011 when Dilma Rousseff launched a set of heterodox macroeconomic policies, including a more accommodative monetary policy, an expansionary fiscal policy and exchange rate interventions in an attempt to incorporate the manufacturing sector[74] plus an agenda to combat corruption. Ironically, the latter contributed to the demise of her party's political coalition.[75] When the *Lava Jato* investigations uncovered the vast corruption schemes involving the PT and many of its allies, the parts of the social bloc that relied heavily on the Petrobrás-construction nexus virtually imploded. Ultimately, the fragmentation of the bloc alongside global turbulence undermined the stability of an existing growth path, giving way to the subsequent right-wing governments of Temer and Bolsonaro, who partly ran on a neoliberal, extractivist platform.[76]

The social bloc, therefore, had a strong base in the political administration, albeit not by way of parliamentary majorities but through clientelist support. The political system in Brazil (and many other ECEs) does not easily suit the pluralist idea of social groups channeling their interests effectively through parliaments or associations. Consequently, the 'bloc' is not so solid as the concept suggests but can deteriorate rather quickly. Similarly, a neo-corporatist understanding of the social bloc draws short because organized labor plays no crucial role at all. It rather demonstrates that many underlying assumptions of the contemporary social bloc discussion are ill-suited to explain the diversity of political dynamics of growth models in ECEs.

Secondly, a view to India allows us to point out that focusing on political parties as the base of social blocs can be misleading for many ECEs. In the Indian case, growth contributions remained relatively stable, striving on domestic consumption and investment, despite witnessing a major change of government in 2014. The change in the ruling government party from Congress to BJP represented a fundamental shift in the political landscape that is arguably more radical than regular rule transfer among centrist parties in advanced capitalist economies.[77] While Congress has commonly been backed by the political establishment and traditional Indian business groups, uniting behind a developmentalist ideology, the BJP represents a Hindu-nationalist mobilization that is not only ideological but also supported by

74 Pedro Mendes Loureiro and Alfredo Saad-Filho, The Limits of Pragmatism: The Rise and Fall of the Brazilian Workers' Party (2002-2016)," *Latin American Perspectives* 46, no. 1 (2019): 66-84, 75.

75 Fernando Limongi, "Impedindo Dilma," *Novos Estudios Cebrap Especial* 2017 (São Paulo: Novos Estudios, 2017), 5-13, 7–8.

76 Morgan, Doering, and Gomes, "Extending Varieties of Capitalism."

77 Suhas Palshikar and K C Suri, "India's 2014 Lok Sabha Elections: Critical Shifts in the Long Term, Caution in the Short Term," *Economic and Political Weekly* 49, no. 39 (2014): 39-49.

an extremist right-wing cadre organization (Rashtriya Swayamsevak Sangh, RSS) from which, since 2014, many members entered the political elite.[78] From a pluralist perspective, therefore, Congress rule and BJP rule would reflect two completely different social blocs and consequentially, two different growth models.

However, the medium-term and annual composition of aggregate demand barely changed (see Figure 2, OECD national accounts statistics). The most likely explanation for this development is that the change of government did not really change the growth model and the underlying social bloc. Indeed, both before and after the BJP came to power, economic decision-making was controlled by a dense informal network comprising parts of government and large family-owned domestic corporations, such as Reliance Industries, Tata, Adani Enterprises and the big petroleum and steel giants.[79] Only at the peak of an anti-corruption campaign preceding the 2014 election, these informal networks were paralyzed for some time, which negatively affected investment and GDP growth.[80] But when mass mobilization associated with the anti-corruption movement lost pace, domestic business and the political class continued the growth model that had been initiated in the early 2000s. Political cleavages did not automatically translate into class or sectoral splits (or vice versa) and therefore, social and political support continued despite political sea changes.

Thirdly, China – although an extreme case in terms of regime type – may illustrate the proactive role of state bureaucracies in the development of social blocs and the adjustment of growth models in some ECEs, which goes beyond neo-corporatist leanings of Western political economy. While investment in China remained strong throughout the whole period – accounting for the largest contribution to growth in most years since 2001 – the role of exports and FDI decreased and private consumption increased after the GFC (Figure 2). This adjustment was not simply triggered by global economic factors. The ruling party-state bureaucracy supported the strengthening of domestic demand and thereby, to a certain degree, to dissociate growth from the ups and downs of the global economy. At the same time, the Chinese state leadership was worried that more growth of Chinese exports would not be tolerated by its trade

78 Neelam Pandey and Shanker Arnimesh, "RSS in Modi govt in numbers — 3 of 4 ministers are rooted in Sangh," The Print (online January 27, 2020), https://theprint.in/politics/rss-in-modi-govt-in-numbers-3-of-4-ministers-are-rooted-in-the-sangh/353942/, last accessed February 20, 2022.

79 *Author* 2020c: 90–95

80 The Economist, "A bad boom: Fighting corruption in India," (online 15 March 2014), https://www.economist.com/briefing/2014/03/15/a-bad-boom, last accessed 15 June 2020; Parkes Riley and Ravi K. Roy, "Corruption and anticorruption: The case of India," *Journal of Developing Societies* 32, no. 1 (2016): 73–99.

partners, most notably the US.[81] While policies to strengthen domestic demand were not as far reaching as initially promised by the government, real wages did increase significantly between 2008 and 2016.[82] Despite investment-led growth prevailing, net exports' contribution to growth fell from 0.10 in the 2001-2008 period to -0.04 in the 2009-2016 period. Conversely, private consumption's contribution rose from 0.28 to 0.43 (see Table 1).

Under pressure from lacking domestic innovative capabilities and from dependence on exports that were often of low value-added or dominated by foreign firms,[83] the party-state did aim to adjust the investment-led growth model. Over time, a renewed elite consensus was formed, supported by business and state elites as well as large parts of the urban middle class. While its composition remained stable, this social bloc connected to discourses on 'rebalancing the economy' and 'indigenous innovation' which became hegemonic in the 2010s.[84] While efforts to promote indigenous innovation required new waves of investments, underpinned by ever more ambitious industrial policies,[85] the rise of wages and hence purchase power of parts of the Chinese population also enabled the party-state to attach more importance to domestic consumption rather than external markets.

An illustrative case is the emergence of the electric vehicle industry. After over a decade of massive state support, China now has the largest domestic market for electric vehicles in the world.[86] Up until 2019, only a mere 1% of domestic production had been exported, a figure that pales in comparison with South Korea's 74% and Japan's 66%.[87] Amid this process, large traditional business conglomerates such as SAIC (state-owned) and new ones such as BYD (private) were major beneficiaries of the generous subsidies distributed. Thus, while the adjustment of the growth model was led by the party-state, big business also thrived (but see Section 5 for regional variation). Not only the social bloc constituted by the party-state, business elites and urban middle classes remained stable, thereby supporting the adjusted investment-

81 Bruno Jetin and Luis Reyes Ortiz, "Wage-led demand as a rebalancing strategy for economic growth in China," *Journal of Post Keynesian Economics* 43, no. 3 (2020): 341-366, 344.

82 Jetin and Reyes Ortiz, "Wage-led demand," 357.

83 Mingtang Liu and Kellee Tsai, "Structural Power, Hegemony, and State Capitalism: Limits to China's Global Economic Power," *Politics & Society* 49, no. 2 (2021): 235-267.

84 *Author*, 2019

85 Barry Naughton, "Grand Steerage," in Thomas Fingar and Jean Oi, eds., *Fateful Decisions: Choices That Will Shape China's Future* (Stanford: Stanford University Press, 2020), 51-81.

86 Godfrey Yeung, "'Made in China 2025': the development of a new energy vehicle industry in China," *Area Development and Policy* 4, no. 2 (2019): 1-21; Lingzhi Jin, Hui He, Hongyang Cui, Nic Lutsey, Chuqi Wu, Yidan Chu, Jin Zhu, Ying Xiong, and Xi Liu, "Driving a Green Future: A Retrospective Review of China's Electric Vehicle Development and Outlook for the Future," ICCT Report January 2021 (Washington, DC: International Council on Clean Transportation, 2021).

87 Jin, He, Cui, Lutsey, Wu, Chu, Zhu, Xiong, and Liu, "Driving a Green Future," 12.

led growth model, the party-state in this process kept political control over domestic capitalists and avoided, on balance, strong state capture.[88] Obviously, these adjustments need to be analyzed in more detail, as indicated by ongoing debates on whether other reforms under Xi Jinping really are efficient in further solidifying China's economic development and perpetuating elite consensus and thick state-business ties.[89]

To conclude, studying these large ECEs indicates that we should be cautious about transposing ideas about the tight linkages between specific growth models and the stability of social blocs from advanced economies. While our vignette on Brazil has supported this perspective – a crumbling of the social bloc has led to the crumbling of the growth model – our vignettes on India and China point to different directions. A 'tight coupling' or congruence of a particular growth model and a specific social bloc is not supported by the empirics in these ECEs. Moreover, the state is not merely at the receiving end of political demands made by social groups, as pluralist conceptualizations of the political process or accounts of state capture suggest. Rather, state bureaucrats that are leading parts of the social bloc can actively seek to adjust growth models, as in the case of China.

Identifying regional growth models

Earlier in this paper we established that ECEs often display productive heterogeneities. Very large economies such as China, India and Brazil may well be classified according to their growth model based on macroeconomic data. However, they also comprise different regional growth models as a result of different productive structures across regions. Thus, a single national model cannot capture the totality of growth here. In parts of rural India, for example, both institutionalist Comparative Capitalism and Post-Keynesian Macroeconomics may be ill-suited to make sense of pre-capitalist economic relations which, however, have an effect on those capitalist growth dynamics that we actually measure, if only through its effect on labor markets in the industrial centers. Moreover, the existence of different productive structures and

88 Changdong Zhang, "Asymmetric Mutural Dependence between the State and Capitalists in China," *Politics & Society* 47, no. 2 (2019): 149-176; Kjeld Erik Brødsgaard and Kasper Ingeman Beck, "Big Business and Cadre Management in China," *Copenhagen Journal of Asian Studies* 39, no. 2 (2021): 53-76.

89 Note that China's growth model is also characterized by growing debt, social inequalities and a polarization of living standards between affluent urban middle classes and destitute migrant workers for instance. Scott Rozelle, Yiran Xia, Dimitris Friesen, Bronson Vanderjack, and Nourya Cohen, "Moving Beyond Lewis: Employment and Wage Trends in China's High- and Low-Skilled Industries and the Emergence of an Era of Polarization," *Comparative Economic Studies* 62 (2020): 555-589; Matthew Klein and Michael Pettis, *Trade Wars Are Class Wars: How Rising Inequality Distorts the Global Economy and Threatens International Peace* (New Haven and London: Yale University Press, 2020).

regional growth models may be a source of strength and flexibility for these countries, allowing them to exploit different compositions of aggregate demand more easily.

Our vignette on in-country differences focuses on China, because the recent shift away from exports makes this case particularly instructive, compared to India where the growth model has been remarkably stable during the last decades. Chinese local states enjoy a significant degree of autonomy when it comes to economic governance,[90] and have been pivotal in fostering economic growth in the post-1978 period,[91] resulting in the existence of distinct regional models in the country.[92] Subsequently, we will combine approaches to the study of demand regimes from PKE and insights on institutional complementarities from Comparative Capitalism in order to explain the divergent growth performance of two of China's major growth engines: the cities of Nanjing and Suzhou.[93]

From the 1990s onwards, Suzhou, like many other cities in coastal China, started to actively attract FDI and rely on export markets as a strategy to spur economic growth. The large influx of FDI the city received was especially dominated by Taiwanese capital[94] and in the information and communication technologies (ICT) sector. Given the then prevalent logic of global restructuring of global production networks, Suzhou built a productive structure dominated by foreign capital seeking relatively lower costs (not only labor, but also land and transportation), geared towards foreign markets and concentrated in the ICT sector where it enjoyed robust external demand.[95] This strategy delivered strong economic growth to the city, especially until the outbreak of the GFC.[96]

Nanjing, in contrast, built a quite different productive structure. As an inheritance of the Maoist era, Nanjing forged a productive structure dominated by large state-owned enterprises (SOEs),

90 Chenggang Xu, "The Fundamental Institutions of China's Reforms and Development," *Journal of Economic Literature* 49, no. 4 (2011): 1076-1151.

91 Jean Oi, "Fiscal Reform and the Economic Foundations of Local State Corporatism in China," *World Politics* 45, no. 1 (1992): 99-126; Jane Duckett, "Bureaucrats in Business, Chinese-Style: The Lessons of Market Reform and State Entrepreneurialism in the People's Republic of China," *World Development* 29, no. 1 (2001): 23-37; *Author*, 2019.

92 Kellee Tsai, *Capitalism without Democracy: The private sector in contemporary China* (Ithaca and London: Cornell University Press, 2007), 152–199; Jun Zhang and Jamie Peck, "Variegated Capitalism, Chinese Style: Regional Models, Multi-scalar Constructions," *Regional Studies* 50, no. 1 (2016): 52-78.

93 In 2017, among the cities with the highest GDP per capita, Suzhou and Nanjing were ranked 5th and 9th, respectively.

94 Jenn-Hwan Wang and Chuan-Kai Lee, "Global Production Networks and Local Institution Building: The Development of the Information-Technology Industry in Suzhou, China," *Environment and Planning A: Economy and Space* 39, no. 8 (2007): 1873-1888.

95 Lei Wang, Jianfa Shen, and Calvin King Lam Chung, "City profile: Suzhou – a Chinese city under transformation," *Cities* 44 (2015): 60-72; *Author*, 2020a.

96 *Author*, 2020b.

especially in traditional sectors such as chemicals and metal-mechanics.[97] With the process of China opening since the 1990s, Nanjing also started to lure FDI, but this process was markedly different from Suzhou: first, Nanjing's attraction of FDI was more modest than Suzhou's; second, FDI in the city came from a more diverse set of countries and sectors, being less concentrated in ICT; third, because the city features higher average wages than Suzhou, the type of FDI seeking primarily lower costs to support export promotion was more prevalent in Suzhou rather than Nanjing.[98] As a result, Nanjing built a productive structure not only less dependent on foreign invested enterprises (FIEs) and external markets, but with more sectoral diversification. This strategy made the city more reliant on large domestic groups rather than foreign capital and, until the GFC, it translated into slower growth performances in comparison with Suzhou.[99]

However, related to the aforementioned adjustments in China's overall investment-led growth model, i.e. a stronger role for domestic consumption and less exports, Suzhou grew slower than Nanjing after the GFC.[100] Dominated by large export-oriented FIEs, Suzhou increasingly struggled to take advantage of China's booming domestic market. Eventually, even the FIEs that were established in the city felt compelled to alter their original strategy and started to shift their focus from external to domestic markets.[101]

Nanjing, in contrast, home to the headquarters of large domestic companies in the manufacturing and retail sectors such as Panda Electronics and Suning, could exploit these adjustments with no major difficulties. Even many of the FIEs established in the city had China's domestic market as their primary source of sales since their onset. Zeng and Bathelt[102] illustrate this with a study on the city's chemical industrial park, which has been dominated by SOEs and joint-ventures between FIEs and SOEs, normally oriented towards the domestic

97 Jianguo Wang, Xingping Wang, and Jianhao Zhang, "The formation and regeneration of old industrial zones in Nanjing City," *Local Economy: The Journal of the Local Economy Policy Unit* 26, no. 5 (2011): 373-383; *Author*, 2020a.

98 Y H Dennis Wei, "Beyond new regionalism, beyond global production networks: remaking the Sunan model, China," *Environment and Planning C: Government and Policy* 28 (2010): 72-96; Y H Dennis Wei, "Network Linkages and Local Embeddedness of Foreign Ventures in China: The Case of Suzhou Municipality," *Regional Studies* 49, no. 2 (2015): 287-299.

99 *Author*, 2020b.

100 *Author*, 2020b.

101 Wei, "Beyond new regionalism;" Wei, "Network Linkages." A similar process has been observed in export-oriented Chinese coastal cities such as Dongguan, see Chun Yang and Tanlan Fu, "From exports to sell in China: transformation of the export-oriented furniture firms in the Pearl River Delta," *Geografiska Annaler: Series B, Human Geography* 99, no. 4 (2017): 380-398.

102 Gang Zeng and Harald Bathelt, "Divergent Growth Trajectories in China's Chemical Industry: The Case of the Newly Developed Industrial Parks in Shanghai, Nanjing and Ningbo," *Geojournal* 76, no. 6 (2011): 675-698.

market. A joint venture between the world's largest chemical producer BASF and a subsidiary of Sinopec[103] located in this park, for example, did solely focus on China's internal market. In 2014, BASF expanded its Nanjing-based operations in order to supply to the growing internal market.[104] These examples indicate that Nanjing's productive structure – less reliant on ICT and less exported-oriented – was more suitable to exploit China's modified aggregate demand composition, based on increasing domestic consumption and less on exports. It should not come as a surprise, therefore, that the city started to grow consistently faster than Suzhou after the GFC.

This illustration reveals that the assumption of one uniform growth model is problematic. While macroeconomic data provide a general picture with regard to the overall growth model, the analysis of regional productive structures demonstrates the coexistence of different models within the same country. Moreover, it may be misleading to claim that one regional model is unambiguously superior to the other. The growth performance of these different regions is determined by the region's productive structure on the one hand, combined with the country's aggregate demand on the other.[105] Thus, two or more regional models can be complementary from a national perspective because modifications in the composition of the country's aggregate demand do not necessarily trigger poorer growth performance across the whole country. Rather, a previously laggard region may be in a position to exploit the country's new demand composition, as was the case for Nanjing in post-GFC China. In India, productive heterogeneities have also been identified, with different regional states able to pursue distinct developmental agendas.[106] In Brazil, in contrast, productive and sectoral heterogeneities have proven to be an enduring negative feature of its economy.[107] This indicates the need to take into consideration such regional heterogeneities, especially for large ECEs, but also to discuss whether these different regional growth models are complementary from a national perspective and whether different regions can simultaneously exploit different components of aggregate demand.

103 China Petroleum and Chemical Corporation, a large oil and gas SOE.

104 BASF, "BASF to increase production capacity for tertiary Butylamine plant in Nanjing, China," (Online October 28, 2014), https://www.basf.com/ru/ru/media/news-releases/2014/10/p-14-370.html, last accessed August 26, 2021.

105 *Author*, 2020b.

106 Aseema Sinha, "Rethinking the Developmental State Model: Divided Leviathan and Subnational Comparisons in India," *Comparative Politics* 35, no. 4 (2003): 459-476.

107 Gabriel Coelho Squeff and Mauro Oddo Nogueira, "A heterogeneidade estrutural no Brasil de 1950 a 2009," Textos para discussão CEPAL-IPEA 51 (Brasília, DF: Comissão Econômica para a América Latina e o Caribe, 2013).

Conclusion

In this paper we have sought to contribute to one of the most thriving debates in Post-Keynesian Macroeconomics and Comparative and International Political Economy to the study of ECEs. As the growth model perspective (GMP) offers an analytical toolbox for understanding contemporary capitalism, we argue that its attention should move towards those world regions in which economic growth has been rapid and widespread over the past two decades. However, this endeavor requires conceptual modification, whose necessity we have illustrated through a statistical growth decomposition and several case vignettes.

First, we have carved out the strong role of investment in the growth models of some ECEs, especially when compared to advanced economies, and, contrary to popular development discourse, a much smaller role of exports. Second, by employing vignettes of Brazil and Indonesia, we have highlighted the importance of a country's (hierarchical) insertion into the global economy for understanding its growth model and changes thereof — as illustrated by commodity cycles and financial flows. Third, our brief comparison of social blocs in Brazil, India and China showed that we can neither assume the textbook politics of pluralist democracies nor the tight coupling between a social bloc and a growth model to grasp the politics of growth. Fourth, and finally, by comparing the city regions of Nanjing and Suzhou in China, we have highlighted the existence of different, yet complementary growth models within very large ECEs, adding a subnational dimension to a literature that is often troubled by methodological nationalism.

Given the importance of economic growth for tackling poverty in emerging capitalist economies and the increasing footprint some ECEs are leaving on the dynamics of global capitalism, we contend that it is a worthwhile endeavor to further the research agenda outlined in this paper. Evidently, more comprehensive studies on each of the four factors and case trajectories identified in this paper are necessary, which could build several links to existing scholarship. One avenue would be to probe the relationship between demand-side approaches like the GMP and supply-side institutionalism, in the spirit of e.g. the Régulation School.[108] Moreover, by considering growth models in ECEs we need to connect to the vast body of research on and beyond the developmental state or Listian traditions more generally.[109] If social

108 Robert Boyer, *The regulation school: a critical introduction* (New York: Columbia University Press, 1990)

109 Ziya Öniş, "The Logic of the Developmental State," *Comparative Politics* 24, no. 1 (1991): 109-126.

blocs are thought to be a necessary condition for the existence of a growth model, future research has to ensure that it productively connects to the ample research on state-business relations in developing countries.

Similar work is needed for the specific character of investments in an investment-led growth model. As we know from recurrent debates on the debt burden in China and Turkey, investment-led growth can be financed through domestic or foreign debt, creating different adjustment pressures,[110] next to the dependencies arising from FDI-led growth. In order to determine these important distinctions, it is not sufficient to rely on aggregate statistical data. A mixed-method approach that combines the PKE-typical use of statistical data with case studies based on interviews and other qualitative data appears to be more adequate.[111]

Finally, the emphasis on the importance of international interdependencies and hierarchies for understanding growth models in ECEs could also be used to bridge some of the gaps between Comparative and International Political Economy, inter alia rooted in the neglect of macroeconomics.[112] Although, in this paper, we have understood international interdependencies mainly as 'independent variables' for the evolution of national-level growth models, the outlined research program highlights the mutual constitution and interaction of growth models in a global perspective: between commodity exporters and Chinese industrial exports or between countries with a massive balance-of-payment surplus (China, Germany, Korea) on the one hand and the financing needs of consumption-driven models in the US and UK on the other.[113] In this sense, we hope adapting the toolbox of growth model research to emerging capitalist economies sparks greater cross-disciplinary and global engagement.

110 Klein and Pettis, *Trade Wars Are Class Wars*.

111 Kaltenbrunner, "Financialised internationalisation and structural hierarchies."

112 Blyth and Matthijs, "Black Swans, Lame Ducks;" Schwartz and Tranøy, "Thinking about Thinking about."

113 See also Kalinowski, *Why International Cooperation is Failing*; Klein and Pettis, *Trade Wars Are Class Wars*.

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