DEVELOPMENTAL STATES IN EAST ASIA: A COMPARISON OF THE JAPANESE AND CHINESE EXPERIENCES*

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In the aftermath of the East Asian crisis and Japan’s prolonged economic downturn, many observers considered that East Asia’s distinctive model of state-led development had become redundant and irrelevant. And yet not only have aspects of this model persisted in Japan despite attempts to reform it, but China is actively embracing elements of neomercantilism and state interventionism that owe much to the Japanese exemplar. Even more strikingly, China’s success and the influence of the “Beijing consensus” are encouraging other countries to follow suit. This article explores the trajectory of East Asian forms of developmentalism and suggests that reports of their death may prove premature.

Key words: Economic development in Asia, East Asian politics, China, Japan

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Introduction

The economies of East Asia have attracted the attention of scholars and policy makers for decades. Rightly so, although some observers may have become blasé about, if not bored with, the story of the “Asian miracle.” The rise of Japan and more recently China remain remarkable, unparalleled—largely optimism-inducing events of enormous long-run, geopolitical significance. But it is not just the fact of Japan’s and China’s unprecedented economic expansion that has been noteworthy, it is also the manner in which it has been achieved. What has really set the most successful East Asian economies apart, and what has given them a wider significance in debates about economic development and public policy, has been the role of government. The “developmental state” pioneered by Japan, which was emulated with varying degrees of faithfulness and efficacy elsewhere in the region, became synonymous with East Asia’s rapid economic expansion and emblematic of the region’s distinctive approach to economic management.¹

The precise impact of the developmental state in actually accelerating economic growth or in “deepening” the extent of subsequent industrialization in either Japan or elsewhere remains uncertain, contentious, and indicative of our imperfect understanding of such processes.² However, even among those observers who are prepared to acknowledge that a powerful state apparatus may have played an important role in overseeing and directing the course of Japan’s post-war economic renaissance, there is a widely held view that in an era of growing cross-border economic

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¹ Alice H. Amsden, *The Rise of “The Rest”: Challenges to the West from Late-Industrializing Economies* (Oxford: Oxford University Press, 2001). It should be noted that there is also an extensive literature that considers the developmental experiences of South Korea, Taiwan, Singapore, and even Southeast Asia, but this lies beyond the scope of this article. For an overview, see Mark Beeson, *Regionalism, Globalization and East Asia: Politics, Security and Economic Development* (Basingstoke: Palgrave, 2007).

integration, such a role for the state is anachronistic at best, inimical to further development at worst. Japan’s comparatively anemic economic performance throughout the 1990s and into the new century seemed to confirm the wisdom of such views: Not only was Japan performing badly—especially when measured by its own lofty former standards—but it seemed that Japanese policy makers were incapable of coming up with ways to address the malaise. Worse still, the entire Japanese political and bureaucratic system seemed to be contributing to the problem and came in for extensive criticism as a consequence.

In such circumstances, some observers think it unlikely that the developmental state might persist in Japan, let alone still be emulated elsewhere. And yet that is precisely what seems to have happened: Not only does the legacy of Japan’s “interventionist” state live on and continue—for better or worse—to shape public policy in that country, but others have sought to replicate aspects of the “Japanese model” elsewhere. By far the most important of these potential acolytes is China, which has attempted to reproduce some elements of the Japanese exemplar to accelerate and manage its own remarkable rise.
sequently presents an important case study of the durability and continuing attractiveness of something approximating a developmental state in the contemporary era, especially when the neoliberal, Anglo-American alternative looks so discredited, and when some are suggesting that East Asian forms of capitalism look increasingly attractive.9

Given the significance of Japan and China as developmental exemplars and as pivotal economic, political, and strategic actors in East Asia and the wider international system, it is surprising how few attempts have been made to compare their respective historical experiences.10 Doing so, however, provides important insights into the dynamics of development in East Asia and the importance of specific historical conditions. The principal conclusion that emerges from what follows is that while contingent international strategic and economic conditions may structurally constrain policy choices and developmental paths, agency matters and political elites may retain a surprising degree of autonomy if they care to try and exercise it.

In short, there are complex dialectical processes at work in East Asia that will continue to shape political and economic structures in the region, and ensure not only that it will continue to look noticeably different from Anglo-American forms of capitalism, but that something approximating the developmental state is likely to remain part of it. The first part of the discussion provides a brief conceptual introduction to the developmental state and the persistence of difference in East Asia. I suggest that whatever we may think about the utility or feasibility of developmental states in the current era, they are likely to persist as a consequence of path dependency, institutional “stickiness,” and the interlocking patterns of political and economic power that are such a ubiquitous and distinctive part of development in East Asia.11

10. For a rare exception, see Saadia M. Pekkanen and Kellee S. Tsai, eds., Japan and China in the World Political Economy (London: Routledge, 2005).
Conceptualizing Developmental States

State Capacity

The developmental state became a widely used and understood concept as a consequence of Chalmers Johnson’s seminal analysis of Japan’s post-war economic reconstruction. In Johnson’s original formulation the developmental state had a number of features—principal among which were competent state agencies and carefully calibrated industrial policies—that allowed it to play a decisive role in directing the course of Japan’s economic resurrection. The key quality that made the state in Japan developmental was that it planned the development process rather than relied on market forces to determine the optimal allocation of resources. Unlike “market rational” states, which were concerned with simply establishing the rules of the economic game, the “plan rational” state sought to formulate and pursue “substantive social and economic goals.” In Japan’s case, as I explain in more detail below, there is no doubt that such goals were often achieved, thanks to a combination of domestic capacity and favorable external circumstances. The unprecedented success of Japan’s post-war developmental project gave it—for a while, at least—a talismanic status for other would-be developers, and a special place in debates about and analysis of the rapidly expanding field of comparative political economy.

The nature of contingent circumstances determines both the quality and impact of national public policy. Differing “state capacities” are at the core of idealized depictions of the developmental state. Because Japan appears to be losing them and China

has never fully developed them, it is worth spelling out what they are supposed to be. At one level state capacity is easily defined: simply a state’s ability to design and implement policy.\textsuperscript{14} However, this begs a series of further questions about the precise attributes that allow some broadly similar states to do this more or less effectively while others find it more difficult. Again, this seems superficially straightforward and a function of the degree of “stateness” or “strength” that different states may have. It was the apparent absence of such qualities that Migdal thought explained disappointing developmental outcomes in Africa, for example.\textsuperscript{15} By contrast, it was precisely the possession of state strength, or more particularly an ability to “penetrate” and mobilize the society in which the state was embedded, which some observers claimed was the key to the rise of East Asia.\textsuperscript{16}

The challenge has always been in achieving the right degree of what Peter Evans famously described as “embedded autonomy”\textsuperscript{17}—in other words, bureaucratic agencies that were not only capable and coherent, but also were sufficiently close to society and economic actors to implement policy and “guide” development. The danger has always been that such agencies would become too close, “captured,” and the servants of particularistic interests. It was precisely this possibility that was described as “crony capitalism,” and considered by critics as part of the explanation for the East Asian financial crisis.\textsuperscript{18}

\textsuperscript{18} The literature on the East Asian crisis and the possible role of crony
The Developmental State

One of the advantages of comparative analyses of the sort that follows is that it illustrates the way that some of these factors are actually realized or approximated in practice. It is worth emphasizing a few general issues at the outset, though. First, the idea of the developmental state deployed here stands for a general policy orientation on the part of the state, rather than a specific set of initiatives or bureaucratic practices. The key point is that such an activist orientation is fundamentally at odds with the idealized small-state, market-centered, neoliberal model associated with the Anglo-American economies; it consequently remains a useful point of departure when thinking about broad brush distinctions between East Asia and elsewhere. Adopting a new policy paradigm inevitably creates winners and losers, something that helps to explain the continuing resistance to neoliberal reform in East Asia.19 Second, the particular way that such an orientation will reveal itself will vary as a consequence of specific national histories and may endure even when the original “need” for such an approach has apparently passed. As Stephan Haggard points out:

Asia proves that a variety of institutional arrangements can contribute to high growth. Understanding the diversity of institutional arrangements, however, requires an analytic strategy that differs somewhat from focusing on the functions that institutions might perform, and calls on us to dig beneath institutional arrangements to reveal the political relationships that create and support them.20

This is a point that has also been emphasized by Adrian Leftwich, who reminds us that development “must always be understood as an inescapably political process in which the purposive interaction of people, power and resources, in diverse cultural and historical contexts, shapes the pattern and the outcomes at any given point.”

Both the Japanese and Chinese cases reflect this point but also suggest that, despite very different national histories, state capacities, and modes of integration into the global economy, there are sufficient commonalities in the overall patterns of economic governance in Japan and China to allow us to label them both as being in the developmental camp. There are, however, also important and enduring differences. Paradoxically, both the differences and similarities can be explained in large part by domestic politics, and the way they have been shaped by and have responded to a complex array of economic and geopolitical forces.

The very different reactions of Chinese and Japanese elites during the nineteenth century in particular provide a compelling reminder that state policy makes a decisive difference in determining long-run developmental outcomes. From being the center of an East Asian political order that had endured for centuries and which plainly engendered a degree of hubris and insularity, China found itself unable to respond to the economic and political expansion of Europe. By contrast, the response of Japan to Western, or more especially, American intrusion could hardly have been more different. True, Japan’s elites were initially just as insular and unhappy about the prospect of adjusting to external pressure as China’s were, but the forced “opening” of Japan by the United States in the middle of the nineteenth century...

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century triggered a process of profound social transformation. The Meiji Restoration marked the beginning of a process that would see Japan completely overhaul its structures of governance, and institutionalize a powerful, centralized state at the heart of its long-run rise to prominence as an industrial and military power. It is also important to recognize that the political histories and cultures of both Japan and China have made the very idea of a powerful, interventionist state much less problematic than it has in the Anglo-American economies.

The durability of Japan’s political and economic institutions in the face of American reformist pressures is attributable to the fact that such pressures dissipated with the onset of the cold war and the need to stabilize capitalist allies of any sort—even those that practiced the sort of centralized, neo-mercantilist interventionism that was an ideological anathema to many U.S. policy makers. Put bluntly, the imperatives of cold war rivalry and the need to consolidate Japan as a successful bulwark against possible Soviet expansion and as the centerpiece of a regional economic revival meant that the United States was forced to tolerate a largely unreconstructed Japanese developmental state. The geopolitical context of the cold war also proved both a powerful external spur to development through aid and investment packages, and a surprisingly permissive ideological context within which to pursue state-led development strategies. At least this was the case for U.S. allies.

For countries like China that were on the “wrong” side of the ideological fence, the developmental forecast was a good

26. I am indebted to Adrian Leftwich for this important point.
deal gloomier. Indeed, it is easy to forget that China’s relatively isolated and intimidated “socialist developmental state” achieved substantial industrialization and modernization from a very low base and in remarkably unpropitious circumstances.\(^{30}\) Moreover, as Alvin So perceptively points out, “the present developmental miracle of China actually owes much to the historical heritage of the Maoist era. Despite many shortcomings, the Maoist legacy has provided China with a strong Leninist party-state, [and] a concentration of power in the communist party.”\(^{31}\)

Paradoxically enough, therefore, the cold war period, and the exigencies of development and even state survival in China’s case, have at least partly enabled China’s current state-directed integration into the global economy. But it is doing so in very different circumstances from those that confronted Japan, and without some of the advantages that Japan possessed. The next section spells out how Japan managed this process, what eventually went wrong, and why aspects of the developmental state persist.

### Japan: Still Developmental After All These Years?

The current conventional wisdom is that whatever the advantages Japan’s developmental state may once have enjoyed, it is now associated with stasis at best, long-term decline at worst. Nevertheless, elements of the developmental state persist as a result of path dependency, institutional inertia, and because some actors continue to support them. In order to understand why, it is useful to remind ourselves of what the Japanese devel-

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opmental state looked like in its heyday and why it has proved so resistant to change.

*Japan’s Success Story*

The story of the Japanese miracle has been frequently told, so I shall simply highlight some of its key features here. Most importantly, perhaps, Japan’s resurgence occurred in very different circumstances from those confronting China. Two external conditions were especially favorable as far as Japan was concerned. First, the Japanese were actively supported rather than “contained” by the now hegemonic presence of the United States. The willingness to tolerate Japan’s neo-mercantilist developmental strategies was a crucial component of the permissive environment in which Japan prospered. This was especially important given a second factor that favored Japan. The U.S. promotion of a broadly “liberal” world order in the aftermath of World War II would eventually culminate in the greater degree of international economic integration that we now associate with “globalization.”

For the first few decades of this process, however, Japan would enjoy the best of both worlds: It was able to take advantage of a rapidly expanding international economy and relatively unfettered access to important markets in Europe and North America, without having to open up its own markets and, crucially, while maintaining control of the domestic financial system.

Japanese bureaucrats had some particular advantages in pursuing their vision of industrial rebirth. First, the idea of a powerful, interventionist state enjoyed a degree of legitimacy that it did not in the Anglo-American economies, where very different traditions of economic and political thought prevailed.

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34. Beeson, *Regionalism, Globalization and East Asia*. 
over, the bureaucrats not only enjoyed a good deal of prestige, they also had real power: The nature of Japan’s political system, in which the conventional political class is famously ineffective and preoccupied with raising money to fight elections, meant that the bureaucrats were generally allowed to get on with running the economy. When the developmental state was at the height of its powers, state officials were able to exploit the sorts of “embedded autonomy” that Evans considered vital to effective policy implementation. Close connections with Japan’s powerful keiretsu business groups allowed industrial policies to be coordinated via an “old boy network” of ex-public servants who ended their careers in the board rooms of leading Japanese corporations.

Such relationships were fundamental components of the old order. The very different way in which they are now viewed is emblematic of the real material changes that have overtaken Japan and of the ideological prism through which they have been refracted. But before considering these changes it is important to briefly note that the “Japanese model” had other important components that help explain its undoubted success. The keiretsu networks, for example, enjoyed significant competitive advantages, partly because they were embedded in a wider array of institutionalized social relationships that together helped Japan to “catch-up” with the rest of the industrialized world;

36. Evans, Embedded Autonomy.
38. What Michael Gerlach calls Japan’s alliance capital benefited from stable patterns of cross-shareholding and preferential trading relations with other keiretsu members and access to “patient” capital for their “main banks.” There is, of course, currently a debate over whether such relationships are either any longer beneficial or sustainable in the face of greater competition and external pressure, but they undoubtedly underpinned the expansion of Japanese capital domestically and overseas. See Michael L. Gerlach, Alliance Capitalism: The Social Organization of Japanese Business (Berkeley, Calif.: University of California Press, 1992).
they also gave Japan’s distinctive patterns of social accommodation a good deal of stability and resilience. Not only did its industrial relations system feature “lifetime employment” and a more collective commitment to corporate goals; Japan’s economic and social institutions were also widely thought to give it a competitive advantage over other economies.

*Things Fall Apart*

Japan’s growth record since the beginning of the 1990s has caused a major rethinking of the entire Japanese experience and about the role of the developmental state within it. While this is understandable enough, perhaps we also need to think about the wider geopolitical context in which the Japanese model appeared to founder. Of central importance in this context was the winding down of the cold war and an increased willingness on the part of the United States to pressure Japan into opening up its domestic economy. Precisely the same sorts of pressures are building up around China since it has supplanted Japan as the principal source of U.S. trade deficits. They are no more likely to address the underlying problems than they were in Japan’s case. Nevertheless, they do serve as a reminder of the dynamics, importance, and possible unintended consequences that flow from specific geopolitical contexts.

Many of Japan’s current problems were either caused by, or manifest in, the “bubble economy” that emerged in the late 1980s. The causes and consequences of the bubble economy have already been extensively analyzed, so it is sufficient to

39. In reality, lifetime employment only ever applied to about one third of the workforce, and much of the labor force enjoyed much less security and was often fairly ruthlessly squeezed by big business.
simply make a few general points here. First—and something that is generally neglected in most analyses—Japan’s strategic dependence on the United States and the non-negotiable nature of the security relationship meant that it was potentially vulnerable to shifts in the overarching geopolitical context. The growing preoccupation of the United States with its own national economic position during the 1980s was making it increasingly unwilling to bear the costs associated with benign hegemony, and more demanding of allies as their strategic importance declined. When the Americans demanded that Japan cooperate in a process of managed currency realignment, Japanese policy makers had little choice but to oblige.

The so-called Plaza Accord negotiated in 1985 may have had the desired short-term impact of reducing the value of the dollar against the yen, but it set in motion a series of unforeseen and often unwelcome consequences that continue to reverberate. As far as Japan was concerned, the Accord had two principal effects. First, as a consequence of a loosening of domestic monetary policy to compensate for the appreciation of the yen, speculative bubbles developed in the real estate and stock markets. The yen appreciation and the increased cost of doing business in Japan also led to a second effect: the off-shore migration of Japan’s most competitive, export-oriented companies and a greater reliance on (and need to protect) the “inefficient” domestic

sector. In the longer term, Japan’s underlying political dynamics and economic structures, which had become increasingly reliant on trade surpluses to underwrite a distinct domestic accommodation, appeared incapable of delivering continuing high growth in the face of increased international competition. This created pressure for reform from inside, and especially outside, Japan.

Yet, while it is true that the liberalization of finance has begun to loosen ties between the financial and industrial sectors in Japan and undermined the policy tools available to agencies like the Ministry of Finance (MoF), the reform process has been anything but a “big bang.” Not only has the MoF fought to resist change—as have other key bureaucracies—but it has actually sought to expand its power by managing the very reforms that were supposed to curb its influence. What is especially noteworthy about Japan is that financial regulation in particular has been based on “informal relational ties linking government regulators and financial institutions and [a] reliance on discretionary rather than rules-based procedures.” Consequently, transforming Japan’s policy networks and the political rationality that pervaded the developmental state will require more than simply rewriting the regulatory framework.

Given that the integration and evolution of financial sector
activity has arguably gone further than any other aspect of “globalization” and consequently might be expected to have a major impact on domestic regulatory structures, the limited extent of financial-sector reform in Japan is especially revealing. It becomes easier to understand why reform initiatives have had a modest impact elsewhere, too. As Edward Lincoln points out, a big chunk of Japan’s population has a powerful stake in the old regime and little incentive to seek or lobby for change. As a result, the problem Japan confronts is that although the constellations of political power and social accommodation that underpinned the old model may still be largely in place, the policy tools and thus the effectiveness of the developmental state have been significantly eroded.

While it is clear that Japan’s developmental state played a pivotal role in shaping its post-war recovery, it is equally apparent that it has become increasingly dysfunctional. Even in its heyday the developmental state didn’t entirely manage to avoid capture by particularistic interests, as the notorious “construction state” and the astounding waste of public money with which it was associated attests. The weakness and idiosyncrasies of the Japanese political system suggest that there is still little appetite or political capacity to promote major reform. As a result, Japan finds itself in something of a governmental limbo. As Steven Vogel puts it, “Japan’s error may not have been sticking with a model that was outmoded but abandoning a model that worked without converting to a new one.” Yet despite current problems with the “Japanese model,” it continues to provide something of an inspiration and a useful comparative benchmark for other East Asian states, including China.

52. Lincoln, Arthritic Japan.
55. Vogel, Japan Remodelled, p. 34. Also see Bai Gao, Japan’s Economic Dilemma: The Institutional Origins of Prosperity and Stagnation (Cambridge: Cambridge University Press, 2001).
China: Not Developmental Enough?

The central issue in what follows is whether, despite—or perhaps because of—the profound economic and political changes that have swept through China over the last thirty years or so, it can be thought of as a developmental state in broadly the same way as Japan. Despite some significant differences, I shall suggest in what follows that it can, and it may even become more so in time. At the very least, a comparison with the Japanese experience highlights important elements of the general East Asian success story that may have enduring significance for the East Asian region and beyond.

Two general issues are worth highlighting at the outset. First, like Japan, the People’s Republic of China’s (PRC) developmental project has been profoundly influenced by the wider geopolitical context in which it was embedded. In China’s case, of course, this has—until relatively recently, at least—been a major disadvantage: China found itself politically and economically marginalized in an increasingly integrated international political-economy dominated by the United States. In such circumstances, it is hardly surprising that China’s leaders initially “leaned toward” the Soviet Union, its notional ideological ally. The second point which flows from this is that, although China’s political and economic regime is very different from Japan’s, the PRC government has from its inception also been a developmental state, albeit one that was initially socialist and Maoist. Indeed, it could hardly have been otherwise: States can’t get much more “interventionist” and directive than they do under central planning.

But the limits of China’s self-reliance and the disadvantages of isolation from global economic forces became increasingly apparent during the 1950s and 1960s. This is not to say that significant development did not occur during the Mao era—it did—

58. Even under Maoist central planning, China’s growth was much higher
but it was dwarfed by the rapid economic growth that was occurring elsewhere in the region, most gallingly in Taiwan. Even when Deng Xiaoping made the pragmatic decision to begin “opening” China and integrating with the global economy, it was not obvious whether the capitalist road and the journey from plan to market would prove successful. Equally importantly, the implications of this transition for the Chinese Communist Party (CCP)—which, despite significant changes, remains the central political force in Chinese politics—were far from clear. Although there are powerful forces in Japan that have also resisted wholesale economic liberalization, in the PRC policy change has an ideological significance that potentially transcends the concerns of simple vested interests. The ability of the ruling elite to reconcile potentially competing political and economic imperatives has placed a strain on already limited state capacities.

**China’s Paradoxical Developmental State**

Given China’s unprecedented recent growth spurt, we might be forgiven for thinking that the PRC government must be doing something right. And yet many China specialists argue that China’s development is either “dysfunctional,” or caution that “[r]eifying the PRC as a developmental state would reflect only the center’s official aspirations, not the empirical reality within the party-state’s own institutions.” How do we reconcile this apparent contradiction? Plainly, at one level the Chinese econo-

my must finally have been in the right place at the right time, but this still begs the question of how much credit the PRC government deserves for directing or managing this process. At the very least, Deng’s decision to “open” the Chinese economy was a political initiative that merits comparison with Japan’s opening a century earlier. As we have seen, in Japan’s case there is a substantial consensus that whatever problems the Japanese economy may presently have, historical patterns of state intervention and direction were decisive and beneficial in the high growth period. In China’s case, the lack of a similar state capacity and doubts about the state’s ability to direct the course of development have led to more equivocal interpretations of the developmental process. Indeed, it has been argued that it is a lack of state capacity and the concomitant inability of government to direct or compel compliance with its initiatives that have actually made market-led development more attractive.62

A number of factors seem to have stopped the state in China from playing as extensive and effective a role as it did in Japan. Most obviously, of course, the fact that China was geographically and demographically massive, “socialist,” impoverished, and lacking in the sort of developmental track record that led Japan to colonize China rather than vice versa, were clearly long-term handicaps. But the nature of the political relationships and economic structures that developed in the PRC meant that the course of development was shaped by contingent forces that continue to constrain policy options even in the post-Mao reform era. At the center of China’s comparatively modest levels of state capacity is what Lieberthal called “fragmented authoritarianism,”63 or functionally differentiated clusters of responsibility that have made decision making contested and far less coherent

than in Japan, where its bureaucrats were less constrained by rival centers of political, ideological or even military power.\textsuperscript{64}

The ability of the central government to exercise its authority and guide development appears to have been further compromised by a process of decentralization. However, like much else in China’s developmental history, there is a good deal of debate about the impact and even the reality of the decentralization process. On the one hand, some argue that decentralization had little to do with China’s remarkable recent growth, claiming that the state remains highly centralized and authoritarian, and that the key reforms that underpinned recent development were in place by the 1970s and 1980s—well before decentralization took hold.\textsuperscript{65} On the other hand, what has been described as “federalism Chinese style” is seen as having “placed considerable limits on the discretion of the central government.”\textsuperscript{66} A more nuanced middle ground stresses the way institutions have been reconfigured in a continuing interaction between the center and the provinces, a process that constrains but does not determine. Consequently, “local actors have exercised agency in manipulating formal institutions to their advantage.”\textsuperscript{67}

The dialectic between center and provinces continues to unfold, with no definitive outcome.\textsuperscript{68} What is becoming appar-

\begin{itemize}
\item \textsuperscript{64} Although the People’s Liberation Army (PLA) is less domestically influential than it once was, even now the PLA is part of what Susan Shirk describes as a “control cartel” of party leaders and security agencies that exercises a constraining influence over China’s political elite. See Susan L. Shirk, \textit{China: Fragile Superpower} (Oxford: Oxford University Press, 2007), p. 42.
\item \textsuperscript{65} Hongbin Cai and Daniel Treisman, “Did Government Decentralization Cause China’s Economic Miracle?” \textit{World Politics}, vol. 58, No. 4 (July, 2006), pp. 505-35.
\item \textsuperscript{66} Gabriella Montinola, Yingyi Qian, and Barry R. Weingast, “Federalism, Chinese Style: The Political Basis for Economic Success in China,” \textit{World Politics}, vol. 48, No. 1 (October, 1995), p. 50.
\item \textsuperscript{67} Kellee S. Tsai, “Adaptive Informal Institutions and Endogenous Institutional Change in China,” \textit{World Politics}, vol. 59, No. 1 (October 2006), p. 129.
ent, however, are the distinctive problems and features of the Chinese system that distinguish it from Japan’s. Although it is important to recognize that corruption and “money politics” have been endemic in Japan for decades, during the height of the developmental state, at least, the bureaucracy was generally uncompromised and corruption posed little direct threat to the developmental project. In China, by contrast, corruption has become pervasive, a source of popular unrest, and potentially corrosive of state legitimacy. Paradoxically enough, however, corruption has also been central to the acceptance and successful integration of capitalist social relations. The expansion and transformation of the economy and its associated incentive structures have not only made capitalism more attractive, they have also fundamentally reconfigured the position of individual cadres. The “informal privatization” processes that have seen former party officials become capitalist entrepreneurs has not only blurred ontological and class boundaries, it has also had an impact on the state and its role.

Two aspects of this process are especially noteworthy. First, the Chinese state has deviated from the sort of “autonomous”


70. Indeed, the relationship between growth and corruption is not clear, but it is possible that corrupt relationships and rent-seeking activity may actually be positively correlated with economic development in some circumstances. See Paul D. Hutchcroft, “The Politics of Privilege: Assessing the Impact of Rents, Corruption, and Clientelism on Third World Development,” Political Studies, vol. 45, No. 3 (1997), pp. 639-58.
71. It should be noted, however, that as in Japan during its high growth period, the state in China continues to enjoy high levels of legitimacy and approval, its authoritarian government notwithstanding. See Bruce Gilley, “Legitimacy and Institutional Change: The Case of China,” Comparative Political Studies, vol. 41, No. 3 (2008), pp. 259-84.
leadership role played in Japan, partly as a consequence of some party members’ enduring “suspicion” of the private sector, and partly because of the entrepreneurial, profit-seeking role of elements of the state bureaucracy. Put differently, where elements of the state are engaged with the new private sector they are frequently corrupted and self-serving; where they are not, they lack the channels of communication and authority to actually implement policy effectively. These potential problems are exacerbated by a second distinctive feature of the embrace of capitalism: the contradictory place of capitalists themselves. The key point to make about China’s expanding capitalist class is that it is not a threat to the extant ruling elite. On the contrary, in what some have described as China’s corporatist political-economy, there is a growing coincidence of interests between the CCP and private capital. Consequently, there is little immediate prospect of an expanding bourgeoisie playing the sort of historical role it did in Europe.

But China’s distinct political accommodation has some telling differences and similarities with Japan’s. Japan was also taken to be corporatist in its developmental heyday, and the

76. The key manifestation of the new order was the admission of capitalists into the CCP and the declining role of ideology. See Richard McGregor, “Power not Socialism is Today’s Chinese Ideology,” Financial Times (London), July 25, 2006, online at www.ft.com/cms/s/0/e2a7539a-1c02-11db-a555-0000779e2340.html?nclick_check=1.
relationship between its political and economic actors remains surprisingly impervious to “global” reformist pressures to this day. What is perhaps most noteworthy about China, however, is that unlike Japan, its ruling elites have been able to utilize foreign direct investment (FDI) to actually reinforce their political authority and control. As Mary Gallagher points out: “While foreign investment may indirectly improve the environment for future democratization, through the promotion of the rule of law, transparency, and the freer flow of information, in the short term its presence has afforded the regime more time and more political space to pursue economic reform without political liberalization.”

The point to emphasize is that, even though China has been much more economically open and reliant on FDI than Japan was, its political elites have managed to exert a degree of control over its possible political impact, at least—its inferior state capacity notwithstanding. The question is what impact such practices have had on the quality of the developmental process and whether they will remain effective in the future.

**Developmental Outcomes**

Given the structure of the Chinese economy and the political constraints it generates, it is remarkable how effectively the contradictory dynamics of developmentalism have actually been managed. China’s governing elite is, after all, caught between the need to prop up unprofitable and uncompetitive state-owned enterprises (SOEs)—the former stalwarts of the centrally-planned economy—and an export-oriented economy that is increasingly dominated by the private sector and/or foreign multinational corporations. In sharp contrast to Japan, the emergence of a


competitive export sector in China has relied heavily on foreign investment, and the resultant economic activity consequently is not easily controlled or necessarily beneficial as far as long-term development and industrial deepening are concerned. For example, 60 percent of exports to the United States are from foreign firms.82 More generally, the amount of value added in the production of such exports within China is “extraordinarily low,” with imported components accounting for 80 percent of the value of the final product.83

As a result, one of the most common criticisms of China’s developmental project has been about the quality and depth of the industrialization process, making comparisons with Southeast Asia’s “ersatz capitalism” not inappropriate. As with the debate about decentralization, the evidence about China’s development is mixed and often contradictory, despite the unambiguous and dramatic expansion of the Chinese economy overall. Part of the ambivalence flows from the fact that China, like Japan, has developed a “dual economy.”84 In China’s case, this “dual track” was an intentional part of the shift from plan to market,85 and it has manifested itself most obviously in the continuing prominence of the uncompetitive SOEs. Despite the rapid decline in the absolute number of SOEs and of their share in overall economic activity, the general state attitude toward the SOEs and privatization was enunciated by former Prime Minister Zhu Rongji and his strategy to zhuada fangxiao (“grasp the big, let go the small”).86 The intention was to maintain con-

85. Naughton, The Chinese Economy.
trol of the “commanding heights” of the economy while allowing small-scale enterprises to flourish in an increasingly market-driven economic environment.

But whatever the merits of a Japanese-style attitude to industrial development and national security may have been, China’s political elites confronted a very different international context. Not only had greater transborder economic integration become the norm in the intervening decades, the international regulatory architecture had become more influential and intrusive as well. Nowhere was this more apparent than in China’s accession to the World Trade Organization (WTO). China agreed to entry terms that “far surpass[ed] those made by founding members.”

As a consequence, some of the potential advantages of “late” development and the catch-up strategies that were available to Japan were effectively foreclosed. As Kerr puts it, “the TRIPS and TRIMS constraints of WTO membership, and the sensitivity of other economies to China’s developmental rise, mean that technological ‘free-riding’ is much harder for China than previous late industrializers.”

Equally importantly, the very structure and underlying logic of international production has undergone profound changes that highlight the tensions between China’s economic goals and political imperatives.

One of the more significant recent developments in the organization of international economic activity has been the modularization of manufacturing processes and the creation of new transnational networks of production. Late industrializers like China must attempt to integrate themselves within such networks, which are generally dominated by established foreign multinationals with embedded ownership and organizational advantages.

90. Jeffrey Henderson, Peter Dicken, Martin Hess, Neil Coe, and Henry
dilemma for Chinese policy makers is that modular production networks open up great opportunities for “China” to be incorporated into rapidly expanding, hyper-competitive corporate structures; but such processes may be difficult to control and occur on unfavorable terms. As Steinfeld points out, “networked modular production may create opportunities for the few players that can actually innovate, but for the vast majority who cannot—whether for reasons of inadequate resources, knowledge, or supporting institutions—the terms of competition have become brutal.” The result as far as China is concerned has generally been that the industrialization process has remained rather shallow, technology transfer has been limited, and the tendency toward dualism has persisted because “the highly internationalized and competitive sector has not significantly helped the modernization of the rest of the economy.”

The failure of industrial upgrading and technology transfer is invariably attributed to either a general lack of state capacity, or more specifically to the impact of decentralization and the consequent “lack of production networks and organic linkages among domestic firms or between foreign and local enterprises.” And yet, while there are obvious difficulties facing China’s policy makers in actually achieving the degree of control or direction over industrial development that they might wish, the state in China remains developmental in orientation and ambition. One of the hallmarks of Japan’s “mercantile realism,” or its integrated developmental, strategic, and foreign policies, was a lively awareness of the importance of technologi-

93. Tsai and Cook, “Developmental Dilemmas in China.”
cal mastery in underpinning national economic and military security. In China, too, there is a similar determination, if not capacity, to adopt a “comprehensive” approach to technological upgrading, security, and development.

Whatever the merits of this approach to industrial development, the significant point to emphasize here is that it persists despite the best efforts of organizations like the WTO and a more inclement ideational climate internationally. Indeed, even in the area of finance—the sector of economic activity that is widely considered to have become most “global” and resistant to national proclivities—China’s domestic structures and practices remain surprisingly distinct and impervious to reform. Despite widespread criticism and alarm about the health of China’s banking system, especially the extent of non-performing loans, Chinese banks continue to lend primarily to SOEs. The reasons are not hard to discern and are a powerful reminder of both the importance of domestic politics and the resultant stickiness of institutions. As Victor Shih puts it:

continuing gross inefficiency in the financial sector can best be understood by examining the political and careerist incentives of those who decided the policies . . . Their concern for political survival produced a bundle of policies that maximized their financial control, bolstered their administrative accomplishments, and mini-

mized policy risks.\textsuperscript{98}

In other words, the nature of policy, the role of the state, and the durability of institutionalized relationships that have apparently passed their use-by dates can be largely explained by the continuing influence of contingent political forces. While this may not tell us anything about the type of state this will produce or the policies it will pursue, it does suggest that differences persist even in the most fungible sectors of formerly discrete national economies.

\textit{Can Difference Persist?}

Even if it is accepted that in the absence of major crises or shocks, institutional inertia or stickiness is likely to impart a degree of path dependency to policy frameworks and the underlying constellations of power that inform them. Yet we might still expect that a more generalized process of policy convergence might occur as particular ideas become more influential.\textsuperscript{99} There is, after all, an extensive public policy literature that points to the possibilities of policy learning and transfer,\textsuperscript{100} as well as more critical studies that emphasize the hegemonic role of transnational class forces in encouraging, if not compelling, change along neoliberal lines.\textsuperscript{101} And yet, the reality is that, as the varieties of

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capitalism literature reminds us, national diversity persists at an underlying structural level, and the policy initiatives associated with neoliberalism have been actively resisted in East Asia. There are a number of reasons to believe that resistance to Anglo-American forms of capitalism may actually intensify.

China’s rise is widely predicted to have a major impact on the distribution of power and influence in the international system. Again, views differ about the possible impacts of China’s economic development, but to state them briefly they may be divided between those that expect China’s rise to lead to inevitable hegemonic competition and conflict, and those that believe that China’s political and economic elites are being socialized into cooperative behavior as a consequence of their increasingly active and sophisticated participation in international institutions. Either way, there is widespread agreement that China’s rise matters enormously, and that it has the potential to influence the system of which it is a part. The difference between the most recent ascents of China and Japan is, therefore, striking and merits emphasis.

Japan’s initial attempt at carving regional hegemony ended disastrously and culminated in its defeat and occupation by the United States. The most striking feature of Japan’s subsequent

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102. Beeson and Islam, “Neo-Liberalism and East Asia.”
106. For a more detailed discussion of this period and of the different historical roles played by Japan and China in East Asia, see Mark Beeson,
foreign policy has been its “reactive,” passive, and ineffectual nature: Strategic subordination to the United States has meant that Japan has been unable to play the sort of international political role that we might have expected from a country of its material capabilities.\textsuperscript{107} Although China, by contrast, displays no such inhibitions, as Goldstein observes, there is “scant evidence that China is likely to abandon its current, relatively conservative approach and instead adopt a grand strategy that would seek to overturn, rather than adjust to or attempt to reform, the international order it faces.”\textsuperscript{108} But while Chinese policy makers may be relatively content with the broad geopolitical parameters within which they operate, this does not mean they will not attempt to shape them to their advantage.

In the dialectical interplay of material and ideational factors that constitutes the international system and approximates “global governance,” two developments are especially noteworthy and likely to encourage the persistence of difference in East Asia. First, China’s increasingly sophisticated diplomacy is reinforcing its growing material presence and helping to establish a “Beijing consensus” as an alternative to the more familiar, frequently unloved Washington variety.\textsuperscript{109} China’s own stellar developmental record might be expected to lend the Beijing consensus intrinsic appeal, but its “pragmatic” approach to public policy and tolerance of authoritarianism make it even more attractive to countries where development is stalled or failing. The second factor that may give China a surprising degree of ideational influence is the array of problems affecting its princi-

\begin{thebibliography}{9}
\bibitem{} “Geopolitics and the Making of Regions: The Fall and Rise of East Asia,” \textit{Political Studies} (forthcoming).
\end{thebibliography}
pal rival: The rapid decline in the status and strength of the U.S. economy is not simply undermining the material foundations of American power, it is also changing the way the United States is perceived.\textsuperscript{110}

For decades America’s undoubted military primacy was underpinned by economic strength. Indeed, the conventional wisdom in East Asia, and a major constraint on the foreign policy of Japan in particular, was the assumption that East Asian development was dependent on continuing access to North American markets. While there is still something in this, the recent turmoil in the American economy has seen a rapid change in its ideational status and an even more tangible shift in its material position. The fact that America’s largest bank had to go cap in hand to China’s new sovereign wealth funds for emergency funding highlights the rapid shift that has occurred in the international balance of economic power.\textsuperscript{111} For some American commentators the emergence of Chinese-style “state capitalism” means “the reality may be that the era of free markets unleashed by Margaret Thatcher and reinforced by Ronald Reagan in the 1980s is fading away. In place of deregulation and privatization are government efforts to reassert control over their economies and to use this to enhance their global influence. It is an ill wind that blows.”\textsuperscript{112}

Whether one agrees with the view that the resurgence of East Asian forms of state-dominated capitalism is any worse


than a neoliberal model that is wracked by crisis and distinguished by grotesque, unsustainable-looking levels of inequality is a moot point. What matters here is that the declining reputation and performance of neoliberal, Anglo-American capitalism means that it is unlikely to win new admirers in an East Asian region that has profited from rather different developmental models. On the contrary, even prominent champions of neoliberalism are now concerned that the balance of ideational influence may be shifting. In such circumstances, it is not simply possible that East Asia’s distinct political economies with their tradition of state interventionism and suspicion of neoliberalism may actually persist. It is entirely possible that they will actually look increasingly attractive compared to their damaged and somewhat discredited Western rivals.

**Conclusion**

At the broadest level, it might seem redundant even to ask whether states in East Asia remain developmentally oriented or whether the state continues to influence economic activity: All states are involved in providing the regulatory and social context in which economic activity of any sort can occur—an especially important consideration in capitalist economies. Despite an association with corruption and more recently inefficiency, aspects of the developmental state pioneered by Japan and emulated to varying degrees elsewhere remain—for better or worse—institutionally embedded in the East Asian region. Consequently, if we understand East Asian developmentalism as being about an overall orientation to public policy and the role of the state, rather than about a specific set of policy prescriptions or bureaucratic agen-

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cies, it is clear that East Asia’s distinctive forms of political and economic organization persist despite significant structural and agential reformist pressures.

It is also evident that, for all China’s profound developmental challenges and unpromising socialist heritage, interventionist public policies have played an important role in underpinning its remarkable recent economic development—despite inferior state capacity and a less permissive external environment. While there is much in common with Japan’s high growth phase in terms of overall policy orientation and developmental intention, “socialist” China must negotiate ideological constraints that Japan did not. As Dani Rodrik points out, while state intervention has clearly contributed to the speed and direction of industrialization in China, the “appropriate criterion of success for industrial policy is not that ‘only winners should be picked’ (an impossible task) but that ‘losers should be let go.’” Given the SOE’s powerful political connections and their continuing importance in the labor market, this will be no easy task.

The danger for China is that it may succumb to the same kinds of problems that overtook Japan—in short, institutional inertia and an inability to overcome powerful vested interests that are resistant to change. Like Japan, China may end up with the worst of both worlds: an old model that is no longer as effective, legitimate, or relevant as it once was, and a new model that is insufficiently developed or embedded to sustain future development. An additional problem for China is that some of the adverse impacts of a more Western-style, market-based model are becoming painfully clear in China’s increased levels of inequality and unemployment, at precisely the same moment that the Anglo-American model itself appears to be less stable and sustainable.

However, the intention here has not been to provide an

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assessment of the relative merits of East Asian developmentalism compared to alternatives elsewhere, although there does seem to be very persuasive evidentiary base which suggests that the East Asian model has been central to the region’s overall rise and may yet provide something of a template for other would-be industrializing nations. Rather, the preceding discussion has sought to demonstrate why the developmental state was such a powerful force in East Asia, how it became so deeply institutionalized, and why it continues to exert an influence as a consequence—even if that influence is taken to be malign, self-serving, inappropriate, anachronistic, or inefficient.

But while we may no longer wish to praise the developmental state quite as unreservedly as we once did, it is too soon to bury it either. Even if enduring elements of Japan’s developmental state may have blocked what some take to be necessary reforms, and even if China’s developmental state risks becoming predatory and less sympathetic to democratic reform, \(^{118}\) we cannot wish it away. Indeed, it is less and less obvious why we would necessarily want to do so given the recent underwhelming performance of the Anglo-American alternative. In the continuing saga of competing capitalisms, there may yet be life in East Asian developmentalism.

**Principal References**


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Predatory, Developmental, and Other Apparatuses: A Comparative Political Economy Perspective on the Third World State

Peter B. Evans

Disappointment over the contributions of Third World state apparatuses to industrial transformation and the increasing intellectual dominance of “neo-utilitarian” paradigms in the social science has made it fashionable to castigate the Third World state as “predatory” and “rent seeking.” This paper argues for a more differentiated view, one that connects differences in performance to differences in state structure. The “incoherent absolutist domination” of the “klepto-patrimonial” Zairian state are contrasted to the “embedded autonomy” of the East Asian developmental state. Then the internal structure and external ties of an intermediate state—Brazil—are analyzed in relation to both polar types. The comparative evidence suggests that the efficacy of the developmental state depends on a meritocratic bureaucracy with a strong sense of corporate identity and a dense set of institutionalized links to private elites.

KEY WORDS: state; industrialization; developmental state; neo-utilitarianism; East Asia; Japan; Brazil.

INTRODUCTION

Scholars of development often vent their frustrations by identifying the culprits that keep their theories from working. Recently, an old favorite has been brought back into the dock with new vehemence. Instead of the peasant clinging to traditional values (as in early normatively oriented work by sociologists) or the multinational manager funneling surplus back to headquarters (as in the dissident views that supplanted earlier perspectives), the state...
bureaucrat, strangling the golden goose of entrepreneurship and lining his pockets with unproductive rents, has again become the central villain.

Disillusionment on the part of even sympathetic students of the post-colonial state has helped motivate this shift, but the intellectual apparatus has been provided primarily by the resurgence of “neoutilitarian” models. Such models have rapidly expanded the domain in which the logic of market exchange is claimed to have explanatory preeminence. The thoroughness with which neoutilitarian theorizing has penetrated thinking on development is impressive, but its untrammeled success provokes a certain unease. Enough bathwater is being discarded that the possibility of losing a baby or two in the process must be considered (cf. Killick, 1986).

A skeptical reexamination of arguments that make state action the principal impediment to development is in order and that is where this essay begins. After examining, albeit in a sketchy and summary fashion, the logic of neoutilitarian descriptions of the state, it moves on, even more briefly, to discuss some of the comparative-historical and institutional perspectives that have argued that not only regulatory but also entrepreneurial activity on the part of the state is a necessary part of economic transformation. This review of general perspectives serves as a prelude to the main task of the article, which is setting the theoretical debate in the context of some comparative historical evidence on the role of the state in Third World countries.²

State are not standardized commodities. They come in a wide array of sizes, shapes, and styles. That incumbents sometimes use the state apparatus to extract and distribute unproductive rents is undeniable. That all states perform certain functions indispensable to economic transformation is equally so. That both characteristics are randomly distributed across states is very unlikely, yet we have only a hazy sense of the range of variation, to say nothing of its causes.

As a starting point, we can imagine a range of states defined in terms of the way in which they affect development. Some states may extract such large amounts of otherwise investable surplus and provide so little in the way of “collective goods” in return that they do indeed impede economic transformation. It seems reasonable to call these states “predatory.” Zaire might be considered an archetypal case of such a state. Those who control the state apparatus seem to plunder without any more regard for the welfare of the citizenry than a predator has for the welfare of its prey.³ Other states, however, are able to foster long-term entrepreneurial perspectives among pri-

²The concept of the state used here is a modified Weberian one, as in Rueschemeyer and Evans (1985:46–48).
³It is important to note that this usage of “predatory” differs from that of other advocates of the term (e.g., Lal, 1988, and Levi, 1988) who define revenue maximizing states as “predatory.”
vate elites by increasing incentives to engage in transformative investments and lowering the risks involved in such investments. They may not be immune to "rent seeking" or to using some of the social surplus for the ends of incumbents and their friends rather than those of the citizenry as a whole, but on balance, the consequences of their actions promote rather than impeding transformation. They are legitimately considered "developmental states" (cf. Jonhson, 1982; White and Wade, 1988). The East Asian NICs are usually cited as examples of this type of state. Here we will focus on the "first NIC"—Japan—during the initial period of its post-World War II industrialization. Most Third World countries have "other apparatuses." The balance between predatory and developmental activities is not clear-cut but varies over time, and depends on what kind of activities are attempted. Brazil will be the illustrative "intermediary" case.

Thinking about states as varying along a continuum from predatory to developmental is a heuristic device, not an end in itself. It helps focus attention on structural variation. What do states that prey on their societies look like organizationally? Are they more or less bureaucratic than developmental states? Should we think of them as "autonomous" or "captured"? How do developmental states emerge historically? What kinds of changes would be necessary in order for other apparatuses, intermediary states whose developmental impact is more ambiguous, to achieve a performance closer to that of the developmental states?

Trying to answer questions like these is much more likely to be fruitful, both theoretically and practically, than condemning "the state" as an inherently antidevelopmental institution. Nonetheless, the neoutilitarians have set the terms of the contemporary debate and any attempt to move it forward must begin by considering their arguments.

THE STATE AS A NEXUS OF EXCHANGE

Neoclassical economics always admitted that "the existence of the state is essential for economic growth" (North, 1981:20), but the essential state was a minimal state, "restricted largely, if not entirely, to protecting individual rights, persons and property, and enforcing voluntarily negotiated private contracts" (Buchanan et al., 1980:9). In its minimal neoclassical form, the state could safely be left exogenous, a "black box" whose internal functionings were not a proper subject for economic analysis. The neoutilitarians, however, became convinced that the negative economic consequences of state action were too important to leave the black box closed. More important, they have decided to try to apply the "standard tools of individual optimization" to the analysis of the state itself (Srinivasan, 1985:41).
“Public choice” theory has generated the most prominent and powerful version of the neoutilitarian vision of the state (see Buchanan et al., 1980; Niskanen, 1971; Auster and Silver, 1979). The public choice vision of the state makes no pejorative assumptions about stupidity, traditional attitudes, or lack of expertise within the state apparatus. To the contrary, it assumes only that incumbents in public office, like all other social actors, are rational maximizers. Incumbents require political supporters to survive and these in turn must be provided with incentives sufficient to retain their support. The exchange relation between incumbents and supporters is the essence of the state. Incumbents may distribute resources directly to supporters—subsidies, cheap loans, jobs, contracts, dams, water, etc. Alternatively, they may use their rule-making authority to create rents by restricting the ability of market forces to operate—rationing imports, licensing a limited number of producers, prohibiting the introduction of new products, etc. Incumbents may also exact a share of the rent for themselves. Indeed, it is hypothesized that “competition for entry into government service is, in part, a competition for rents” (Krueger, 1974:293).

The symbiotic relationship involved in rent creation is self-reinforcing. Supporters whose original economic power derived from productive activities are likely to become increasingly dependent on rents and therefore increasingly committed to the expansion of “rental havens.” Conversely, since returns in the “rent-seeking economy” are highly skewed toward those involved in the production and usufruct of rental havens, the command over resources, and by extension, the political power of those involved in this sector, will increase relative to that of other sectors.

The developmental implications of the argument are obvious. As states expand their size, their range of functions, and the amount of resources they control, the proportion of economic activity that becomes incorporated into rental havens will increase correspondingly and economic efficiency and dynamism will decline. Conversely, to the degree that the economic power and prerogatives of the state can be curtailed, prospects for growth, efficiency, and welfare will be enhanced. Therefore, the sphere of state action should be reduced to the minimum, and bureaucratic control should be replaced by market mechanisms wherever possible. The range of state functions considered susceptible to “marketization” varies, but some authors even speculate on the possibility of using “prizes” and other incentives to induce “privateers” and other private citizens to provide at least partially for the national defense (Auster and Silver, 1979:102).

It would be foolish to deny that the neoutilitarian vision captures a significant aspect of the functioning of most states. Certainly, rent seeking—conceptualized more primitively as corruption—has always been a well-known facet of the operation of Third World states. In some respects, the neoutilitarian view is an improvement on the traditional neoclassical vision of the
state as neutral arbiter. Indeed, the neoutilitarian assumption that state policies “reflect vested interests in society” (Colander, 1984:2) partially recaptures some of Marx's original insights into biases likely to characterize state policy. Neoutilitarian perspectives may also produce useful policy when focused on the issue of the relative susceptibility of different kinds of state activities to distortion by rent seeking. Krueger’s (1974) suggestion that quotas are more likely than tariffs to lend themselves to the formation of rent-seeking alliances is one example. As an explanation of one facet of the behavior of state bureaucrats, neoutilitarian thinking is a useful contribution. As a monocausal master theory of all aspects of state action, which is what it tends to become in the hands of its more dedicated adherents, neoutilitarianism is highly problematic.

Analyzing the behavior of incumbents as though they were atomistic individuals is a dubious starting point. Even the most primitive activity of the state—coercion—requires an apparatus that acts corporatively rather than as a collection of individuals. A protection racket whose triggermen cut individual deals at the first opportunity does not last very long, and the larger the coercive apparatus involved, the more difficult the problem. Without the existence of a powerful motivational logic to constrain individual behavior in the direction of consistency with collective aims, the state would be unable to perform even its minimal role as an enforcer of contracts. Even the minimal state requires that incumbents redefine individual aims in ways that motivate them to pursue corporate goals.

If we ignore this problem and assume that the state apparatus has somehow managed to achieve sufficient corporate coherence to play its “minimal role” of eliminating force and fraud from exchange relations, another equally serious theoretical problem emerges. What keeps the minimal state from moving into the business of providing rents? Within the logic of neoutilitarian arguments there is no reason for those who have a monopoly of violence to rest content being nightwatchmen and every reason for them to try to expand rental havens indefinitely. Strict adherence to their own logic makes the state that is the sine qua non of economic life for the neoutilitarians, one that will restrict itself to those actions necessary to sustain bilaterally voluntary exchange, unattainable. Recognition of this problem compels economists with more historical and institutional interests to introduce complementary motivational principles. North’s invocation of ideology and the concept of “legitimacy” is an example. Falling back on ideology and legitimacy may not suffice to solve the problem, but it does acknowledge that a vision of the state built only on a model of individual maximizers joined by exchange relations is not adequate.

Taking into account the theoretical problems inherent in the neoutilitarian view, one can still ask, “What predictions does this perspective make about the relative efficacy of different kinds of state structure?” In principle, one
might imagine a neoutilitarian theory of how a developmental state should be organized internally and linked to society. Preference for a restricted range of state activities should not preclude inquiry into how best to structure the implementation of these activities. In practice, as we have seen, the neoutilitarian focus on individual maximization makes it difficult to contribute to our understanding of corporately coherent organizations. The problem is compounded by the fact that neoutilitarians see any kind of state intervention on behalf of economic transformation as likely to have the "perverse effect" (cf. Hirschman, 1989) of impeding the very transformations desired. They are, as Levi (1988:24) puts it, "obsessed with demonstrating the negative impact of government on the economy." Given this vision, it is not even clear that an "efficient" state organization is superior to a bumbling and inept one. If less is good and least is best, than anything that diminishes the ability of the state to act may be a good thing. It is hard to build a positive organizational theory of the state starting with the attitude that "The only good bureaucracy is a dead bureaucracy."

Neoutilitarians also seem to lack useful expectations regarding the relative developmental efficacy of different sorts of linkages between the state and the surrounding social structure. Autonomous bureaucrats are likely to be disasterously rapacious, but incumbents dependent on constituents will do their bidding at the expense of the general interest. Implicitly, then, the neoutilitarian view seems to come closest to that of the "structural Marxists" (e.g., Poulantzas, 1973). The state should be "relatively autonomous" in the sense of being constrained by the structural requirements of capital accumulation without being closely connected to or dependent on specific private elites.

The neoutilitarian approach provides us with a general expectation that the state action is likely to be associated with developmentally negative outcomes, but offers only the vaguest clues as to how the structure of developmental states will differ from the structure of predatory ones. For a richer set of expectations regarding the consequences of variations in state structure, it is necessary to turn to a different tradition of work on the state.

HISTORICAL PERSPECTIVES ON STATES AND MARKETS

A long tradition of scholarship, which goes back at least to List (1885/1966) and includes some of the foremost theorists of early industrialization as well as scholarship of latecomers, has focused on the historical role of the state in industrialization. Its ranks include some ardent defenders of the proposition that a determined and effective state apparatus is an essential ingredient in successful industrialization. White and Wade (1988:1)
argue, for example, that “the phenomenon of successful ‘late development’ ...should be understood...as a process in which states have played a strategic role in taming domestic and international market forces and harnessing them to a national economic interest.”

This tradition has also been critical of the proposition that exchange was a “natural” activity that required only the most minimal institutional underpinnings. Forty years ago Polanyi (1944/1957) reminded us that Smith’s “natural propensity to truck and barter” had not sufficed to produce the rise of the market in England. Instead, Polanyi argued (1957:140) “The road to the free market was opened and kept open by an enormous increase in continuous, centrally organized and controlled interventionism.” From the beginning, according to Polanyi, the life of the market has been intertwined not just with other kinds of social ties, but with the forms and policies of the state.

Looking at established market societies, Weber carried this line of reasoning further, arguing that the operation of large-scale capitalist enterprise depended on the availability of the kind of order that only a modern bureaucratic state could provide. As he put it (1911–1968:1395, footnote 14), “capitalism and bureaucracy have found each other and belong intimately together.” Weber’s assumption of the intimate relation was, of course, based on a conception of the bureaucratic state apparatus that was the mirror image of the neoutilitarian view. Weber’s bureaucrats were concerned only with carrying out their assignments and contributing to the fulfillment of the goals of the apparatus as a whole. Use of the prerogatives of office for maximizing private interests was, for Weber, a feature of earlier prebureaucratic forms.

For Weber, the state was useful to those operating in markets precisely because the actions of its incumbents obeyed a logic quite different from that of utilitarian exchange. The state’s ability to support markets and capitalist accumulation depended on the bureaucracy being a corporately coherent entity in which individuals see furtherance of corporate goals as the best means of maximizing their individual self-interest. Corporate coherence requires that individual incumbents be to some degree insulated from the demands of the surrounding society. Insulation, in turn, is enhanced by conferring a distinctive and rewarding status on bureaucrats. The concentration of expertise in the bureaucracy through meritocratic recruitment and the provision of opportunities for long-term career rewards was also central to the bureaucracy’s effectiveness. In short, Weber saw construction of a solid authoritative framework as a necessary prerequisite to the operation of markets.

Gerschenkron’s (1962) work on late developers complements Weber by focusing on the specific contributions of the state apparatus to overcoming
problems created by a disjunction between the scale of economic activity required for development and the effective scope of existing social networks. Late industrializers confronting production technologies with capital requirements in excess of what private markets were capable of amassing, were forced to rely on the power of the state to mobilize the necessary resources. Instead of simply providing a suitable environment, as it did in Weber’s model, the state was now actively organizing a crucial aspect of the market. Gerschenkron’s argument also raises a new issue—the problem of risk taking. The crux of the problem faced by late developers is that institutions allowing large risks to be spread across a wide network of capital holders do not exist, and individual capitalists are neither able nor interested in taking them on. Under these circumstances the state must serve as surrogate entrepreneur.

Hirschman takes up this emphasis on entrepreneurship as the missing ingredient for development in much more detail. Based on his observations of the “late late” developers of the 20th century Third World, Hirschman argues that “capital” in the sense of a potentially investible surplus is not the principal ingredient lacking in developing countries. What is lacking is entrepreneurship in the sense of willingness to risk the available surplus by investing it in productive activities, or in Hirschman’s own words (1958:35) “the perception of investment opportunities and transformation into actual investments.” If “maximizing induced decision-making” is the key as Hirschman argues it is (1958:44), then the state’s role involves a high level of responsiveness to private capital. It must provide “disequilibrating” incentives to induce private capitalists to invest and the same time be ready to alleviate bottlenecks that are creating disincentives to investment.

Viewed from the perspective of Gerschenkron, or even more clearly, Hirschman, the ability to implement rules predictably, however necessary, is not sufficient. A Prussian style bureaucracy might well be effective at the prevention of force and fraud, but the kind of surrogate entrepreneurship that Gerschenkron talks about or the kind of subtle triggering of private initiative that Hirschman emphasizes would demand more than an insulated, corporately coherent administrative apparatus. It demands accurate intelligence, investiveness, active agency, and sophisticated responsiveness to a changing economic reality.

The Gershenkronian/Hirschmanian vision makes the relationship between state “capacity” and “insulation” (or “autonomy”) more ambiguous. Since corporate coherence clearly requires some degree of insulation from the surrounding social structure, the state’s capacity to act as an effective organization depends on some degree of insulation. Neo-Marxist arguments for the necessity of “relative autonomy” from the particularistic demands of individual capitalists reinforce the idea of a positive relation between capacity and autonomy (cf. Rueschemeyer and Evans, 1985). Yet for the insu-
lated state to be effective, the nature of a project of accumulation and the means of implementing it must be readily apparent. In a Gerschenkronian or Hirschmanian scenario of transformation, the shape of a project of accumulation must be discovered, almost invented, and its implementation demands close connections to private capital.

While comparative historical visions do provide us with the beginnings of a positive vision of how an effective state might be organized internally, they are ambiguous regarding the nature of effective relations between state and society. While the Weberian vision is consistent with the kind of Poulantzian insulation that seems favored by a neoutilitarian logic, Gerschenkronian or Hirschmanian arguments demand a state that is much more “embedded” in society (cf. Granovetter, 1985, for a discussion of “embeddedness”).

Neoutilitarian and comparative historical arguments do have one thing clearly in common. They apply to a similar range of cases. Unless a state is sufficiently enmeshed in the modern world to make economic transformation a goal that cannot be ignored, many of the questions raised by both views become moot. Likewise, unless private interests and market forces play a significant role in the process of transformation (or its absence), the resonance and tension between the state and the market that are central to both perspectives are likely to take on forms quite different from those expected by either approach. In short, application of these arguments to traditional societies or communist states would require substantial extension and revision. Finally, while most of the arguments apply in principle to both advanced industrial and developing countries, they apply most strongly to situations in which structural transformation, like the movement from reliance on agriculture to reliance on industry, is the order of the day. Thus, the debate is probably best moved forward by comparing Third World states, including some obviously ineffective states and some relatively effective ones. We will begin by examining a case of what appears an exemplary predatory state—Zaire under Mobutu.

THE PREDATORY STATE—ZAIRE

Since Joseph Mobutu Sese Seko gained control over Zaire in 1965, he and his coterie within the Zairian state apparatus have extracted vast personal fortunes from the revenues generated by exporting the country’s impressive mineral wealth. During the first two decades of Mobutu’s rule, Zaire’s gross national product per capita has declined at an annual rate of 2.1% (World Bank, 1988), gradually moving the country toward the very bottom of the world hierarchy of nations and leaving its population in misery as bad
as or worse than they suffered under the Belgian colonial regime. Zaire is, in short, a textbook case of the sort of predatory state we should expect to be pervasive if neoutilitarian logic held. The preoccupation of the political class with rent seeking has turned the rest of society into prey.

What Zaire does not demonstrate, however, is that excessive bureaucratization lies at the heart of the problem. To the contrary, most descriptions of the Zairian state seem to vindicate Weber. Callaghy (1984:32–79) emphasizes its patrimonial qualities—the mixture of traditionalism and arbitrariness that Weber argued retards capitalist development. True to the patrimonial tradition, control of the state apparatus is vested in a small group of personalistically interconnected individuals. At the pinnacle of power is the “presidential clique,” which consists of “50-odd of the president’s most trusted kinsmen, occupying the most sensitive and lucrative positions such as head of the Judiciary Council, Secret police, Interior ministry, President's office and so-on” (Gould, 1979:93). Next there is the “Presidential Brotherhood” who are not kin, but whose positions still depend on their personal ties with the president, his clique, and each other.

One of the most striking aspects of the Zairian state is the extent to which the “invisible hand of the market” dominates administrative behavior, again almost as a caricature of the neoutilitarian image of how state apparatuses are likely to work. A Zairian archbishop (cited in Callaghy, 1984:420) described it as follows:

Why in our courts do people only obtain their rights by paying the judge liberally? Why do the prisoners live forgotten in prisons? They do not have anyone who can pay the judge who has their dossiers at hand. Why in our office of administration, like public services, are people required to return day after day to obtain their due? If they do not pay the clerk, they will not be served.

President Mobutu himself characterized the system in much the same way, saying

Everything is for sale, everything is bought in our country. And in this traffic, holding any slice of public power constitutes a veritable exchange instrument, convertible into illicit acquisition of money or other goods (cited in Lemarchand, 1979:248, from Young, 1978:172).

The prevalence of such a thoroughgoing market ethic might at first seem inconsistent with what Callaghy (1984) calls an “early modern absolutist state” but it is in fact quite consistent. Personalism and plundering at the top destroys any possibility of rule-governed behavior in the lower levels of the bureaucracy, giving individual maximization free rein. At the same time, however, the “marketization” of the state apparatus makes the development of a bourgeoisie oriented toward long-term profit-based productive investment almost an impossibility. With a bureaucracy whose maxim is “make the quest for wealth and money an obsession” (Tshitenji-Nzembele, cited in
Lamarchand, 1979:249), anyone risking a long-term investment must be con-
sidered more a fool than an entrepreneur.

Mobutu has at least managed to construct a repressive apparatus with
the minimal amount of corporate coherence necessary to fend off potential
competitors, but only by relying on the patronage of other, more effective
states. As Gould (1979:93) puts it bluntly, "the bureaucratic bourgeoisie owes
its existence to past and continued foreign support." Aid from the World
Bank as well as individual Western nations has helped, but French and Bel-
gian troops at critical moments (e.g., in Shaba in 1978) have been the sine
qua non of Mobutu's remaining in power (Hull, 1979). Thus, Mobutu pro-
vides only a weak test of the limits to which individual maximization can
be allowed to rule without undermining even the repressive apparatus neces-
sary for regime survival.4

Zaire confirms our initial suspicion that it is not bureaucracy that im-
pedes development so much as the lack of capacity to behave like a bureaucra-
cy, but it poses some problems for conventional definitions of state autonomy.
On the one hand, the state as a corporate entity is incapable of formulating
goals or implementing them. Because decisions are eminently up for sale to
private elites, the state lacks autonomy. In this optic the Zairian state con-
firms the idea that autonomy is a necessary prerequisite for effective state
action. Yet the Zairian state is strikingly unconstrained by any set organized
social interests and in this sense very autonomous. The combination of weak
internal organization and individualized external ties produces an incoher-
ent absolutist domination that in no way enhances the state's transformative
capacity.

DEVELOPMENTAL STATES

While states like Mobutu's were providing practical demonstrations of
the perversions predicted by neoutilitarian visions of the state, a different
set of "new nations" halfway around the world were writing historical records
that were more problematic from the point of view the neoutilitarians. By
the end of the 1970s, the economic success of the major East Asian NICs—
Taiwan and Korea—was increasingly interpreted as depending in important
ways on the active involvement of the state. Amsden (1979) argued that Tai-
wan was not the model market economy portrayed by its American advisors

4Obviously, a full analysis of both the original character of the regime and its persistence
would require more careful attention to the nature of Zaire's social structure. For a general
approach to the question of the state and development that begins with an analysis of social
structure, see Migdal (1988).
nor the exemplar of dependence portrayed by its detractors, but a successful case of estatism. Even observers with a neoclassical bent (e.g., Jones and Sakong, 1980) recognized the central role of the state in Korea’s rapid industrialization. Credit for dubbing Taiwan and Korea “developmental states,” however, should probably go to the researchers associated with the Institute of Development at Sussex University (see Wade and White, 1984, revised as White, 1988). This group in turn seems to have been inspired, at least partially, by the growth of interest at the end of the 1970s in the state that served, in different ways, as a model to both Taiwan and Korea—Japan.

None of these states are paragons of virtue. In certain periods their regimes have appeared more predatory than developmental (e.g., the KMT on the mainland, the Rhee regime in Korea) and even while basking in their developmental success they are hardly immune to corruption. In addition, it must be acknowledged that there are important differences among them in terms of both internal structures and state-society relations. Nonetheless, they have, on balance, played a developmental role, and looking for shared features among them is probably the best starting point for an inductive understanding of the organizational and social structural characteristics that allow the state to play a developmental role.

Johnson’s description of MITI (1982) provides one of the few detailed pictures of a “developmental state” in action. Regardless of whether his account overstates the relative weight of state action in producing Japan’s impressive rates of industrialization, his description is fascinating because it corresponds so neatly to what a sophisticated implementation of ideas from Gerschenkron and Hirschman might look like in practice.

In the capital-scarce years following World War II, the Japanese state acted as a surrogate for a missing capital market while at the same time helped to “induce” transformative investment decisions. State institutions from the postal saving system to the Japan Development Bank were crucial in getting the needed investment capital to industry. The willingness of state financial institutions to back industrial debt/equity ratios at levels unheard of in the West was a critical ingredient in the expansion of new industries.

The state’s centrality to the provision of new capital also allowed it to implement “industrial rationalization” and “industrial structure policy” (Johnson, 1982:27–28). MITI, given its role in the approval of investment loans from the Japan Development Bank, its authority over foreign currency allocations for industrial purposes and licenses to import foreign technology, its ability to provide tax breaks, and its capacity to articulate “administrative guidance cartels” that would regulate competition in an industry, was in a perfect position to “maximize induced decision-making” (see Johnson, 1982:236).

The administrative apparatus that oversaw Japan’s industrial transformation was as impressive as the transformation itself. Some might consider
Johnson's (1982:26) characterization of MITI as "without doubt the greatest concentration of brainpower in Japan" hyperbole, but few would deny the fact that Japan's startling postwar economic growth occurred in the presence of "a powerful, talented and prestige-laden economic bureaucracy." Nor is it controversial to assert that, at least up to the recent past, "official agencies attract the most talented graduates of the best universities in the country and positions of higher level officials in these ministries have been and still are the most prestigious in the country" (Johnson, 1982:20). The ability of the higher civil service exam to weed out all but the top graduates of the top universities is apparent in the failure rate. As few as 2% or 3% of those who take the exam in a given year pass (Johnson, 1982:57).

There is clearly a Weberian aspect to the Japanese developmental state. Officials have the special status that Weber felt was essential to a true bureaucracy. They follow long-term career paths within the bureaucracy, and generally operate in accordance with rules and established norms. In general, individual maximization must take place via conformity to bureaucratic rules rather than via exploitation of individual opportunities presented by the invisible hand.

Weberian pronouncements regarding the necessity of a coherent meritocratic bureaucracy are confirmed but the Japanese case also indicates the necessity of going beyond them. All descriptions of the Japanese state emphasize the indispensibility of informal networks, both internal and external, to the state's functioning. Internal networks are crucial to the bureaucracy's coherence. Johnson (1982:57–59) emphasizes the centrality of the gakubatsu, ties among classmates at the elite universities from which officials are recruited, and particularly the "batsu of all batsu," which bring together the alumni of Tokyo University Law School who comprised in total an astounding 73% of higher bureaucrats in 1965.

Informal networks give the bureaucracy an internal coherence and corporate identity that meritocracy alone could not provide, but the character and consequences of these networks fundamentally depend on the strict selection process through which civil servants are chosen. That formal competence, rather than clientelistic ties or traditional loyalties, is the prime requirement for entry into the network, makes it much more likely that effective performance will be a valued attribute among loyal members of the various batsu. The overall result is a kind of "reinforced Weberianism," in which the "non-bureaucratic elements of bureaucracy" reinforce the formal organizational structure in the same way that Durkheim's "non-contractual elements of contract" reinforce the market (cf. Rueschemeyer and Evans, 1985).

External networks connecting the state and private corporate elites are even more important. As Nakane puts it, "the administrative web is woven more thoroughly into Japanese society than perhaps any other in the world"
Japanese industrial policy depends fundamentally on the maze of ties connecting MITI and major industrialists. According to Okimoto (1989:157), the deputy director of a MITI sectoral bureau may spend the majority of his time with key corporate personnel. Ties between the bureaucracy and private powerholders are reinforced by the pervasive role of MITI alumni, who through amakudari (the "descent from heaven" of early retirement) end up in key positions not only in individual corporations but also in the industry associations and quasigovernmental organizations that comprise "the maze of intermediate organizations and informal policy networks, where much of the time-consuming work of consensus formation takes place" (Okimoto, 1989:155).

The centrality of external ties has led some to argue that the state's effectiveness emerges "not from its own inherent capacity but from the complexity and stability of its interaction with market players" (Samuels, 1987:262). This view may be a useful corrective to some descriptions, like Johnson's, that tend to overemphasize MITI's ability to act authoritatively rather than building consensus, but setting external networks and internal corporate coherence as opposing alternative explanations misses the point.

If MITI were not an exceptionally competent, cohesive organization, it could not participate in external networks in the way that it does. If MITI were not autonomous in the sense of being capable of independently formulating its own goals and able to count on those who work within it to see implementing these goals as important to their individuals careers, then it would have little to offer the private sector. MITI's "relative autonomy" is what allows it to address the collective action problems of private capital, helping capital as a whole to reach solutions that would be hard to attain otherwise, even within the highly organized Japanese industrial system. This "embedded autonomy," which is precisely the mirror image of the "incoherent absolutist domination" of the predatory state, is the key to the developmental state's effectiveness. It depends on the ability to construct an apparently contradictory combination of Weberian bureaucratic insulation with intense immersion in the surrounding social structure.

THE DYNAMICS OF DEVELOPMENTAL STATES

A full-fledged exposition of the developmental state would require exploration of the substantial variations on the Japanese theme that are found in Korea and Taiwan. Such a comparative examination, which unfortunately

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cannot be undertaken here, would produce a number of important revisions and refinements to the picture drawn so far. There is, however, one revision too important to forgo. The static image of the developmental state must be replaced by a more dynamic one.

The idea that East Asian states are developmental is a relatively recent one. The Rhee regime in Korea and the KMT on the mainland certainly seemed more predatory than developmental. Nonetheless, their historical legacies provided important foundations for their subsequent success. They all began the post-World War II period with long bureaucratic traditions and considerable experience (albeit some of it disastrous) in direct economic intervention. World War II and its aftermath provided all of them with highly unusual societal environments. Traditional agrarian elites were decimated, industrial groups were disorganized and undercapitalized, and foreign capital was channeled through the state apparatus. Thus, what were, in terms of domestic dynamics, largely exogenous events qualitatively enhanced the autonomy of the state. The combination of historically accumulated bureaucratic capacity and conjuncturally generated autonomy put these state apparatuses in a very exceptional position.

At the same time, the state's autonomy was constrained by the international context, both geopolitical and economic, which conspired to create the conviction, first, that rapid industrialization was necessary to regime survival, and later, that export competitiveness was essential to industrialization. Commitment to industrialization motivated attempts to promote the growth of local industrial capital. Their exceptional autonomy allowed the state to dominate (at least initially) the formation of the ties that bound capital and the state together. The conjuncture as a whole made possible the embedded autonomy that characterized these states during the most impressive periods of their industrial growth.

Embedded autonomy depends on the existence of a project shared by a highly developed bureaucratic apparatus with interventive capacity built on historical experience and a relatively organized set of private actors who can provide useful intelligence and a possibility of decentralized implementation. In contrast to the incoherent absolutist domination of the predatory state, which seems self-reinforcing, embedded autonomy has been, to a surprising extent, its own gravedigger. Its very success as a framework for structuring the accumulation of industrial capital has changed the nature of relations between capital and the state. Private capital has become less dependent on the resources provided by the state and the relative dominance of the state diminished. Even the capacity of state apparatus to command the loyalties of the "most talented graduates of the best universities" began to shift as private careers became more rewarding. Concurrently, economic growth was accompanied by a resurgence of distributional demands, both political and economic, that the elite networks and bureaucratic structures that had successfully fostered industrial accumulation were not necessarily
well adapted to meet. For nonelite social actors making new demands on the state, both existing forms of embeddedness and the existing insulation of the bureaucracy are likely to be seen as disadvantages rather than advantages.

There is, in short, no necessary reason to presume either that the developmental state will persist in the form that has been described here or that if it does persist it will be able to satisfy future social needs. It has proved itself a formidable instrument for instigating the accumulation of industrial capital, but it will have to be transformed in order to deal with the problems and opportunities created by the success of its initial project.⁶

The question of the future of the developmental state is fundamental for East Asia, but for countries with other apparatuses the historically contingent character of the developmental state raises different issues. Do their own bureaucratic traditions and state-society networks hold the potential for generating the same kind of transformative capacity that Japan and the East Asian NICs have enjoyed, or are the differences insurmountably large?

AN INTERMEDIATE CASE: BRAZIL

Most developing states offer combinations of Zairian "kleptopatrimonialism" and East Asian "embedded autonomy." The balance varies not only over time but also from organization to organization within the state apparatus itself. We will focus on one such state—Brazil—in hopes of gleaning some clues has to how its internal structures and external ties are distinguished from those of the ideal typical developmental state.

The character of the Brazilian state apparatus, both historical and contemporary, has been thoroughly chronicled by a series of detailed field studies and telling interpretive analyses.⁷ The differences between the apparatus that they describe and the ideal typical developmental state begin with the simple question of how people get jobs in the state. Geddes (1986) chronicles the difficulty that Brazil has experienced in instituting meritocratic recruitment procedures that approximate the Japanese or Korean ones, even in the con-

⁶"Embedded autonomy" might also be used as a way of characterizing the small states of northwestern Europe as described by Katzenstein (1984, 1985). The comparison between these states and those of East Asia is particularly interesting since the networks in which Northern European states are embedded include organized representation of labor as well as industrial capital.

⁷Among historical studies, those by Murilo de Carvalho (1974) and Uricoechea (1980) are particularly relevant to this discussion. Important recent contemporary studies include Abranches (1978), Barzelay (1986), Hagopian (1987), Geddes (1986), Raw (1985), Schneider (1987a), Shapiro (1988), and Willis (1986). The discussion that follows draws especially on Schneider.
temporary period. Unusually extensive powers of political appointment are the necessary complement to lack of generalized meritocratic recruitment. Extending Johnson's (1982:52) comparison of Japan and the United States, Schneider (1987a:5, 212, 644) points out that while Japanese prime ministers appoint only dozens of officials and U.S. presidents appoint hundreds, Brazilian presidents appoint thousands (15–100 thousand by Schneider's estimate). It is little wonder that the Brazilian state is known as a massive cabide de emprego (source of jobs), populated on the basis of connection rather than competence and correspondingly inept in its developmental efforts.

Unable to transform the bureaucracy as a whole, political leaders try to create “pockets of efficiency” (bolsões de eficiência) within the bureaucracy (Geddes, 1986:105), thus modernizing the state apparatus by addition rather than transformation (see Schmitter, 1971; Schneider, 1987a:45). The BNDE (National Development Bank), favored especially by Kubitschek as an instrument of his developmentalism in the 1950s, was, at least until recently, a good example of a “pocket of efficiency” (see Martins, 1985; Willis, 1986). Unlike most of Brazil's bureaucracy, the BNDE offered “a clear career path, developmental duties and an ethic of public service” (Schneider, 1987a:633). Early in its institutional life (1956) the BNDE started a system of public examinations for recruitment. Norms grew up against arbitrary reversal of the judgments of the bank's technical personnel (opinião do técnico) by higher-ups. A solid majority of the directors were recruited internally, and a clear esprit de corps developed within the bank (Willis, 1986:96–126).

Agencies like the BNDE are, not surprisingly, more developmentally effective than the more traditional parts of the Brazilian bureaucracy. According to Geddes (1986:116), those projects in Kubitschek's Target Plan that were under both the jurisdiction of Executive Groups and Work Groups and the financial wing of the BNDES fulfilled 102% of their targets, whereas those projects that were the responsibility of the traditional bureaucracy achieved only 32%. Because the BNDE was a major source of long-term investment loans, its professionalism was a stimulus to improving performance in other sectors. Tendler (1968) notes, for example, that the necessity of competing for loan funds was an important stimulus to the improvement of proposals by Brazil's electrical power generating companies (see Schneider, 1987:143).

Unfortunately, the pockets of efficiency strategy has a number of disadvantages. As long as these pockets are surrounded by a sea of traditional clientelistic norms, they are dependent on the personal protection of individual

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8According to Willis (1986:4), the bank has “virtually monopolized the provision of long term credit in Brazil, often accounting for as much as 10% of gross domestic capital formation.”
presidents. Geddes (1986:97) examines the fate of DASP (the Administrative Services department established by Getulia Vargas) once its presidential patron’s protection was no longer available. Willis (1986) emphasizes the dependence of the BNDE on presidential support, both in terms of the definition of its mission and in terms of its ability to maintain its institutional integration.

Trying to modernize by piecemeal addition also has disadvantages in terms of the organizational coherence of the state apparatus as a whole. As the pieces are added, a larger and ever more baroque structure emerges. Having entered power with the hope of shrinking the state by as much as 200,000 positions, the Brazilian military ended up creating “hundreds of new, often redundant, agencies and enterprises” and watching the federal bureaucracy grow from 700,000 to 1.6 million (Schneider, 1987a:109,575,44). The resulting apparatus has been characterized as “segmented” (Barzelay, 1986), “divided” (Abranches, 1978), or “fragmented” (Schneider, 1987a). It is a structure that not only makes policy coordination difficult, but encourages resort to personalistic solutions. As Schneider (1987a:27) puts it, “personalism . . . is now made indispensible by bureaucratic fragmentation.”

The fragmentation of the structure is complemented in turn by the character of the careers that take place within it. Instead of being tuned to the long-term returns to be gained through a series of promotions based on organizationally relevant performance, careers in the Brazilian bureaucracy are staccato, punctuated by the rhythms of changing political leadership and periodic spawning of new organizations. Brazilian bureaucrats shift agencies every four or five years (Schneider, 1987a). Since the top four or five layers of most organizations are appointed from outside the agency itself, long-term commitment to agency-relevant expertise has only a limited return and construction of an ethos that can act effectively to restrain strategies oriented toward individual gain is difficult.

Just as the internal structure of the Brazilian state apparatus limits its capacity to replicate the performance of the East Asian developmental states, the character of its embeddedness makes it harder to construct a project of industrial elites. As in the case of the East Asian developmental states, this embeddedness must be understood in historical terms.

While the Brazilian state has been an uninterruptedly powerful presence in the country’s social and economic development since colonial times, it is important to keep in mind that, as Fernando Uricoechea (1980), Jose Murilo de Carvalho (1974), and others have emphasized, “the efficiency of government . . . was dependent . . . on the cooperation of the landed oligarchy” (Uricoechea, 1980:52). Over time, the state has become less dependent on the political support of reactionary rural elites, but they have never been dramatically swept from the stage as in the East Asian cases (see Hagopian, 1986). Thus, rather than being able to focus on its relationship with industrial capi-
tal, the state has always had to simultaneously contend with traditional elites threatened by the conflictual transformation of rural class relations. At the same time, relations with industrial capital have been complicated relative to those in East Asia by the early and massive presence of transnational manufacturing capital in the domestic market (see Evans, 1987). Forcing domestic capital to face the rigors of the competitive market is much more difficult in an environment where transnational capital is the likely beneficiary of any "gale of creative destruction" (cf. Evans, 1982).

The character of the state itself reinforced the problems intrinsic to the nature of the social structure. The lack of a stable bureaucratic structure makes it harder to establish regularized ties with the private sector of the "administrative guidance" sort, and pushes public–private interaction into individualized channels. Even the military regime, which had the greatest structural potential for "insulation" from clientelistic pressures, proved unable to construct on a general basis an "administrative guidance" kind of relationship with the local industrial elite. The regime was "highly legitimate in the eyes of the local bourgeoisie, yet unconnected to it by any well-institutionalized system of linkages" (Evans, 1982:S221). Instead of becoming institutionalized, relationships became individualized, taking the form of what Cardoso (1975) called "bureaucratic rings," that is, small sets of individual industrialists connected to an equally small set of individual bureaucrats, usually through some pivotal office holder. As Schneider (1987b:230–231) points out, the ad hoc personalized character of these linkages makes them both undependable from the point of view of industrialists and arbitrary in terms of their outcomes. They are, in short, quite the opposite of the sort of state–society ties described by Samuels and others in their discussions of the developmental state.

Overall, this reading of the internal structure and external ties of the Brazilian state is consistent with Schneider’s (1987:4) lament that “the structure and operation of the Brazilian state should prevent it from fulfilling even minimal government functions,” but obviously the picture has been overdrawn in order to sharpen the contrast with the model of the developmental state. It is important to keep in mind that the Brazilian state has in fact been entrepreneurially effective in a variety of industrial areas, ranging from creation of infrastructure to the installation of the automotive industry.

In the creation of electric power generating capacity, the state was not only willing to invest massively, it also succeeded in creating relatively effi-

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9This problem is even more severe in other intermediary states like India in which the rural areas weigh more heavily in both politics and economics (see Bardhan, 1984; Rudolf and Rudolf, 1987).
client firms (see Tendler, 1968). Furnas, for example, is reputed to employ fewer employees per gigawatt-hour of electricity than either the Tennessee Valley Authority or major European power companies (Schneider, 1987a:87). Shapiro’s (1988) thorough and dispassionate analysis of the implantation of the auto industry concludes that overall “the Brazilian strategy was a success” (1988:57), and that the planning capacity and subsidies provided by the state were crucial to inducing the required investments. Trebat (1983) concludes that state-led investment in the petrochemical industry not only saved foreign exchange but were economically reasonable given the prevailing opportunity costs of capital, despite the apparent irrationality of the projects at their outset (see Evans, 1981). Brazil’s state-owned steel companies have not only increased local capacity sevenfold over the course of the last 20 years, but produced steel at internationally competitive costs and enabled the country to become a net exporter (Baer, 1969; Trebat, 1983; Schneider, 1987a).

These successes are, as we would expect, found in areas where the immediately involved state organizations had exceptional coherence and capacity. In areas of success, more coherent state organization also enabled a more institutionally effective set of linkages with the private sector, with results something akin to the embedded autonomy of the developmental state. Shapiro’s (1988) discussion of the role of GEIA (Grupo Executivo para Industria Automobilistica) in the implantation of Brazil’s auto industry during the late 1950s and early 1960s is a good example. GEIA served as a kind of sectorally specific “mini pilot agency.” Because it combined representation from all the different agencies that needed to pass on plans, it “could implement its program independent of the fragmented policy-making authority” that plagued the government as a whole (Shapiro, 1988:111). Its ability to provide predictable timely decisions was “critical to risk reduction” as far as the TNCs who were being asked to invest were concerned. In addition, again much like MITI or the IDB, it “played a critical coordinating role between the assemblers and the parts producers” (Shapiro, 1988:58).

The later development of the petrochemical industry exhibited an even more potent variant of embedded autonomy (see Evans, 1979, 1981, 1982, 1987). At the heart of the initiative was Petrobras, the most autonomous and corporately coherent organization within the state enterprise system. Equally crucial to the explosive growth of Brazil’s petrochemical capacity in the 1970s, however, was the dense network of ties that were constructed to link the Petrobras system to private capital, both domestic and transnational.

How can we summarize the differences between these intermediary cases and our polar ideal types? The principal difference between the Brazilian state and the archetypal developmental state is that embedded autonomy is a partial rather than a global attribute in the Brazilian case. The impossibility of constructing a global embedded autonomy is in turn rooted both in the lack
of internal organizational capacity and in the greater challenge posed by Brazil's complex and contentious elite structure.

Internally, the bureaucracy is not a uniformly patrimonial caricature of a Weberian structure as in the predatory case, but still lacks the corporate coherence of the developmental ideal type. Organizationally consistent career ladders that bind the individual to corporate goals while simultaneously allowing him or her to acquire the expertise necessary to perform effectively are not well institutionalized. Not only is the level of bureaucratic capacity lower, but the demands placed on the apparatus are much greater. The state faces greater social structural complexity and is less selective in its intervention. The ability to cope with the task of industrialization is specifically complicated by the continuing social power of agrarian elites. The lesser capacity of the bureaucracy and the more difficult environment combine to make embedded autonomy of the sort that characterizes developmental state impossible. The intermediary state does not dominate their societies in the fashion of the truly predatory state, but neither can it construct common projects of accumulation in the way that developmental states can. It is organizationally uneven, both over time and across tasks, sometimes capable of fostering transformative change, often threatening to slip back into predatory patrimonialism.

COMPARATIVE CONCLUSIONS AND FUTURE AGENDAS

The main conclusions of this comparative analysis are straightforward. The differential effectiveness of Third World states as agents of industrial transformation can in fact be connected to differences in their internal structures and external ties. The most effective states are characterized by embedded autonomy, which joins well-developed, bureaucratic internal organization with dense public–private ties. In the least effective states, the mirror image—"incoherent absolutist domination"—combines undisciplined internal structures with external ties ruled by the "invisible hand." Intermediate states occasionally approximate embedded autonomy, but not sufficiently to give them the transformative capacity of developmental states.

The cases analyzed here confirm many of the conclusions reached by earlier comparative historical analyses of the state. East Asian developmental states have followed Geschenkronian/Hirschmanian paths in their strategies to a striking degree. Earlier Weberian ideas on the usefulness of the ideal typical bureaucratic frame to capitalist development are confirmed as well, but Weberian bureaucracy by itself is insufficient. Nonbureaucratic bases of internal solidarity are necessary to reinforce the coherence of formal bureaucratic structures. Even more important, a bureaucracy without an or-
ganized network of external ties cannot effectively promote industrial transformation.

The idea that the effective capitalist state is characterized by embedded autonomy has interesting implications for Marxist nations of the state as well as Weberian ones. The old aphorism about the capitalist state being the "executive committee of the bourgeoisie" may have been abandoned for more abstract structural notions too quickly. It is true that the effective capitalist state cannot be simply a passive register for private interests, but it is equally clear that the guidance provided by the generic requirements of capital accumulation is insufficient to allow the state to construct a project of industrial transformation. If it is assumed that an "executive committee" normally acquires an expert staff and sufficient independence from its constituency to avoid catering to particularistic interests, then it may be a better analogy for the developmental state than the more remote Hegelian visions conjured up by structural Marxists.

The comparative evidence has also confirmed initial doubts with regard to the usefulness of the neoutilitarian image of the Third World state. Neoutilitarian claims that a state run by an undisciplined collection of individually maximizing incumbents will tend to become a predatory monster are plausible, but it is patently false that some natural law of human behavior dictates that states are invariably constructed on this basis.

This is not to say that the prescriptions that flow from the neoutilitarian paradigm are uniformly perverse. On one important point comparative analysis concurs with the admonitions of the neoutilitarians. Strategic selectivity does seem crucial to developmentally effective intervention. In many societal contexts the state has attempted to perform a range of tasks that goes for beyond what existing and likely future bureaucracies can deal with effectively. Brazil, our intermediary case, is a good example. In such cases, a positive response to neoutilitarian cries to "shrink the state" may be a prerequisite to the construction of an effective state apparatus. It is on the "capacity" side that comparative analysis contradicts the neoutilitarian prescriptions. The neoutilitarian admonition to "minimize the state" is generally interpreted to mean imposing a general reduction on the resources allocated to the bureaucracy. Since the bureaucratic apparatus is considered generically predatory, little is lost by eviscerating it. A differentiated view of Third World states suggests, to the contrary, that the construction of a "real" bureaucratic apparatus (as opposed to a pseudobureaucratic patrimonial apparatus) is a crucial developmental task. To accomplish this task, the institutionalization of meritocratic recruitment patterns and predictable career paths must be accompanied by the provision of sufficient resources to make careers in the state competitive with careers in the private sector. Neoutilitarian exhortations may be useful in helping to bring the scope of state initiatives in line with feasible capacity, but they are likely
to have counterproductive consequences for the supply of effective capacity.

Intermediary state apparatuses are most vulnerable to the negative consequences of neoutilitarian policies. Stringent cuts in real wages and the reduction of resources for training of personnel will undermine the "islands of efficiency" that still exist in these bureaucracies, undercutting any possibility of moving in the direction of becoming developmental states and pushing those who remain trapped in the bureaucracy to become predators in order to maintain their standards of living. Insofar as only states with considerable autonomy are likely to force firms to confront the discipline of the market, the results of neoutilitarian prescriptions are likely to be doubly perverse. They will help foster precisely the kind of predatory states that neoutilitarians find abhorrent and undercut the kind of market-induced gales of creative destruction that they most desire.  

A differentiated view of states suggests that policy should be two pronged, aimed at increasing the selectivity of tasks undertaken by the state apparatus but devoting equal attention to reforms that will help reconstruct state apparatuses themselves. It is the latter task that is the more difficult and demanding of intellectual imagination. Existing examples of developmental states can provide useful clues, but not solutions. They are embedded institutions historically as well as social structurally. Neither the historical traditions nor the special class configurations out of which they arise can be reproduced by policy choices. The task of reconstruction is made doubly difficult by the rudimentary nature of our theoretical understanding of the state. Research inspired by the neoutilitarian vision devoted itself assiduously to demonstrating the predatory character of public organizations, trying to demolish reported evidence of public efficiency, and extolling the virtues of market solutions. Research in "public administration" has generally remained pedestrian, providing no effective intellectual counterweight. The growing comparative literature on states and social structures contains a variety of useful case studies and promising concepts, but remains very much in process.

The idea of embedded autonomy provides a good illustration. It grew out of previous work on the concepts of autonomy and capacity and by several excellent studies of the social context of the developmental state in Japan. It seems to help summarize differences between developmental states and intermediate cases like Brazil. It directs the attention of others engaged in comparative research to the possibility that bureaucratic capacity and social connectedness may be mutually reinforcing rather than in opposition. It remains, however, primitive. The constraints that keep the inevitable clientelism and corruption from overwhelming the utility of ties to private

10 Confirmation of this hypothesis would have the ironic side effect of demonstrating the vulnerability of neoutilitarians to the same "thesis of the perverse effect" that they have used so often against others in the past (see Hirschman, 1989).
capital are still not well defined. Nor are those that prevent internal “batsu-like” solidarity from undercutting performance-based criteria within the bureaucratic hierarchy. We do not even have a clear picture of how information flowing between the private sector to the state apparatus and back can change public policy and private strategies.

The task of constructing a credible comparative political economy of the Third World state is just beginning. Trying to move it forward is likely to be onerous and frustrating, but such efforts are crucial if we are ever to discover how Third World states might become less part of the problem and more part of the solution.

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Review Article

The Logic of the Developmental State

Ziya Öniş


Development theory and policy during the last decade have been thoroughly dominated by the neoclassical paradigm and the neoliberal economic measures closely identified with this paradigm. “Structuralist” development theory had been the prevailing orthodoxy during the 1950s and early 1960s. A central idea associated with structuralism was the belief that market failure is a pervasive feature of the underdeveloped economy with the corollary that the state has an important role to play in correcting it. The neoclassical resurgence, which can be traced back to the late 1960s and early 1970s, attacked structuralism on three separate grounds. First, extensive state intervention to promote import-substituting industrialization had generated inefficient industries, requiring permanent subsidization for their survival with little prospect of achieving international competitiveness. Second, extensive government intervention tended to generate “rent seeking” on a substantial scale, which detracted the attention of economic agents from productive activities into lobbying for increased allocations of government subsidies and protection. Third, and most significant in the present context, empirical evidence on the experience of the most successful countries to emerge from the Third World, namely the four East Asian countries, Taiwan, South Korea, Hong Kong, and Singapore, showed that these countries achieved extraordinary rates of economic growth, which moreover had been consistent with a relatively egalitarian distribution of income. The unique performance of these economies had been generated by using an outward-oriented model driven by market incentives and a strong private sector.¹

What we are now witnessing is the emergence of a countercritique of the neoclassical
paradigm based on a reinterpretation of the East Asian development experience. The four books under review in this essay are outstanding examples of a growing literature which seeks to refute the neoliberal vision of East Asian growth in terms of the economic benefits of trade liberalization, private enterprise, and a restricted role for the state. The central thesis associated with the newly emerging countercritique, which we might classify as broadly “institutionalist,” is that the phenomenon of “late development” should be understood as a process in which states have played a strategic role in taming domestic and international market forces and harnessing them to national ends. Fundamental to East Asian development has been the focus on industrialization as opposed to considerations involving maximizing profitability on the basis of current comparative advantage. In other words, market rationality has been constrained by the priorities of industrialization. Key to rapid industrialization is a strong and autonomous state, providing directional thrust to the operation of the market mechanism. The market is guided by a conception of long-term national rationality of investment formulated by government officials. It is the “synergy” between the state and the market which provides the basis for outstanding development experience.

The institutionalist perspective attempts to transcend the structuralist development economics which downplayed the key role of markets in the industrialization process. Similarly, it attempts to transcend the subsequent neoclassical resurgence which rapidly moved to the opposite extreme and interpreted all successful industrialization episodes as the outcome of free markets, with the necessary corollary that the domain of state intervention in the economy had to be restricted as far as possible. The broad institutionalist perspective elaborated, albeit with somewhat different emphases, in the four studies under consideration aims to move beyond what appears to be an increasingly sterile neoclassical-structuralist controversy in a number of fundamental respects. At a very crude level, to propose market-oriented and state-led development as alternatives is simply ahistorical and misleading. All successful cases of “late industrialization” have been associated with a significant degree of state intervention. The problem, therefore, is to find the appropriate mixture of market orientation and government intervention consistent with rapid and efficient industrialization. Equally central is the issue of which set of institutional and political arrangements is compatible with the appropriate mix of state intervention and market orientation in the economy. Hence what we observe in the context of the institutionalist countercritique is a fundamental shift of the problem from the state-versus-market dichotomy towards differences in the ways that market-oriented or capitalist economies are organized and towards how these organizational differences contribute to the contrasts in both policies implemented and the subsequent economic performance.

In the present essay, the focal point of our interest is on the institutional and sociopolitical bases underlying the capacity of the East Asian states to implement effective and coherent development strategies. In particular, we identify and synthesize the contributions made by the four volumes in the following set of issues. Is there a prototype “development state,” or are there fundamentally different variants of the developmental state, even in the East Asian context? Is the East Asian developmental state a product of specific cultural and historical circumstances? Does the developmental state require a particular regime type? Is the developmental state fundamentally incompatible with pluralistic forms of democracy? What
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is the future of the developmental state, and is it inherently unstable? What are the challenges posed by the model of the developmental state for neoclassical development theory and neoclassical political economy in general. From a comparative perspective, what are the specific constraints on the transferability or the replicability of the East Asian developmental state in other institutional contexts or environments? Finally, what are the key problems that the second generation newly industrializing countries are likely to encounter in their attempts to borrow or emulate Japanese or East Asian style institutions and policies?

The Developmental State and Strategic Industrial Policy

Chalmers Johnson is the pioneer of the concept of the “capitalist developmental state.”4 His model of the developmental state, based on institutional arrangements common to high growth East Asian economies, embodies the following set of characteristics. Economic development, defined in terms of growth, productivity, and competitiveness, constitutes the foremost and single-minded priority of state action. Conflict of goals is avoided by the absence of any commitment to equality and social welfare. Goals formulated specifically in terms of growth and competitiveness are rendered concrete by comparison with external reference economies which provide the state elites with models for emulation. There is an underlying commitment to private property and market, and state intervention is firmly circumscribed by this commitment. The market, however, is guided with instruments formulated by a small-scale, elite economic bureaucracy, recruited from the best managerial talent available in the system. Within the bureaucracy, a pilot agency plays a key role in policy formulation and implementation. Close institutionalized links are established between the elite bureaucracy and private business for consultation and cooperation. The organizational and institutional links between the bureaucratic elites and major private sector firms are crucial in generating a consensus on goals, as well as in exchanging information, both of which constitute essential components of the process of policy formulation and implementation. Yet another crucial component is a political system in which the bureaucracy is given sufficient scope to take initiatives and operate effectively. The politicians “reign” while the bureaucrats “rule.” The objective of the political elite is to legitimize the actions of the elite bureaucratic agencies and make space for the latter’s actions.

Strategic industrial policy forms a central component of the developmental state model. Both Amsden and Wade build upon the original formulation of Johnson with respect to Japanese industrial policy and make significant contributions towards understanding the nature of strategic industrial policy and its impact on industrial performance. Wade proposes a governed market theory of East Asian industrialization as an alternative to the neoclassical “free market” or “simulated markets” explanations. The governed market theory is an attempt to specify Johnson’s model of the developmental state in a testable form against the alternative neoclassical explanations of East Asian development. The essence of the governed market (GM) theory may be captured by the following set of propositions. The superior economic performance of East Asian economies is to a large extent the consequence of very high levels of investment, more investment in certain key industries than would have occurred in the absence of government intervention, and exposure of many industries to
international competition in foreign markets, though not in domestic markets. These are the proximate causes. At a more fundamental level, these outcomes themselves are the causes of a specific set of policies which enable the government to “guide” or “govern” the process of resource allocation so as to produce a different production and investment profile than would result under a free market system. The set of incentives, controls, and mechanisms to spread risk, which may all be gathered under the banner of strategic industrial policy, are in turn supported by specific political, institutional, and organizational arrangements pertaining to both the state apparatus and private business as well as their mutual interaction.

Amsden’s account of South Korea provides an outstanding illustration of the developmental state in action. The picture which emerges from Amsden’s analysis of the Korean case contains a number of strong parallels with Johnson’s account of MITI and Japanese industrial policy and to a lesser extent with Wade’s account of the Taiwanese experience. The essence of Amsden’s argument may be elaborated as follows: Korea may be characterized as a prototype case of a guided market economy in which market rationality has been constrained by the priorities of industrialization. The government has performed a strategic role in taming domestic and international forces and harnessing them to national economic interests. Rapid industrialization per se has been the overriding consideration, as opposed to maximizing profitability on the basis of current comparative advantage. The state has heavily subsidized and directed a selected group of industries and subsequently exposed them to international competition. What is interesting, however, is that the industries apart from the priority sectors experienced policy intervention only intermittently, while the remaining industries have been exposed unaided to the rigors of market competition. Hence a high degree of selectivity has been the centerpiece of industrial policy. The state has retained sufficient instruments of control so that, whatever happened in the rest of the economy, sufficient investment would be forthcoming in the strategic sectors. Thus, the market was guided by a conception of the longer-term rationality of investment formulated by the state elites. Furthermore, the state has provided a stable and predictable environment within which the corporations could undertake long-term risks. The basic criteria for the choice of strategic industries involved high incomes elasticities of demand in world markets plus the potential for rapid technological progress and labor productivity growth.

State intervention involved the creation of price distortions so that economic activity was directed towards greater investment. Hence, in striking contrast to the logic of neoclassical development theory, a high degree of government intervention has occurred to distort relative prices so that the desired levels of investment could materialize in the strategic sectors. Yet the discipline imposed by the government on business behavior constituted a crucial component of the industrial strategy. The government has specified stringent performance requirements in return for the subsidies it has provided. As a result of the discipline exercised over the performance of firms located in strategic sectors, price distortions such as heavily subsidized rates of interest on long-term credits did not lead to a waste of resources as in the case of many other middle income economies. The discipline exercised over private firms involved both rewarding good ones as well as penalizing poor performers. The government has deliberately refrained from bailing out firms which were badly managed in otherwise profitable industries. Hence the way in which industrial policy has been implemented differed decisively from the negative forms of industrial policy that
are characteristic of a number of West European countries, which have involved subsidization of declining firms or industries experiencing financial difficulties.

The discipline exercised over private business has assumed a multitude of forms. Through its industrial licensing policies the state has managed to limit the number of firms allowed to enter an industry. The policy has facilitated the realization of economies of scale but at the same time encouraged intense competition for market shares among the existing firms in the industry. Hence the mixture of competition and cooperation was central to the success of industrial policy. The state has deliberately accelerated the process of industrial concentration as a basis for successful competition in international markets. It is clear, therefore, that East Asian style industrial policy does not make sense without the associated East Asian style competition policy. The large diversified business groups, Chaebols, have developed under direct state influence and guidance. Nonetheless, the state has attempted explicitly to prevent the abuse of monopoly power by imposing stringent price controls, negotiated on an annual basis. Furthermore, extensive restrictions have been placed on the capital account. Investors have been subjected to controls on capital flight and remittance of liquid capital overseas. Regulation of the financial system represented a central pillar of Korea’s industrial policy. Until very recently all commercial banks were owned and controlled by the government. The government’s strict control over the financial system has helped to divert the attention of Chaebols towards capital accumulation by closing off the options available for rent seeking. A well-defined technology policy has been an integral component of the government’s broader industrial strategy. Technology has been acquired through investing in foreign licensing and technical assistance. Massive imports of foreign licenses have been conceived of as the principal means of attaining technological independence. Direct foreign investment has played a comparatively limited role as avenues of capital inflow and technology transfer in the Korean economy. Finally, the government’s fiscal policies have complemented its highly interventionist industrial policies. Expenditures from the budget have been directed almost exclusively to long-term investment. The state has invested heavily in education and human capital formation. Yet the welfare state function has been virtually absent. The state has assumed no responsibilities outside the domains of production and capital accumulation.

The central insight to emerge from Amsden’s study is that the government not only subsidized industries to stimulate growth, but also set stringent performance criteria in exchange for these subsidies. Hence government discipline over business was crucial, and this dual policy of support and discipline constitutes the core component of a Japanese or Korean style industrial policy. Here we have a strong contrast between East Asia and many middle income economies which have made extensive use of subsidies to industry. Precisely because of the latter’s failure to integrate subsidization with discipline over business performance, these subsidies have proved to be counterproductive and emerged as a major avenue for rent seeking.

**Institutional and Political Bases of the Developmental State**

The formulation and implementation of strategic industrial policy have been facilitated by specific political and institutional arrangements. Interesting contributions by Deyo and by
Koo and Johnson in the same volume make important contributions towards understanding the two different facets of the developmental state. A key distinction is introduced between the political basis for strong, autonomous developmentalist states and the institutional basis for state intervention and effective policy implementation. The former aspect draws attention to the broader sociopolitical context which facilitated strategy formulation. The strategic power of the East Asian developmental state has depended on the formation of political coalitions with domestic industry and on the destruction of the left and curtailment of the power of organized labor plus other popular groups. State intervention, in turn, has relied on organizational and institutional links between politically insulated state agencies and major private sector firms. The effectiveness of state intervention has been amplified through the fostering of state-linked private sector conglomerates, banks, and general trading companies that dominate strategic sectors of the economy. The distinction between the coalition basis of strategy choice and the institutions and structures through which policies are implemented refers to the two separate, yet fundamental, aspects of development capacity.

Underlying these political and institutional requirements for effective state intervention in the form of strategic industrial policy are the two central features associated with the developmental state, namely, the unusual degrees of bureaucratic autonomy and public-private cooperation. The coexistence of these two conditions allows the state and the bureaucratic elites to develop independent national goals and, in the subsequent state, to translate these broad national goals into effective policy action. The coexistence of these two conditions is critical. In fact, in the absence of bureaucratic autonomy public-private cooperation easily degenerates into situations in which state goals are directly reducible to private interests. Countries such as Mexico and some of the other “bureaucratic-authoritarian” states in Latin America are striking examples of such political economies, in which close government-business cooperation has materialized in the context of “weak states” which lack autonomy from powerful groups in society.

From a comparative perspective, among the most puzzling and intriguing aspects of the East Asian developmental state are how bureaucratic autonomy was acquired in the first place and why it was subsequently directed to developmental goals as opposed to the self-maximizing or predatory forms of behavior so common in other contexts. An extremely meritocratic form of recruitment constitutes the starting point in understanding the extraordinary degree of bureaucratic autonomy associated with the developmental states. The system was designed in such a way as to attract the best managerial talent available to the ranks of the bureaucratic elite, which in numerical terms was quite small by international standards. Rigorous standards of entry not only ensured a high degree of bureaucratic capability, but also generated a sense of unity and common identity on the part of the bureaucratic elite. Hence the bureaucrats were imbued with a sense of mission and identified themselves with national goals which derived from a position of leadership in society. The early retirement of the elite bureaucrats and their subsequent move to top positions in politics and business also helped to enhance their power and legitimacy. The common educational backgrounds plus the high degree of intraelite circulation were instrumental in generating an unusual degree of cooperation among the bureaucrats, the executive, and the entrepreneurial elites.

All bureaucratic systems are confronted with an inherent tension between autonomy and accountability. Autonomy from both societal interest groups and other layers within the
state is a necessary condition for effective action. Yet the powers granted to the bureaucratic elites may easily be misused in the absence of external checks and balances on bureaucratic power. In the context of the developmental state, several mechanisms were instituted with the purpose of resolving the tension between bureaucratic autonomy and accountability. First, the size of the bureaucratic apparatus was kept extremely small by international standards. The limited size of the bureaucracy helped to consolidate the elite position of the bureaucrats in society and also to contain the problems involving lack of control and accountability associated with massive bureaucracies. The second element designed to achieve an equilibrium between autonomy and accountability concerned the powers granted to pilot agencies such as MITI in Japan and EPB in Korea, which emerged as the principal institutions responsible for the implementation of industrial policy. The problem here was to find the mix of powers needed by the pilot agency without giving it control over so many sectors as to make it all-powerful or so few as to make it ineffective. The dilemma was resolved by confining the powers of MITI to a limited number of selected strategic sectors of the economy. Hence the pattern of MITI’s (or its Korean and Taiwanese counterparts’) involvement in the economy was consistent with both the economic logic of selective industrial policy, based on infant industry protection, and the logic of finding an equilibrium between bureaucratic autonomy and effectiveness, on the one hand, and bureaucratic power and accountability, on the other. The third mechanism whereby autonomy and accountability were reconciled involved the unusual division of labor within the state, among the executive, bureaucrats, and military. The relationship between the executive and the bureaucracy is particularly interesting. Johnson draws attention to a striking structural characteristic of the developmental state, the implicit division of labor within the polity between the tasks of ruling and the tasks of reigning. Politicians reign while bureaucrats rule. The politicians provide the space for the bureaucrats to rule by holding off special interest claimants who might deflect the state from its main developmental priority and also legitimate and ratify the decisions taken by the bureaucrats. The existence of an independent executive is crucial for the operation of the system in the sense that it allows the bureaucrats the freedom of action necessary for effective policy intervention but at the same time constitutes an important barrier to the misuse of this freedom of action. The task performed by the military in Korea and Taiwan has been similar to the role performed by the executive or the political elites in the context of postwar Japan. The commitment by the military elites to developmental goals as a means of securing national survival and independence has been a key factor in ensuring the effective deployment of bureaucratic power. As a fourth element, in spite of the inherent weakness of civil society in the East Asian context, certain elements within civil society have nevertheless contributed to the process of increased accountability. Amsden singles out the hyperactive student movement in the Korean case, which has helped to check the abuse of bureaucratic and governmental powers.

The logic of the developmental state rests precisely on the combination of bureaucratic autonomy with an unusual degree of public-private cooperation. Common educational backgrounds of the bureaucratic and business elites, as well as their significant cross penetration, have played a key role in generating extraordinary degrees of elite unity. Yet it would be rather misleading to attribute public-private cooperation exclusively to these forces. Public-private cooperation has also been directly and deliberately engineered by the state elites. In both Japan and the other East Asian states which have evolved along the lines
of the Japanese model, the state elites have consciously sought to create cooperative relationships with private business via the creation of a series of unusual institutions. For instance, the state has played a leading role in nurturing the peak organizations of private business. The huge business conglomerates, the Keiretsu of postwar Japan and the Chaebols in Korea, owed their phenomenal growth to the special incentives provided by the state. The fact that they have been nurtured by the state in the first place has, in turn, rendered them extraordinarily dependent on the state for their future survival. Hence the extremely tight policy networks which characterize East Asia have been largely engineered by the state elites. It would be misleading, therefore, to conceive public-private cooperation as an outcome of voluntary compliance by the business elites. The significant element of compulsion exercised by the bureaucrats in securing public-private cooperation constitutes a central characteristic of the developmental state. The extraordinary degrees of monopoly and control exercised by the state over the financial system plus the extreme dependence of individual conglomerates on bank finance have also been instrumental in eliciting compliance with the requirements of strategic industrial policy.

The central insight is that the degree of government-business cooperation and consensus on national goals, unique to the developmental state, is not purely the product of a given cultural environment but has been largely engineered by the state elites themselves through the creation of a special set of institutions relying on a significant element of compulsion.

The Historical Origins and Specificity of the East Asian Developmental States

To an external observer, one of the central puzzles posed by the East Asian industrialization experience is how to explain the single-minded commitment of the state elites to growth, productivity, and international competitiveness. One possible line of explanation tends to focus on regime type, namely, the authoritarian political structures associated with the East Asian states. It is a well-known fact, however, that authoritarian regimes, like their democratic counterparts, are confronted with the problems of legitimacy and typically fail to generate the consistency and commitment to national goals characteristic of East Asian developmental states. Hence we need to search for more penetrating explanations of the intractable commitment to long-term growth. Two factors, both of which are the products of specific historical circumstances, deserve special emphasis.

The first element involves the unusual degree of external threat confronted by the East Asian states in the postwar period. The security threat has been aggravated by the extremely weak resource base and shortage of raw materials in the economies concerned. The security threat has been particularly pronounced in the case of Taiwan, which faced an immediate threat from mainland China. The fact that these nations were under direct Communist threat implied that they had to justify their very existence against competition from the Communist regimes and associated ideology. Hence the extraordinary security threat faced by the East Asian states helped to bolster the nationalistic vision inherent in these states and the unique commitment to the long-term transformation of the economy, which enabled the state elites to ignore considerations relating to income distribution and social welfare.

Geopolitical influences, however, constitute only one element of the legitimation process. The second element concerns the fact that the major East Asian economies under
consideration all experienced a major redistribution of income and wealth from the outset, with the corollary that the industrialization drive in the postwar period has been initiated from a relatively egalitarian base. In the Japanese case, the devastating impact of the war was such that all Japanese were made equally poor. In the cases of Korea and Taiwan, extensive land reforms during the process of colonial rule performed a similar function. The impact of the land reforms was such that, not only was the distributional profile equalized, but also competition from potentially troublesome social groups such as large landlords was eliminated. Precisely in this respect we observe a strong contrast with the Latin American experience. Hence we should locate the unusual and exclusive attachment to economic growth and competitiveness in the combination of extraordinary external threats combined with a relatively egalitarian distribution of income prior to the process of rapid industrialization.

Cumings’ contribution is particularly important in accounting for the origins of the East Asian developmental states. Cumings locates the historical origins of East Asian industrialization in the broader regional context of Japanese and then American hegemony. Under Japanese rule, extensive industrial and infrastructural investment provided a base for subsequent industrial growth in Korea. The build-up of the bureaucratic apparatus and the associated administrative capacity were also to a large extent products of Japanese rule. In the postwar period, Korea and Taiwan assumed a key geostrategic significance, and as a result of their newly acquired geostrategic advantage they have benefited disproportionately in terms of trade, capital, and technology from the core countries. Hence any analysis of the East Asian developmental state has to take into account the international context within which East Asian growth materialized in the postwar period. Unlike the experience of many Third World states, Korea and Taiwan benefited from heavy interaction with the strongest and most dynamic countries within the cores, the United States and Japan. Yet, as Haggard and Cheng demonstrate, it was not only the special nature of their interaction with the core which explains their superior success, but also the way that they have managed their interaction with the external environment with respect to both trade and capital inflows. The strength of the East Asian states enabled them to direct and limit the impact of foreign capital in local economies. Here again we locate a strong contrast with Latin America, whose dependent relationship vis-à-vis the core has been attributed to the interaction of powerful foreign firms with relatively weak states, amply demonstrated in Peter Evans’ comparative analysis. The key point made by Koo is that the international context, combined with the domestic structural characteristics described, enabled strong authoritarian states to emerge in East Asia prior to reintegration into the U.S.-dominated capitalist world economy in the postwar period. Hence, in retrospect, the timing of incorporation into the world economy appears to be crucial for the subsequent success of the East Asian states.

Another striking contrast which explains why the East Asian states did not experience the legitimation problems confronted by the bureaucratic-authoritarian states in Latin America can be traced to the exclusion of labor from the political process from the outset. The corporatist regimes in Latin American newly industrializing countries (NICs) incorporated labor into a populist coalition and emphasized increased wages and public services in the early stages of industrialization. The subsequent bureaucratic-authoritarian regimes in Argentina, Brazil, Chile, and Uruguay aimed to promote industrialization by excluding from power the previously mobilized economic groups and by developing collaborative
relationships with the multinational corporations. The fact that such regimes have been built on the exclusion of previously mobilized groups has generated severe legitimation problems for them.

Our discussion has hitherto focused on the essential unity of the East Asian developmental states. Yet a closer analysis suggests the presence of striking differences among the individual variants of the developmental state. The Japanese developmental state in the postwar period, for example, has differed from its Korean and Taiwanese counterparts in that it has been able to coexist with democratic political institutions. Important contrasts may also be identified between the Korean and Taiwanese models. Wade demonstrates, for example, that Taiwan satisfied Johnson’s “bureaucratic autonomy” condition but failed to conform to the “public-private cooperation” condition and in this respect differed significantly from both Japan and Korea. Close cooperation and interaction among politicians, bureaucrats, and business elites have been the foundation stone of the developmental state. Yet, compared to Japan and Korea, Taiwan has been characterized by more of a cleavage between the government and the private sector. Given the weak institutionalized links between government and business, industrial policy in Taiwan has been implemented through a rigorous but very different type of policy network linking the central economic bureaus with public enterprises, public banks, public research and service organizations, universities, foreign multinationals with operations in Taiwan, consulting firms, and some “special status” private manufacturing companies linked to the party, military, and economic ministries. Hence the public sector has been a central component of the policy network in Taiwan. The different policy network which prevailed in Taiwan may also be explained by the relative absence of a limited number of extremely large conglomerates, characteristic of Japan and Korea. This also explains why the “public-private cooperation” condition could not be fulfilled in the Taiwanese case. What is quite critical in the present context is that the vision of a uniform East Asian developmental state is misleading. In fact, in spite of substantial similarities among the Korean, Taiwanese, and Japanese cases, the presence of important differences should not be underestimated, particularly in trying to generalize from the East Asian experience.

The Developmental State and Corporatism

At a very broad and general level of analysis, it is possible to formulate a correspondence between the East Asian model of the developmental state and corporatist political arrangements. At one extreme, both Korea and Taiwan appear to conform rather closely to the pattern of “authoritarian corporatism,” which involves institutionalized collaboration between the state and business elites in the policy formulation and implementation process, accompanied (at least until very recently) by severe repression of popular groups and the exclusion of labor from the political arena. In contrast to Taiwan’s and Korea’s “authoritarian” or “exclusionary” corporatism, the political arrangements underlying the Japanese developmental state in the postwar period have been much closer to the western European or Scandinavian model of “societal” or “democratic” corporatism. ¹⁰ In the case of Japan, close, institutionalized cooperation between the state elites and business groups for the realization of strategic goals has coexisted with democratic political institutions. Clearly,
the common denominator in both the “authoritarian” and “democratic” forms of corporatism is institutionalized public-private cooperation in the process of policy formulation and implementation.

Attention drawn to the corporatist nature of the developmental state serves at least one important purpose. It is unambiguously the case that the model of the developmental state explored in the present essay is inconsistent with the vision of a pluralistic form of democracy, in which a multitude of small-scale interest groups enjoy broadly equal and unrestricted access to the state. By definition, restricted and preferential access to the state by organized groups in civil society is an inherent and integral feature of the developmental state. Moreover, the developmental state by its very nature involves an unusual concentration of public and private power which would be extremely hard to justify by the standards of pluralistic democracy. The emphasis on the corporatist nature of the developmental state also helps to draw a broad parallel between the two major groups of countries which constitute the major success stories of outward-oriented development, namely the small European countries, on the one hand, and the East Asian group, on the other. The common element in what originally appears to be exceptionally dissimilar cases is that both sets of countries have managed to build over time institutional and political arrangements which have facilitated highly effective forms of integration into the international economy. The nature of the internal political arrangements was crucial to the ability of these groups of countries to successfully manage their association with the world economy and their subsequent ability to benefit from this interaction.11

Beyond this level of abstract comparison, however, the emphasis on the corporatist character of the developmental state might be more misleading than illuminating. Consider the parallel drawn by Johnson between the postwar Japanese developmental state and the European type democratic corporatism. The fundamental distinguishing characteristic of the latter is that policy is formulated and implemented through institutionalized interaction and cooperation between the politicians and business, on the one hand, and peak associations of labor and business, on the other. Central to the idea of democratic corporatism is the notion that relatively autonomous state elites bargain with autonomous peak associations within civil society. Yet it is quite obvious that this vision of democratic corporatism deviates from the postwar Japanese model in a number of critical respects. First, in spite of the presence of democratic institutions, labor has been systematically excluded from the policy process. Second, it could be incorrect to characterize the policy formation and implementation process in Japan as the outcome of bargaining between equal, yet independent, partners. The studies reviewed in this essay suggest that in Japan, and perhaps even more so in Korea and Taiwan, the state has possessed considerable leverage over private business in terms of securing compliance with its strategic choices. The state elites have unambiguously been the senior partner in their relations with business groups. Hence the degree of autonomy and strength associated with the East Asian models has been considerably greater than the degree of state autonomy associated with the European type democratic corporatism. It is quite self-evident that Japan conforms to a model of an extremely limited form of corporatism. At a more general level, the concept of corporatism makes sense as a means of identifying, as an ideal case, the characteristics associated with the Scandinavian or Austrian type democratic corporatism plus the contributions that such institutional arrangements can make in terms of political stability and improved economic performance. The “ideal case” may, in

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turn, be utilized for the purpose of broad, macro-level comparisons with the other political arrangements and systems. However, to extend the limits of corporatism beyond this ideal case and to search for the presence and strength of corporatist arrangement in highly dissimilar contexts reduces the usefulness of corporatism as an analytical concept for macro-comparative analysis.

The concept of “authoritarian corporatism” constitutes a loose category and is less satisfactory than “democratic corporatism” in defining an ideal type. Hence, in our judgment, the characterization of Korea and Taiwan as variants of authoritarian corporatism is meaningful only at a descriptive level. Wade makes the important point that one can not deduce the degree of state strength or specific policy choices from the underlying corporatist political arrangements. Mexico, for example, is considered to be a prototype case of “state” or “authoritarian” corporatism in the context of a single party regime. Arguably, as a consequence of its corporatist arrangements, Mexico has enjoyed a high degree of political stability which is unusual by Latin American standards. Yet the “authoritarian corporatism” model associated with the Mexican case has been consistent with a very different set of strategic choices and policy outcomes as compared with the Korean and Taiwanese models. Moreover, in spite of its authoritarian corporatist characteristics, Mexico has hardly been a case of economic success. The general point emerging from the discussion is that the East Asian developmental state, in a very loose sense of the term, may be classified as a corporatist state, in the sense that institutionalized government-business cooperation is an underlying feature of such a state. Yet, at a deeper level, the characterization of the East Asian developmental states as corporatist states is ahistorical and misleading. Corporatist arrangements by themselves, without recourse to a full range of conditions specified earlier, can not explain why the East Asian states have elected to pursue strategic industrial policies and why such policies have proved to be so effective in practice. Furthermore, corporatist arrangements can be consistent with and have in fact facilitated the achievement of quite distinct objectives such as macroeconomic stability plus income redistribution and the build-up of the welfare state, hardly the objectives associated with the logic of the developmental state.

Is the Developmental State Model Transferable?

To a practically minded scholar, the immediate question concerns the lesson to be drawn from the East Asian development experience which can subsequently be generalized to and applied in other newly industrializing countries. In our judgment, such an approach is extremely ahistorical. In fact, the studies under review demonstrate quite conclusively that the East Asian model of the developmental state is the product of unique historical circumstances with the logical corollary that there exist major constraints on its transferability to or replicability in alternative national contexts.

Three key elements of the developmental state are extremely difficult to emulate. They are the single-minded adherence to growth and competitiveness at the expense of other objectives, the unusual degree of bureaucratic autonomy and capacity, and the equally unique and unusual degree of public-private cooperation. As emphasized earlier, the single-minded pursuit of growth and productivity was clearly related to the severe external
threats that these countries were confronted with. While external threats have helped to legitimate the long-term growth strategy, the geostrategic position of these states in the cold war context enabled them to extract important advantages vis-à-vis the core, the United States in the case of Japan and both the United States and Japan in the case of Korea and Taiwan, which have made a significant contribution towards the consolidation of state autonomy as well as the formation of state capacity. In the domestic sphere, Korea and Taiwan benefited from the unusual combination of an authoritarian regime and a relatively egalitarian distribution, which itself was the product of particular historical circumstances. Consequently, the East Asian states have been able to withdraw from the distributional realm and concentrate exclusively on providing strategic guidance for production and capital accumulation.

A fundamental question centers around the compatibility of the “developmental state” with political liberalization and democratic forms of governance. This also raises the key question whether the transfer or replicability of the East Asian state forms is desirable in the first place, in environments where democratic values and institutions as well as widespread political participation emerge as central objectives in their own right. It is self-evident that in countries which have experienced a long trajectory of democratic development it would be inconceivable for the state to withdraw entirely from the distributional realm and focus exclusively on growth and productivity objectives. At a deeper level, the extreme degrees of concentration of private and public power associated with the East Asian developmental states could also be incompatible with widespread political participation. Although such concentration of private and public power has been consistent with a democratic political system in Japan in the postwar period, this coexistence was more due to the unique features and structural imperatives of Japan as distinct from an inherent compatibility of the developmental state with democratic institutions. As Korea and Taiwan currently find themselves in the process of democratic transition, it would be extremely interesting to observe whether and to what extent the institutions of the developmental state will survive under conditions of popular participation and democratic governance. Hence the question whether East Asian type political economies can coexist with a liberal western type political system emerges as a central problem for comparative political economy during the next decade.

Another critical issue in this context revolves around the long-term stability of the developmental state. Several scholars, including Alice Amsden, have drawn attention to the fact that the East Asian developmental state is inherently unstable. There exists an inherent tension within the developmental state between the “bureaucratic autonomy” and the “public-private cooperation” conditions. The Korean example, for instance, clearly testifies that the developmental state creates the seeds of its own destruction. As argued earlier, the Korean state has been instrumental in the creation of private business groups, Chaebols, as a basis for securing cooperation for its industrial policy and enhancing its autonomy in implementing its strategic goals. The recent evidence suggests, however, that the Korean state has been increasingly unable to control or monitor the activities of the Chaebols. In fact, the relative power and autonomy of the Chaebols have increased dramatically in the course of the liberalization drive during the 1980s, which in turn has progressively limited the capacity of the state to control the actions of these groups and to direct them towards strategic goals. The Korean example illustrates quite conclusively that it is extremely
difficult to engineer an equilibrium between the two apparently contradictory conditions “bureaucratic autonomy” and “public-private cooperation” and to sustain it over time. The knife-edge equilibrium can easily be disturbed due to the more rapid growth of private vis-à-vis public power.

It is quite obvious that, unless the “autonomy” and “cooperation” requirements are satisfied, attempts to implement Japanese and Korean style industrial policies will prove to be counterproductive. In such an environment, bureaucratic elites will lack the capability to identify dynamic industries to be targeted in the first place and will be in a weak position in terms of monitoring and regulating the activities of firms located in the strategic industries. The inability of the state elites to discipline private business in exchange for subsidies may lead to a situation where selective subsidies can easily degenerate into a major instrument of rent seeking by individual groups. A central lesson that emerges from the institutionalist literature on East Asian development is that the transfer of specific strategies or policies to new environments will be self-defeating in the absence of the political and institutional conditions required for their effective implementation. We also need to take into account the fact that the East Asian style developmental state and associated industrial policies have proved to be successful in a global environment characterized by rapid growth of production and world trade and also by the absence of similar institutions and strategies in the rest of the international system. The obvious question to pose is whether such institutions and strategies are likely to be effective in a less favorable environment typified by growing protectionism and declining growth in world trade. Moreover, are such institutions and policies likely to work in an environment in which other nations are trying to adopt similar types of institutions and policies?

On a more optimistic note, however, some important, yet qualified, lessons can be extracted from the East Asian model of the developmental state with a view to its applicability in alternative national settings. A key lesson is that there is no obvious correspondence between effective market-augmenting state intervention, on the one hand, and the size of the bureaucratic apparatus or the public sector, on the other. The East Asian model of the developmental state testifies that highly effective forms of market-augmenting intervention can be consistent with relatively small bureaucratic structures and public sectors. Yet, contrary to popular belief, small public sectors have nevertheless embodied highly productive and profitable public enterprise sectors. Another key message is that a small but powerful pilot agency such as MITI or EPB can provide important strategic guidance in the selection of key industries to be encouraged and also in the provision of a stable and predictable environment for private investors to undertake risky, long-term investment projects. Hence sector-specific forms of indicative planning can be an essential complement of market-oriented growth. Effective market-augmenting forms of state intervention require both bureaucratic autonomy and close public-private cooperation. These institutional conditions are not easily transferable, but they are not the unique product of a particular cultural environment either. Factors such as traditions of social and political hierarchy and group solidarity have played an important role in East Asian industrialization, but it would be wrong to associate the degree of social consensus and cooperation associated with the East Asian developmental state purely with cultural explanations. Chalmers Johnson’s account is particularly crucial in this respect. Johnson demonstrates that the key institutions underlying rapid economic growth in Japan are of relatively recent origin.
Similarly, the consensus and cooperation which constitute the central pillar of the developmental state are a specific postwar phenomenon. The rejection of the purely culturalist explanation has an important ramification, namely, that bureaucratic capability and public-private cooperation are not cultural givens but can be built up over time through a process of institutional reform. Hence bureaucratic reform as well as attempts to institute organized forms of bargaining and cooperation between the public and private spheres assume critical importance as a basis for improving the effectiveness of state intervention in a market-oriented setting. The challenge for the political economist is to devise forms of industrial policy which are consistent with the norms of democratic accountability and with more limited concentration of public and private power than has been the case in the East Asian context.

Towards a New Paradigm

Institutionalist accounts of the East Asian developmental states embody important ramifications for more general debates in comparative political economy concerning state autonomy and state capacity. A central insight concerns the precise meaning to be attached to the notion of a “strong state.” The developmental state thesis suggests that strong states are typically characterized not only by a high degree of bureaucratic autonomy and capacity, but also by the existence of a significant degree of institutionalized interaction and dialogue between the state elites and autonomous centers of power within civil society. Central to our understanding of the strong developmental state is the distinction between “despotic” and “infrastructural” state power. “Despotic power” or what we could prefer to call “coercive autonomy” may be associated with highly centralized and authoritarian states in which the state elites extensively regulate economic and political activity but at the same take decisions without routine, institutionalized negotiations with groups in civil society. “Infrastructural power,” in contrast, signifies the ability of the state to penetrate society, organize social relations, and implement policies through a process of negotiation and cooperation in society.

The crucial point to emphasize is that highly centralized and authoritarian states which possess “despotic power” will not necessarily have the “infrastructural power” which would allow them to elicit consent for their policies, organize and coordinate society, and mobilize resources for long-term development. Some degree of autonomy from societal pressures is a precondition for effective state intervention. Yet the distinction between despotic and infrastructural power implies that there exists no direct, linear correspondence between “state autonomy” and “state capacity.” From the perspective of long-term economic transformation, the most successful states are typically those which are able to work through and in cooperation with autonomous centers of power. The autonomy of the developmental state is “of a completely different character from the aimless, absolutist domination of the predatory state. . . . It is an autonomy embedded in the concrete set of social ties which bind state and society and provide institutional channels for the continuous negotiation and renegotiation of goals and policies. The specific nature of this ‘embedded autonomy’ must be seen as the product of a historical conjuncture of domestic and international factors.”

The notion of “embedded autonomy,” which Peter Evans uses to characterize strong developmental states in the Third World, also has a direct counterpart in the corporatist
literature of a strong state in the context of advanced industrial economies. In the corporatist literature, the state performs a key role in the creation and the subsequent consolidation of corporatist arrangements involving peak associations of labor and private business. Corporatist arrangements facilitate the implementation of both incomes policies to control inflation and sectoral adjustment policies for smooth industrial transformation. The ability of the state to establish and consolidate corporatist structures depends on two basic attributes, which are perfectly consistent with the general thrust of our analysis. First, the state must be autonomous enough in the policy formation and implementation process not to be overwhelmed by special interest groups. Second, the state must be weak enough to recognize that the costs of imposing a policy authoritatively will exceed its benefits. The state must also be willing to relegate some of its most distinct resource, legitimate coercion, to organizations which it does not control.

Selective interventionism constitutes a fundamental characteristic of the strong state. Such states seem to be able to focus their attention almost exclusively on increasing productivity and profitability and restrict their intervention to the strategic requirements of long-term economic transformation. Neither a large public sector nor a large public enterprise sector is necessary for the state to undertake its strategic role in the process of economic transformation. Indeed, the very size of the public sector, combined with pervasive subsidies and controls, nurtures the proliferation of special interest groups, whose “rent seeking” activities may seriously impede state capacity for effective intervention. Similarly, an excessively large public enterprise sector may undermine the strength of the central government through the emergence of clientelistic relations.

The type of intervention associated with the developmental state embodies three major components. First, direct ownership and control of industrial production is of secondary importance as compared with the process of building up economic infrastructure through education, training, and research. Second, the state performs a key role in the promotion of cooperative labor-management relations. Third, and most significant, the state undertakes a leading role in the creation of comparative advantage. The state is involved in creating the conditions for economic growth and industrial adaptation, yet refrains from exercising direct control. A central feature underlying this process is that the state works with and often promotes the market. The market is employed as an instrument of industrial policy by exposing particular industries to international competitive pressures. Developmental states systematically manage the market as a means of long-term economic transformation. The ability of the state to undertake selective, yet strategic intervention is based on the existence of strong administrative capacity. Again, what matters is not the size of the bureaucratic apparatus, but its coherence. Developmental states are characterized by tightly organized, relatively small-scale bureaucratic structures with the Weberian characteristics of highly selective, meritocratic recruitment patterns and long-term career rewards, which enhance the solidarity and the corporate identity of the bureaucratic elite.

Institutional perspectives embodied in the developmental state model make another important contribution to the broader comparative political economy literature by developing a serious critique of the neoclassical and public choice schools of political economy. In fact, both the institutionalist and public choice scholars start from a common base of a high degree of state or bureaucratic autonomy. The idea that the state elites constitute a distinct interest group, which we associate with the institutionalist perspective, is closely reflected in
the contributions of the public choice school. Public choice analysts, however, entertain highly deterministic notions concerning the manner in which state autonomy is utilized in practice. They argue that autonomous action by self-maximizing bureaucrats and politicians will necessarily result in malevolent state action and misallocations of resources. Hence a direct correspondence is postulated between bureaucratic autonomy and the model of a predatory state, in which the state elites extract large investable resources but provide little in the way of "collective goods" in return so that they act as a barrier to economic transformation. The logical corollary of this reasoning is that constitutional restrictions are needed to contain government growth.18 Here lies the central difference between the public choice and institutionalist reasoning. The latter does not preclude the issue regarding the utilization of state autonomy. Furthermore, it contends that state action can have a positive developmental effect. In general, whether autonomous state action will assume a malevolent or benevolent form depends on historical and structural conditions and can not be deduced from first principles. Furthermore, it treats state autonomy not as a permanent or absolute condition, but as a highly contingent or historically specific phenomenon. The degree of state autonomy may vary significantly from one country to another as well as between different historical epochs within an individual country. To make the argument concrete, in the East Asian context the bureaucratic elite has identified itself with national goals and has displayed an unusual degree of integrity in attempting to realize these national goals. Consequently, bureaucratic autonomy has been associated with extremely effective forms of state intervention in the economy. However, it was not bureaucratic autonomy per se which ensured effective state action, but rather a whole set of additional factors which collectively guaranteed that bureaucratic autonomy was translated into effective state action.

Finally, the institutionalist framework underlying the developmental state thesis provides a serious critique of the one-dimensional, universalist logic of neoclassical development theory, with its emphasis on a specific set of appropriate policies, designed to establish a free market, regardless of the historical, institutional, and political context. The institutionalist logic has also identified a set of policies, namely, market augmenting strategic industrial policies, which have been associated with high rates of GNP growth in the East Asian context. Yet the analysis also makes clear that the formulation and implementation of such policies have been facilitated by specific political and institutional preconditions. The corollary of this proposition is that the same set of policies will be counterproductive or at least ineffective in the absence of the associated set of institutional and political structures or contexts. Hence the institutionalist perspective points towards the importance of multiple logics in the interaction of governments and markets in the development process and draws attention to the multiple trajectories of economic and political development available to present-day developing countries.

NOTES

1 I would like to thank Ezra N. Suleiman for encouraging me to write this article.


8. Peter Evans, “Class, State and Dependence in East Asia: Lessons for Latin Americanists,” in Deyo, ed.


11. See the collection of essays in Ruggie, ed., *Antinomies of Interdependence*.


14. See Evans, Rueschemeyer, and Skocpol, eds., *Bringing the State Back In*.


17. Evans, “Predatory, Developmental and Other Apparatuses.”

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What ever happened to the East Asian Developmental State? The unfolding debate

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What ever happened to the East Asian Developmental State? The unfolding debate

Richard Stubbs

Abstract  The Developmental State (DS) has been central to East Asia’s rapid economic development over the last three decades. This analysis reviews the origins of the concept of the DS, the broader theoretical battles that provide the context in which the concept has been used, and the conditions that facilitated the emergence of the DS itself. The way in which the changing events in East Asia have influenced analyses of the DS will also be addressed with special attention paid to the onset of globalization, the end of the Cold War, and the impact of the Asian financial crisis. Finally, an assessment is undertaken of analyses of the DS that have appeared in the pages of The Pacific Review over the last twenty years.

Keywords  Developmental state; East Asia; Cold War; globalization; industrialization.

The ‘Developmental State’ (DS) has been pivotal to analyses of the economic success of East Asia’s ‘miracle’ economies since the early 1980s. As a result it has been the topic of considerable debate. How this debate has unfolded is the subject of this analysis. The overview will take place in four parts. First, the origins of the DS and the broader theoretical battles in which the concept has been deployed will be discussed. Second, the various definitions of the DS, its main characteristics and the conditions that facilitated its rise will be outlined and assessed. Third, the way in which the changing events in
East Asia have influenced analyses of the DS will be addressed with special attention paid to the onset of globalization, the end of the Cold War, and the impact of the Asian financial crisis. Finally, a review is undertaken of analyses of the DS that have appeared in the pages of *The Pacific Review* (TPR).

**Origins of the concept**

The concept of the DS was first set out in detail by Chalmers Johnson in his 1982 book *MITI and the Japanese Miracle*. He described the essential features of the DS as first, ‘the existence of a small, inexpensive, but elite state bureaucracy staffed by the best managerial talent available’; second, ‘a political system in which the bureaucracy is given sufficient scope to take initiative and operate effectively’; third, ‘the perfection of market-conforming methods of state intervention in the economy’; and fourth, ‘a pilot organization like MITI’ that controls industrial policy through its influence over planning, the energy sector, domestic production, international trade, finance and government funds (Johnson 1982: 314–20 *passim*). The key was that the DS, which was committed to private property and the market, intervened in the economy to guide and promote economic development. In a series of publications during the 1980s, others took up this line of argument using South Korea, Taiwan and Singapore as their case studies (Deyo 1987; Gold 1986; Haggard and Moon 1983; Koo 1984; Lim 1983; Rodan 1989; Whang 1987).

Analyses of the DS reached something of a climax in the late 1980s and early 1990s. In 1989 Alice Amsden published a detailed analysis of South Korea’s ‘late industrialization’. She emphasized the extent to which it was the state rather than the market that directed capital into particular industrial sectors and selected groups of companies, while at the same time it imposed strict performance criteria to ensure that resources were used efficiently. In the same year Garry Rodan published a book on the role of the state in Singapore’s industrialization. He emphasized the way in which the state had engineered Singapore’s ‘Second Industrial Revolution’ in the late 1970s and the promotion of the service sector following the recession of 1985–86.

In 1990 and 1991 three other influential books appeared. Robert Wade published an exhaustive analysis of Taiwan’s extraordinary rate of economic growth (Wade 1990). Among other points, Wade noted the importance of capital accumulation and the high levels of investment in particular industries which resulted from government manipulation of the credit system and which gave a few key industries and companies a comparative advantage when they moved into the very competitive international marketplace. Wade also argued that in economies like that in Taiwan market failure was likely on a number of fronts and that the state, therefore, needed to step in and ‘govern the market’. In the same year Stephan Haggard (1990) produced an analysis that examined the internal political dynamics that allowed Hong Kong, Singapore, South Korea and Taiwan to move from an import-substitution strategy to an export-oriented industrializing strategy and then
combined elements of the market with strong state guidance to implement their industrial policies. And in 1991 Jung-en Woo’s book on the way in which the South Korean DS used its financial power to drive industrialization and rapid economic growth was published. It served to underscore the vital role that the DS was playing in the East Asian region’s amazing economic success (see also the review by Onis 1991).

But the emphasis on the state and its role in East Asia’s remarkable economic rise also needs to be placed in the context of two broader interconnected debates that were taking place in the social sciences. First was the debate surrounding prescriptions for ‘Third World development’. Much of the early work on East Asia’s economic success was undertaken in country studies commissioned by the US-based National Bureau of Economic Research under the direction of J. N. Bhagwati and A. O. Krueger (e.g. Bhagwati 1978; Krueger 1978) which were part of a wider, continuing attack by neo-classical economists, especially development economists, on the import-substitution industrialization (ISI) approach to economic development (e.g. Prebisch 1959). The neo-classical economists also wanted to counter the critique of development advanced by ‘dependency school’ theorists, such as André Gunder Frank, who championed the notion of the ‘development of under-development’ which was gaining popular appeal, especially in Europe and parts of the Third World (see the discussion in Higgott 1983: 47–52).

By the end of the 1970s and into the early 1980s the neo-classical economists, led by the World Bank’s Bela Balassa, were publishing a steady stream of analyses which used the success of countries like South Korea and Taiwan to press their case for greater adherence to market-oriented development policies and, more generally, for the rapid liberalization of developing economies (e.g. Balassa 1980, 1981; Hughes 1980; Little 1982). In these studies the private sector and free trade were argued to be the engines of rapid economic growth (Islam 1992). This interpretation of the economic success of South Korea, Taiwan, Hong Kong and Singapore continued to be favoured by Western-trained economists through the 1980s and 1990s. The general consensus among neo-classical scholars and practitioners was, as James Riedel has put it, ‘that neo-classical economic principles are alive and well and working particularly effectively in the East Asian countries’ (Riedel 1988: 38).

Johnson’s MITI and the Japanese Miracle book quickly became caught up in this debate although he came to recognize that his ‘book was an ideological red flag to the bull of Anglo-American cold war orthodoxy about economic correctness’ only well after it was published (Johnson 1999: 34). However, a number of authors of case studies that appeared in the late 1980s and early 1990s did explicitly counter the arguments of the neo-classical economists, although they did so from rather different perspectives. Some emphasized the market-conforming nature of the DSs’ interventionist policies. Johnson (1982), for example, was generally in this group, as were the noted economists Seiji Naya and Pearl Imada, who, writing in TPR (1990: 302), argued that
‘while governments intervene strongly’ they ‘followed economic principles, maintained a relatively open economic environment, and “got prices right” so that they could be competitive in a world market.’ Others took a different tack. For example, Amsden (1989: 139) famously argued that one of the keys to South Korea’s economic success was that not only had ‘Korea not gotten relative prices right’, as the economists insisted was necessary, but had ‘deliberately gotten them “wrong”’ (see also Wade 1990, 1992). The market versus state debate was further fuelled by the publication of a World Bank (1993) research report. The report appeared to support a market-friendly neo-classical economic position but much of the data in the report, as well as some throw-away lines, provided ample evidence for those who argued that it was the DS that was responsible for East Asia’s remarkable economic success (Amsden 1994; Kwon 1994).

The second debate that was taking place in the social sciences and which had an impact on the emergence of the DS concept was the idea of ‘Bringing the State Back In’ (Evans et al. 1985; Krasner 1984; Skocpol 1985). A reconsideration of the role of the state in social science analyses was prompted by a growing interest among social scientists in how to evaluate the state, and especially its relations to the broader society. This interest resulted in the establishment of the US-based 1982–83 Social Science Research Council Committee on States and Social Structures which brought together scholars from different disciplines in a coordinated examination of the topic (Berger 2004: 198). Interestingly, scholars such as Alice Amsden and Peter B. Evans, who were later to contribute to the debate about the role of the state in East Asia, were contributors to the book that came out of the Committee’s work (Evans et al. 1985; see also Amsden 1989, 1994; Evans 1992, 1995).

However, for the purposes of this review of the impact of the ‘State Back In’ debate on the evolution of the concept of the DS, two analyses of state–society relations are of particular relevance. First, Joel S. Migdal’s 1988 book Strong Societies and Weak States was especially helpful in addressing the question: why, while most newly independent Third World countries had weak states and strong societies, did the successful economies of East Asia, as most analysts agree, have strong states and weak societies? Migdal’s analysis sets out what he sees as the four conditions which produce strong states: first, ‘a world historical moment in which exogenous political forces favour concentrated social control’; second, ‘the existence of a serious military threat from outside or from other communal groups inside the country’; third, ‘the existence of a social grouping with people sufficiently independent of existing bases of social control and skilful enough to execute the grand designs of state leaders’; and, finally, ‘skilful top leadership must be present to take advantage of the conditions to build a strong state’ (1988: 271–5).

The second general analysis of state–society relations that is of relevance to this review of the DS is Charles Tilly’s 1992 book Coercion, Capital, and European States, AD 990–1992. Tilly, in expanding on his aphorism that ‘war makes states’ (1985: 170), emphasizes that over the many centuries
of European state development the interaction of coercion and capital in state making is crucial. In particular, the origins of the resources used by the state in preparing for war or actually conducting war, and how they are mobilized, have an impact on the state’s development. Indeed, it is clear from Tilly’s analysis that strong states cannot emerge unless sufficient resources, in the form of money, skilled manpower, and organizational and technical knowledge, are available. This point is supported by Johnson (1989: 5–6), who states that

even the society perfectly organized for development must still find, squeeze out, or borrow funds that it can invest in more productive facilities. The ultimate need of the developing society is capital, that is wealth in whatever form that is not consumed but used to produce more wealth.

This excursion into aspects of the sociology of knowledge surrounding the emergence of the DS as a major feature of analyses of East Asia’s political economy is important in that it provides an explanation as to why it is so difficult to pin down a definition of the term. Different authors define the DS in different ways, often because they are employing it as part of a broader continuing debate. Similarly, the swirl of various competing trends in social science analyses meant that no clear consensus emerged as to the main characteristics of the DS.

Definitions, characteristics and facilitating conditions

Intriguingly, many discussions of the DS fail to provide a definition of the key concept (e.g. Pang 2000). For those authors who do define the DS the definitions vary considerably. Moreover, in many cases scholars who use the concept simply lay out what they see as its main characteristics rather than simply defining it. Mark Beeson (2007: 141) points out that in some respects the ‘DS’ has become ‘a generic term to describe governments that try to actively “intervene” in economic processes and direct the course of development rather than relying on market forces’. Similarly, Linda Weiss (2000: 23) has noted that ‘the term “DS” is so loosely applied that it has become virtually synonymous with “the state in East Asia”’. However, most authors who use the term in connection with the political economy of East Asia since the Second World War allude to three key ingredients, either emphasizing one or stressing some combination. One ingredient is essentially institutional. According to this view, crucial to the DS is a cohesive set of institutions with a relatively autonomous capacity to implement a planned strategy for capitalist economic growth. Johnson’s (1982: 314–20) original exposition of the DS is primarily, although not of course exclusively, institutionalist. A second ingredient is the relational aspects of the DS. Hence, for example, Meredith Woo-Cumings (1999: 1) writes of the DS as ‘a shorthand
for the seamless web of political, bureaucratic, and moneyed influences that structure economic life in capitalist Northeast Asia.’ Finally, some definitions emphasize the ideational aspects of the DS with particular attention being paid to nationalism, (neo-)mercantilism, economic transformation, rapid industrialization, performance legitimacy or some amalgam of a number of these ideas. For example, Castells (1992: 56–7) argues that a ‘state is developmental when it establishes as its principle of legitimacy its ability to promote and sustain development’.

Those who list the characteristics of the DS tend to allude to the institutional, relational and ideational aspects of the concept. For example, Weiss (2000: 23) lists three criteria for distinguishing the DS during its high-growth period: transformative priorities, such as ‘enhancing the productive power of the nation’; organizational arrangements, ‘such as a relatively insulated pilot agency’ and ‘elite bureaucracy’; and institutional linkages with organized economic actors, which emphasize cooperation and which are key to policy development and implementation. For his part Adrian Leftwich (1995: 405) argues that six major components define the DS model: a determined developmental elite; the relative autonomy of a powerful, competent and insulated bureaucracy; a weak and subordinated civil society; the effective management of non-state economic interests; and performance-based legitimacy. In a similar vein, Phil Deans (2000) refers to the blurring of the public–private distinction, the importance of a state ideology, developmental legitimacy, plan rationality, an autonomous economic technocracy, and a favourable international context. There is clearly some overlap here but also each author tends to add an extra dimension or two which limits any attempts to find a common set of characteristics for the DS.

As Deans’ list suggests, the characteristics of the DS often get intertwined with the conditions that facilitate its emergence. However, these conditions are essential to an understanding of the concept of the DS. Importantly, Chalmers Johnson (1989: 4), in an article on South Korea, suggests four key elements that are necessary for the rise of the DS. In order – and he notes that the order is important – they are ‘(1) a receptive social environment; (2) determined leadership; (3) technical competence; and (4) money (i.e., capital).’ Building on Johnson’s proposal, a set of four conditions can be identified as crucial to the formation of a DS in East Asia. Two conditions are tied to internal domestic factors. First, state–society relations are critical. A weak society which is unable to offer any concerted resistance to the rise of a relatively strong state is important. In the case of the East Asian states the events of the Second World War and its immediate aftermath generally dislocated the region’s communities and severely weakened the economic and political networks that had dominated regional societies. A weak society makes it much easier for a strong state to develop not only a talented autonomous bureaucracy capable of planning and implementing an industrialization strategy but also an effective coercive institutional capacity that is able to maintain domestic social order and provide
any necessary territorial defence. Second, there is a need for a set of ideas circulating within the society or region that promotes the concept of the DS and can be picked up and acted on by ‘determined’ political leaders (Fallows 1994).

The other two conditions are concerned with the regional and international environment. First, the international and regional security environments invariably provide an impetus for the development of a DS. For East Asia the threat from Asian communism and the general context provided by the Cold War was a key factor in the rise of the region’s DSs (Woo-Cumings 1998; Zhu 2002, 2003). Certainly, the general public in the DSs of East Asia were willing to cede authority to a centralized state in order to repel the external threat. Moreover, the dominant player in the region, the United States, actively promoted strong states as bulwarks against the spread of Asian communism (Cumings 1984). Second, the international and regional economic environment was conducive to the formation of DSs in East Asia. Most importantly, the United States was willing both to flood the region with capital, mostly in the form of military and economic aid, and open up its rapidly expanding domestic markets to manufactured goods from its East Asian allies. The United States was also able to pay the inflated prices for the raw materials and industrial products that were needed to fight the wars in Korea and Vietnam. This proved to be a major factor in the emergence of DSs in Japan, South Korea and Taiwan as well as in the Southeast Asian countries of Singapore, Malaysia and Thailand (Harland 1993: 11, 14; Stubbs 2005).

The question of the conditions that facilitate the emergence of the DS raises two other issues that need to be addressed. The first question concerns which countries may be said to have had DSs. Clearly, Japan, South Korea and Taiwan are consensus candidates (see, for example, Pempel 1999), with many analysts also including Singapore and Hong Kong (e.g. Johnson 1999: 40). The main area of disagreement is in categorizing the non-communist Southeast Asian states other than Singapore – i.e. Indonesia, Malaysia, the Philippines and Thailand (ASEAN-4). Unfortunately, some analysts want to generalize across the ASEAN-4 and exclude them from any consideration as DSs (Doner and Hawes 1995). Intriguingly, this willingness to dismiss the ASEAN-4 as DSs is most noticeable among those analysts who specialize in Indonesia (e.g. Booth 2001; MacIntyre 1994: 6), while those who specialize in Malaysia are more sympathetic to the idea of including them among the ranks of the DS (e.g. Jomo 1997, 2001). One reason for considering Thailand, Malaysia and Singapore DSs is that they all had strong state administrations which intervened in their respective economies to promote various strategies of industrialization in the late 1960s and into the 1970s (Chan 1975; Esman 1972; Nuechterlein 1967; Riggs 1966; Stubbs 2005).

Other scholars see the reach of the DS a little differently. For his part, Chalmers Johnson (1998: 653–4) dismisses the idea that Thailand, Indonesia and Malaysia can be classified as DSs but inexplicably suggests that the Philippines will become one given the departure of the Americans. He agrees
with Linda Weiss (1998) that there is a difference between the ‘transfor-
mative states’ of Northeast Asia and what he calls the ‘pilotless states’ of
Southeast Asia. This is a distinction that ignores the piloting role that could
be said to have been performed by, for example, the Economic Planning Unit
in Malaysia and the Economic Development Board in Singapore (Stubbs
2005). In another analysis, Rhodes and Higgott (2000b) take a middle posi-
tion, labelling Malaysia a ‘semi-DS’. The main point for the purposes of this
review, however, is that the different definitions of the DS and the differ-
ent assumptions about the applicability of the concept across various states
underscores the problems of assessing the extent to which the DS is still a
relevant approach to understanding the political economy of East Asia.

A second issue which needs to be addressed is the one of motivation. Why
was it that a number of East Asian leaders chose ‘developmental’, export-
oriented, growth-promoting policies while others around the world did not
(Haggard 1994: 273)? Johnson (1989: 6) argues that the states usually under-
take programmes of intentional economic development for non-economic
motives such as national security, political ideology, or overcoming colonial-
ism. Some analysts see culture, and particularly Chinese culture and the Con-
fucianism ethic, as central to solving the motivational conundrum. William
McCord (1989: 209–11), for example, pays considerable attention to this an-
imating factor in East Asia’s economic success (see also Harland 1993:10,
13; Lingle 1996: 390–1). Haggard (2004: 70–1) takes a different approach
and puts forward four possible explanations: the spread of ideas throughout
the region, mostly emanating from Japan, about how to approach devel-
opment; international pressure, including concerns about security, which
pushed elites to adopt similar sets of economic policies; elites’ interest in
adopting economic growth promotion because they themselves benefited
from this policy; and developmental policies that were a combination of a
weak or non-existent labour movement and a particular set of state–business
relationships.

Some analysts have attempted to combine some of these points. For ex-
ample, Doner et al. (2005) speculate that developmental institutions and
policies in East Asia are the result of industrial upgrading that elites entered
into in order to generate the resources so as to ‘deliver side payments to
restive popular sectors under conditions of extreme geopolitical insecurity
and severe resource constraints.’ However, their argument, as with so many
attempts to shoehorn the DS into a specific theoretical model, neglects what
actually happened on the ground and is consequently seriously flawed. The
key point is that the DSs did not face resource constraints but were the re-
cipients of massive amounts of US military and economic aid or benefited
from spikes in the prices of key commodities, as in Singapore and Malaysia
(Stubbs 2005). It was this very inflow of capital that provided the resources
needed to put in place the institutional infrastructure for the DS. Hence,
not all attempts to combine a number of factors in deducing motivation for
stressing rapid industrialization are successful.
Nonetheless, it is important to keep in mind that a mix of the motivational factors, as suggested by Haggard (2004: 70–1), can be helpful in understanding how East Asia’s industrialization-promoting DSs came about. Neo-mercantilist ideas were clearly important, as was the rising tide of nationalism which is invariably a consequence of war or the threat of war. The external and internal threat from communism also drove governments and their leaders to push for rapid economic growth as a means of making their societies strong, more stable and more independent (Zhu 2002: 18–20). And it was around the hegemonic project of warding off the threat of communism and strength through economic development that leaders could rally the support of relatively weak societal interests (Pempel 1999: 160). To some extent, then, the threat of communism and the need to rapidly develop the economy imposed on the leaders of the DS a measure of discipline because failure in either case was widely believed to invite catastrophe.

Overall, then, a number of conclusions can be drawn from this overview of how the DS as a concept has been interpreted. First, there is no consensus around a particular definition, set of characteristics, or facilitative conditions which can be applied to the DS. Second, in the main, the concept is most often employed as part of a larger theoretical debate around the role of the state in economic development and, therefore, uses of the term have to be approached with some caution. This certainly applies to the many analyses of the perpetuation, death or transformation of the DS that have appeared in the literature over the past twenty years or so. Third, despite all its problems, the concept of the DS remains an important feature of analysis of the political economy of East Asia. Whatever analysts think of it there can be no doubt that it is still crucial to understanding the evolution of East Asia’s economies.

The evolution of the DS

For many analysts the DS is the product of a particular period in history. Chalmers Johnson (1982, 1999: 33), for example, sees that period for Japan as 1925 to 1975. For most analysts the key period for the DS in East Asia generally is thought to be roughly from the late 1950s through to the early 1980s. By the early 1990s the crucial facilitating conditions were changing. Most often emphasized is the fact that globalization was starting to take hold and that domestic political economies were maturing. A point that is significant, but not always noted, is that the Cold War started to wind down, although in East Asia, of course, it did not totally disappear (for exceptions to this see Johnson 1998: 660; Rhodes and Higgott 2000b: 4). However, against these forces for change can be arrayed a number of factors which tended to promote the continuity of the DS. Most importantly, ideas and institutions have a ‘stickiness’ or resilience, usually referred to as ‘path dependency’, that ensures that they continue to be influential in terms of policy making even after the circumstances that elevated them to prominence have changed. The ideas and institutions that were associated with the period of the emergence
of the DS became highly entrenched because they were associated with the transformation of the economy from poverty and social dislocation to a measure of prosperity few had dreamed could be attained.

The external facilitating conditions began to change markedly during the 1980s. The Cold War became less of a dominant factor in global affairs as the forces of globalization took over. These changes to the global security and political economy environments had profound implications for the domestic political economies of the DSs. First, while the threat from Asian communism was not altogether extinguished, the winding down of the Cold War reduced the fear of communism. As a result, nationalism began to wane somewhat and the legitimacy of the state’s centralized authority, which was built around mobilizing resources to ward off the threat from communism, was undermined. Certainly, there was a lessening of the social unity that the threat from communism had created within the prosperous economies of East Asia. Moreover, societies tended to fragment as the anti-communist hegemonic project became less relevant as a rallying cry for collective action and economic cooperation. Similarly, the perception that the external threat was diminishing tended to undermine the rationale that governments used in order to intervene to regulate and direct their economies and societies.

Second, with the end of the Cold War the United States no longer felt obliged to favour ‘concentrated social control’, as Migdal (1988: 272) puts it, within the societies of East Asia. In other words, the United States started to put considerable pressure on its allies to move down the road to democratization and greater respect for individual human rights. Just as importantly, the end of the Cold War meant that the United States no longer felt it could ignore the neo-mercantilist protectionist economic policies of its regional allies. The US government commenced a campaign to liberalize the economies of East Asia. Using its own levers of persuasion as well as its institutional muscle within the IMF, the World Bank and the OECD, the United States began to put considerable pressure on the governments of Japan, South Korea, Taiwan and Thailand to liberalize all facets of their economy, especially the financial sectors. In good part this meant that Washington actively promoted deregulation and privatization within the DSs of East Asia.

Third, the fallout from the end of the Cold War tended to undermine the independence of the bureaucracy and in some instances reduce its professionalism and skill levels. As democratization took hold in places like South Korea and Taiwan so politicians found it difficult to gain a consensus and to provide bureaucrats with the political space to develop and implement policies independent of emerging political interest groups. The result was that bureaucracies around the region were not always able to develop the coherent set of policies they had fashioned and followed during the Cold War. Moreover, as the expressions of nationalism and the priority given to security during the Cold War era ended so the appeal of a career in the bureaucracy also began to fade. In addition, corrupt practices began to become
more of a problem in some bureaucracies of the region as the unifying goal of repelling the immediate threat from communism was lifted by the end of the Cold War. Moreover, new ideas about the best economic policies to pursue were brought into regional governments by technocrats trained overseas, especially economists who were educated in US or British universities. These neo-liberal ideas, often associated with globalization, contradicted the state interventionist ideas of the DS. Overall, then, the collapse of the Cold War and the onset of globalization tended to transform parts of the once powerful bureaucracies of East Asia.

Fourth, with the end of the Cold War the all-embracing hegemonic project of facing down the communist threat began to crumble. As a result, mobilizing a population around a common goal was much more difficult. Moreover, with globalization came the spread of ideas, such as democratization. When combined with the major social changes that were taking place to domestic social groupings and their relationships to government (see, for example, Robison and Goodman 1992), these ideas challenged the authoritarian and semi-authoritarian nature of some of the DSs. And, of course, with democratization came competition for public attention as well as lively debates about the best set of economic and social policies to be followed. Also, with democratization came a greater turnover in political leadership in a number of countries. For example, in South Korea, Roh Tae Woo won the December 1987 presidential election to become the first civilian president. He was followed at regular intervals by Kim Young Sam (1993–98), Kim Dae Jung (1998–2003), Roh Moo-hyun (2003–04, 2004–08) and the current incumbent, Lee Myung-bak. Thailand experienced much the same revolving door for prime ministers with Chuan Leekpai coming to power in 1992 and eight different politicians holding power since then. There were obviously major benefits from the process of democratization that came with the ending of the Cold War; however, political liberalization also had a significant impact on the role of the state in managing some of the key political economies of the region. The continuity of leadership that had characterized the East Asian DS in its prime and produced consistent policies was lost.

Fifth, the end of the Cold War brought an end to the massive military and economic aid that had helped to promote strong states in key East Asian countries. This aid had, of course, been channelled through the state and had therefore given governments a tremendous advantage when dealing with the major societal players in their respective economies. Moreover, the downgrading of the threat from Asian communism reduced the need to maintain the massive military and police forces that had been found around East Asia up until the late 1980s. Indeed, in places such as South Korea, Taiwan and Thailand the military were slowly forced to withdraw from their long-standing role at the centre of their country’s politics. Certainly, the military became much less influential in all aspect of society. In some cases the beginnings of a civil society began to emerge. The previously all-powerful states were markedly weakened.
Finally, the shift from a Cold War environment to a globalization environment changed the way capital entered the DSs. Dwindling amounts of aid were replaced by a flood of foreign direct investment (FDI) as multinational corporations sought to restructure their export manufacturing to take advantage of the increasingly highly productive, low-cost export production platforms in the East Asian economies. The major consequence of this development was that key industrial sectors grew and prospered and the balance of political power shifted with the state no longer the automatic director of the economy through its control over the distribution of capital. Of course, this trend was accentuated with the liberalization of the financial sectors around East Asia that occurred in the late 1980s and into the 1990s and the transfer into a number of DSs of short-term loans, or ‘hot money’, as investors from around the world looked to exploit the region’s high growth rates. As a result, the political economy, and most importantly the domestic political balance, within East Asia’s DSs began to change, in some cases quite markedly.

Just as the external environment was changing and reshaping the internal political economy of the DSs so major shifts in the domestic economies were, similarly, building up pressures for change. The success of the DSs in promoting rapid economic growth meant that the weak society that had allowed for the rise of the strong states was noticeably strengthened. As the economy grew so, of course, businesses of all sizes expanded. Major corporations, in particular, developed increased economic and political leverage. As a result the state’s relationship to business could not remain as it was in the early days of the DS. The economy, some argued, had become too complex to be run so comprehensively and directly by the state (Cheng and Lin 1999). Moreover, the state could no longer be an effective intermediary with a rapidly globalizing world market economy. The balance in the relationship between the state and the economy had to change in order for the economy to continue to prosper. In addition, an increasingly educated and rapidly expanding middle class also strengthened the role of societal forces and slowly reoriented the political relationship between the state and society. The introduction of elections was but one manifestation of the changing balance of power.

Yet, despite these changes, the DS has proved to be particularly durable. This ‘stickiness’ is the result of a number of factors. First, the neo-mercantilist ideas that underpinned the DS and its policies became deeply embedded in the formal institutions and informal practices of government. They continue to have their adherents in key locations in the bureaucracy and in many firms and quasi-governmental institutions that have benefited from the state’s interventionist policies. Second, the DS became central to the political economy of many East Asian countries because, compared to the immediate post-Second World War years, it produced widespread prosperity, social stability and security against external attack. The overall result was a virtuous circle of economic development. Third, while the period during which the
DS was incontestably dominant varied from country to country, depending on its location in relation to the Korean and Vietnam Wars (Stubbs 2005), it generally lasted for around twenty-five years or so. This was enough time for a set of institutions and relationships that buttressed the DS to be formed and themselves to become entrenched. It was more than simply a set of key institutions and policies that were put in place under the label of the DS; a whole system of social, political and economic institutions became embedded in the life of specific countries. Certainly, increased prosperity underscored the legitimacy of the DS and its policies. And with their success and the widespread support that DSs and their policies received came increased pressure to continue the trajectory they had set to further rapid economic growth. One interesting way of looking at this process was, as Weiss (1995) has argued, to acknowledge that the strong state now had to deal with a strong industry but to also note that the two need not necessarily be seen as antagonistic; rather, that the capacities of both were generally enhanced.

**TPR’s contribution**

Obviously, from the many citations to TPR articles in the discussion of the DS up to this point, the journal has played an important role in the debate about the rise and current fate of the DS. Certainly, the contributors to TPR have approached the question of how to assess the origins and evolution of the DS from nearly every angle. In that sense TPR is no different from many other journals. However, there are a number of advantages that TPR appears to have enjoyed which have given readers a better understanding of how the DS has fared over the last twenty years. First, because the focus of TPR has been the Asia Pacific/East Asia, and is generally considered an ‘area’ journal, it has been more empirically based than most economics journals or comparative politics or international relations journals. This is not to argue that theory has been avoided. Rather, the point is that articles in TPR have tended to be more concerned with what has actually happened to the DS on the ground and less interested in using the East Asian DS as a pawn in the theoretical battles that have so preoccupied social scientists.

Second, TPR has been a home for those analyses that make use of an ideational or an institutional approach to analysing the DS as well as other topics. The willingness of those who take an ideational approach to East Asian security and regional political economy issues to submit papers to TPR appears to come out of Richard Higgott’s obvious interest and expertise in this line of enquiry. His editorship of the special issue (1994) on ‘Ideas, Identity, and Policy Coordination in the Asia-Pacific’, followed almost immediately by his taking over as Editor with the January issue of 1995, meant that TPR was seen as an obvious place to send articles which used an ideational approach. Similarly, Higgott’s background in public policy and international relations appeared to suggest that an institutionalist approach might also be appreciated by TPR.
It should also be noted that despite the fact that from its inception TPR was a journal that published articles on both security and international political economy issues, it did not really attract articles that acknowledged the mix of security and economic factors that were crucial to the genesis and evolution of the DS. There are, of course, exceptions, most notably Johnson’s 1989 article. But by and large TPR has not brought its two clear topic threads together as one might have expected. Recently, and certainly since the 9/11 attacks on landmarks in New York and Washington and the 12 October 2002 bombings in Bali, the relationship between security and international political economy has become a topic of analysis. The fate of the DS in these changed security circumstances needs to be addressed and TPR would appear to be an excellent venue for this to take place.

Articles in TPR on the DS went through a series of distinct phases. In the early years the preoccupation was with the factors that created the East Asian DS and how it handled particular issues. Early articles in TPR examined the causes of the economic success of East Asia and the role played by the DS, with various explanations being advanced. Whether it was working with the market (Naya and Imada 1990), the context provided by the state’s export-led growth policy (Bloom 1993), the influence of Confucianism on the state (Harland 1993; McCord 1989), or the autonomy of the state in state–capital relations (Y.-h. Lee 1996), the journal offered a variety of ways of looking at the role of the state in East Asia’s economic success.

One particularly interesting discussion that took place in the pages of TPR during this period was the relationship between the DS and democracy. In the first year of TPR John Girling (1988) discusses the relationship between economic development and democratization in Southeast Asia and is cautiously optimistic. For his part, Chalmers Johnson (1989) is exercised by the question of the democratization of South Korea. He notes that not all capitalist DSs are authoritarian. He argues that the key in South Korea was that a revolutionary situation of sorts was created that produced a form of parliamentary democracy (Johnson 1989: 8). C. H. Lee and K. Lee (1992: 13) point out that what they refer to as the ‘partial political liberalization implemented with the birth of the Roh regime in 1987’ produced a ‘so-called democratization cost’ that ‘has strained economic performance as every social stratum has demanded compensation for its past “sacrifices”’. Robison and Goodman (1992) approach the issue from a slightly different angle in their introduction to a special edition of the journal which examines the consequences of the region’s rapid economic development for the distribution of wealth in a number of the region’s societies. Interestingly, they argue, somewhat presciently perhaps, that any democratization that may result from these developments will not reflect Western liberal democratic norms but will likely be tinged with authoritarianism.

After the first five years, articles in TPR started to turn to questions of industrial restructuring and the impact of globalization on the DS. Articles became concerned with the need for the original DSs – Japan, South
Korea and Taiwan – to reorient their developmental strategies so as to bring about a restructuring of their industrial capacity. This was viewed as crucial to economic survival in the face of the rise of techno-nationalism as well as the emergence of the second-tier DSs, namely Singapore, Malaysia and Thailand, and their increasing ability to produce manufactured products for export to Europe and North America at very competitive prices (see, for example, Simon and Soh 1994). Changes in the regional political economy, especially the 1985 Plaza Accord and the rapid movement of the Japanese low-skilled, low-cost manufacturing base to Southeast Asia (Stubbs 1992), were clearly the catalyst for such analyses. Lingle (1996), for example, insists that the DS and interventionist policies must give way to markets as a means of allocating resources and setting prices. Yoshimatsu (1998) argues that there is a demand for an open market in Japan that comes out of increasing interdependence. Importantly, firms with multinational operations push to open up domestic markets so as to give them greater leverage when requesting overseas governments to open up their markets.

Yet most authors see a strong, continuing role for the state in any restructuring exercise. Weiss (1995) argues that it should not be assumed that an increasingly strong industrial sector automatically means a weakened state. It is possible, she suggests, to have both a strong state and a strong business sector and she lays out variations of what she calls ‘governed interdependence’. Yeon-ho Lee (1997) points out that there are limits to economic liberalization in Korea that were imposed by the form of ownership and the financial structure of the chaebol and the fact that state intervention in the South Korean economy went much deeper than in Japan and would, therefore, be more difficult to eradicate. Lovelock (1998: 92) examines the information infrastructure within the DSs and points out that the state endures as the dominant shareholder of recently privatized carriers in most of Asia. Moreover, he notes that there are wide variations within the general state-dominant model and that governments continue to play a strong coordinating role.

The advent of the Asian financial crisis (AFC) was clearly an important watershed in analyses of the DS in TPR. Two special issues of TPR provide excellent general overviews of the AFC and its consequences. In ‘Beyond the Miracle and Crisis’ Jayman Lee and Sakong (1999a) present an edited collection that generally suggests that mercantilism should give way to liberalism. But the editors (1999b: vii) in their introduction point out that in Europe and North America this process took many decades and cannot be achieved simply by ‘withdrawing some role for government’. In the special issue edited by Rhodes and Higgott (2000a) the general consensus is that a convergence of East Asian political economies on the US economic model is not likely (e.g. Reich 2000). Rather, most of the authors agree that the DS is being transformed and adapted but in no way can it be said to be totally disappearing (e.g. Yeon-ho Lee 2000; Nesadurai 2000; Weiss 2000; Yeung 2000).
Most of the articles in TPR that examine the impact of liberalization and the consequences of the AFC on the DS and the political economy of the region concentrate on South Korea. This interest in South Korea appears to be based on the assumption that it is the DS that has moved furthest away from its original form. Moon (1999), for example, contends that although the DS was key to the country’s past rapid economic development, the structured rigidity of the DS was one of the precipitating factors in South Korea’s financial crisis. Jaymin Lee (1999) points out that liberalization led to the dismantling of the DS system but that it was not replaced by a new systematic approach to economic development. Yon-ho Lee (2000) echoes this point, indicating that South Korea’s failure to put in place a coherent strategy was one of the key factors in the onset of the crisis. Cherry (2005) argues that the ‘Big Deal’ industrial realignment policy was symptomatic of the evolution of the DS. With the dismantling of the state’s powers and the emergence of the ‘transformative’ state, the state acted more as a senior partner than, as in the past, commander-in-chief. She also notes that, in the wake of the AFC, the state regained some of its old powers but that mutual distrust soured state–business relations and made the chaebol resistant to reform. Pirie (2005) presents a rather different picture arguing that, ironically, strong state intervention has led to the creation of a generally successful neo-liberal economy.

Other authors have contrasted South Korea’s approach to liberalization to the approach taken by Taiwan. Thurbon (2001), for example, agrees with others who have pointed out that it was the dismantling of the DS in South Korea that was key to the financial crisis in that country. She goes on to compare the South Korean experience to that of Taiwan where she finds that financial liberalization was combined with re-regulation ‘to enhance the capacity to strategically intervene in the economy to developmental ends. As such, liberalization does not necessarily dissolve the nexus between finance and developmentalism’ (Thurbon 2001: 261). Zhang (2002) sheds further light on these two distinct paths to economic reform, pointing out that each has been shaped by different sets of domestic institutions that aggregated and articulated private preferences and public-sector interests in financial liberalization. In South Korea financial liberalization was captured by domestic elites who attempted to use the process to their advantage. In Taiwan, however, the private sector was too fragmented to bring concerted pressure on the reform process, which was then conducted by relatively autonomous technocrats in a manner reminiscent of that employed by the DS. Kondoh expands further on this point, indicating that the South Korean state failed to maintain the old developmental policy networks. As a result, economic policies became ‘inconsistent, short-term oriented, over politicised and poorly monitored’ (Kondoh 2002: 241). Taiwan, on the other hand, expanded and developed its sets of policy networks and made use of them to coordinate long-term-oriented economic policy in a coherent and carefully monitored manner and to maintain financial control. Both Zhang (2002) and Kondoh
(2002), then, support the argument of C. H. Lee and K. Lee (1992: 13) when they suggest that there was a distinct initial cost to South Korea’s process of democratization.

Singapore has also been the subject of some debate about the way in which the DS has dealt with aspects of globalization. For example, Low (2001) has raised the issue of a state’s need to adapt to a globalizing environment and the difficulties that this raises for government-controlled agencies that move into the international marketplace. In a sense, she perceptively anticipates the current debate about sovereign wealth funds. She also questions the resilience of DSs in the face of advances in information and communication technology, knowledge-based economies and hyper-competition. On the issue of new technologies in monitoring and policing political debate within DSs, George (2007) notes that the Singapore government has made fundamental changes to its modes of control by moving away from more blunt instruments such as newspaper closure and arrests and has successfully ‘intervened in the media by structuring the newspaper market and the architecture of the Internet in ways that predetermine the range of possible outcomes, which are then attributed to commercial or technological realities’ (George 2007: 143).

Finally, over the twenty years of TPR there has been a series of interesting analyses which look at whether or not China should be considered akin to a DS. At various times articles have appeared which discuss the extent to which local government in China may be considered developmental. For example, writing in the second volume of TPR, Blesher (1989: 103) outlines the way in which some county-level state governments played the role of development planner and administrator ‘overseeing and elaborating the economic environment in which others – state enterprises, cooperative firms, and local businesses – can operate and compete’. Along the same lines, Duckett (1996) describes the government of the city of Tianjin in the early 1990s as what she calls the ‘entrepreneurial state’ and sees it as a form of the DS that is the product of market-induced structural transformation and the resulting incentives and demands on local officials. Similarly, a special issue of TPR (Li 2006) is devoted to various aspects of the ‘local’ state in China. Analysis of such issues as the privatization of public resources and the problems of corruption at the local level in China appears to have some relevance for discussions of the evolution of the DS if only because the many variations of state authority structures in China appear to mirror the many types of DS that can be found in the rest of East Asia.

In conclusion, then, the concept of the DS still has currency although its existence and value continue to be hotly contested. Much depends on how the DS is defined. The narrower the definition the easier it is to pronounce the death of the DS. The broader the definition the more aspects of the original construction can be located in contemporary societies around East Asia. Clearly, the old, pre-1980 DSs have been transformed. However, the exact nature and extent of this transformation is different, depending on
the domestic political, social and economic configurations of each society and also on the way in which the state has been influenced by changes to external facilitating factors. The analyses in TPR would suggest that the DS in South Korea has changed the most while Taiwan and Singapore have changed the least. But the consensus position would be that a transformed DS has survived and that, indeed, a relatively strong central state capacity is necessary in order for East Asian states to continue to enjoy the economic success they achieved in the past.

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References


CHAPTER 6

South Korea: Authoritarianism, Democracy, and the Struggle to Maintain Inclusive Development

South Korea achieved dynamic export-led industrial growth that transformed the country from one of impoverished peasants in the 1950s to an urbanized country with a large and prosperous middle class. Korea’s gross national income (GNI), at US$30,180 (PPP), is the highest of all of the four cases (World Bank Indicators 2014b) and the case comes the closest to an inclusive development experience. From 1960 through the late 1970s, the authoritarian regime of General Park Chung-hee pursued policies that produced a rapid reduction in poverty, kept inequality low (figures 6.1 and 6.2), improved the living standards of poor rural dwellers, and promoted industrialization that generated employment. With the achievement of electoral democracy in the late 1980s, South Korea’s social welfare regime has expanded along universalistic principles. Throughout the twentieth century and into the twenty-first, an implicit societal consensus on the importance of both reducing poverty and keeping inequality low has been evident. The case illustrates the salience of a strong and efficacious state in incorporating the rural poor, in leading industrial development and employment generation, and the importance of middle-class support for this policy direction. Nevertheless, since the late 1990s there has been growing differential inclusion in terms of access to stable employment and social protection.

A unique set of historical circumstances contributed to these positive outcomes. However, it was not a foregone conclusion that these conditions would produce a comparatively high degree of inclusive development. The administration of Syngman Rhee (1948–1961) confronted the devastating impact
of the war with the north that destroyed much of the economy. However, his administration shared many of the qualities of Mexico, Indonesia, and Chile at mid-twentieth century: the leadership used patronage extensively within the bureaucracy, a characteristic that had politicized it and reduced its autonomy (Koo 1993, 134). There was also considerable corruption in the distribution of bank loans and in the approval of import licenses to the private sector and the government financed the budget deficit by borrowing from the central bank while an overvalued exchange rate discouraged exports (Cole and Lyman 1971, 25). Even with substantial foreign (particularly the United States) aid, the economy’s performance remained sluggish, with growth at 1.8 percent between 1955 and 1959 (Heston, Atkin, and Summers 2002), and there was rising inflation. Like his Latin American counterparts, Rhee resisted policies to help the rural poor (Cole and Lyman 1971, 43). After 1961, however, with the regime headed by General Park Chun-Hee, policy choices were instrumental in overturning this lackluster performance and in setting the country on the road to inclusive economic growth and poverty reduction.2

Advantages of History

The short duration of Japanese colonial rule—35 years, from 1910 to 1945—conferred the important legacy of a relatively homogeneous society, lacking in the searing ethnic divisions present in the Latin American cases. The negative attitude of the Japanese colonizers toward things Korean suggests that Japanese colonial rule would have produced the sort of rigid social hierarchies that emerged in Mexico and Chile, had it lasted longer. However, the Japanese colonizers were expelled with their defeat in the Second World War. Furthermore, independent Korea did not encompass a variety of distinct ethnic groups as was the case in Indonesia.3 In fact, while Japanese conquest was most certainly devastating for Koreans, the threat it posed to Korean culture may have solidified cultural unity and contributed to a more homogeneous society later on.

Another important distinction was the fact that extensive land redistribution occurred in South Korea prior to the country’s industrialization drive. Extensive land redistribution, initiated in 1948 during the US occupation with the distribution of lands formerly owned by the Japanese, was complete by 1952. At the time of independence in 1945, big landowners, 3 percent of the rural population, owned 60 percent of the land, while 80 percent of the population was landless tenants or tenant/owners with little land (Shin 1996, 5). Extreme poverty was widespread: according to one estimate, 38 percent of the population was starving while 68 percent was near starvation (Yong-ha 2003,
The impact of land redistribution was profound: in 1964, 71 percent of peasants were full owner cultivators while the proportion of tenants fell to around 5–7 percent from 48.9 percent in 1945 (Ban, Moon, and Peletis 1980, 285, 286; Mason et al. 1980, 238).

A unique set of circumstances account for Korea’s extensive land redistribution. These included the widespread peasant mobilization during the 1940s demanding land, the defeat of the Japanese colonizers in the Second World War, the American occupation, the threat of Communism from the North, and related to this, the Korean War. With the Great Depression, many highly indebted small owners lost their land and tenants found themselves without any land. Increasingly impoverished, peasants rebelled. A peasant uprising occurred in October and November 1946, involving some 2.3 million peasants demanding land (Minns 2001, 1030; Shin 1998, 1318), combined with the threat of Communism, propelled land redistribution forward. Both the US occupation government and the subsequent Korean ones became convinced that South Koreans would not accept anti-Communism and capitalism if these meant preserving the structure of concentrated land ownership (Choi 1993, 19)—particularly with the example of the radical North Korean land reform before them.

The weakening of the Korean landowning class during the period of colonial rule, combined with the fact that the business class was small, also facilitated land redistribution because there was no dominant class to mount an effective resistance. The Korean War (1950–1953) weakened the landowning class further and accelerated land redistribution when North Korean occupying forces imposed land redistribution without compensation in areas they occupied (Shin 1998, 1327, 1339). The high degree of equality arising from land redistribution meant that subsequent policy initiatives, such as credit and educational opportunities, would benefit the rural population equally. While land redistribution created a satisfied and quiescent peasantry, strong and effective repression, beginning with the US occupation forces, was instrumental in destroying the radical Marxist Left and thereby removing the kind of anticolonialist rhetoric and program objectives that contributed to political polarization and made a distributive settlement so difficult in the case of Chile. The fact of a relatively homogeneous and quiescent population (this latter arising from a combination of reform and repression) meant that the country faced a lower level of threat from below. As a result, there was less temptation to employ extreme forms of clientelism for the purposes of political control, like those that came to characterize the Mexican case.

Some observers have suggested that US aid was instrumental in South Korea’s accomplishments. Indeed from independence until the rise of General Park to power in 1961, US levels of aid were very high—and were particularly so during the Rhee administration, a reality that much of the public decried as economically harmful and as proof that the government had failed to use foreign aid productively and responsibly. In fact, because of the failure of high levels of aid to show results, the United States threatened to withdraw aid. The fear of this occurring was an additional ingredient in propelling Korean industrial policy forward because the withdrawal of US aid forced Korea to develop an effective export profile in order to earn foreign exchange. In fact, US aid dropped after General Park came to power (Haggard 1990, 61; Woo 1991, 77).

Others argue that South Korea benefited from the fact that until 1985, issues of national security and the containment of Communism governed US policy toward East Asia (Ick-jin 2006, 57; Woo 1991, 4, 8; 45–48). According to this argument, the United States saw Korea not as a potential market and investment opportunity (as it did with Latin America), but as the front-line for containing Communism. This meant that US policy advice and pressures tended toward a pragmatism that tolerated an activist economic role for the state and excused otherwise unacceptable policy choices, involving extensive state involvement in the economy such as the ownership of the banks—as long as the overall result satisfied security concerns.

Despite the distinctive features that undoubtedly contributed to the success of the Korean development strategy, the Korean case still offers a number of important and valuable lessons. Hence, it is worthwhile to consider carefully the politics and policy choices in some depth. As in the other cases, historical context and politics played an integral part in the development trajectory that unfolded in the last part of the twentieth century and in the first part of the twenty-first.

South Korea’s Inclusive Development Strategy: Rural Development and Employment-Generating Industrial Policy under Park Chung-hee

In stark contrast with Mexico and Chile, the Park regime pursued a variety of policies that improved farm productivity and contributed to a general improvement in rural living standards. Almost immediately upon assuming power, Park increased agricultural credit and provided debt relief to farmers. Throughout the Park years, the National Agricultural Cooperatives Federation (NACF) supplied farmers with both fertilizer and pesticide at subsidized prices, credit, storage facilities, and assistance in marketing (Jacobs 1985, 102). Improvements in farming technology, such as the tripling of fertilizer, the development and use of new rice varieties, and the provision of extension services, were instrumental in increasing farm output. Vastly improved yields ended the spring famine (Boyer and Ahn 1991, 72; Cole and Lyman 1971, 146, 152).
The government implemented specific measures to improve rural living standards. The NACF provided cheap consumer goods to farmers through its retail stores and some of its loans served social welfare purposes. Farmers used some of the money to satisfy consumption needs (Ban, Moon, and Perkins 1980, 274; Choi 2000, 352). When rural incomes declined relative to urban ones in the late 1960s, the government quickly raised grain prices and increased investment in agriculture (Han 2004, 63). In the early 1970s, a new initiative, aimed at improving rural living standards (The New Community Movement), provided technical and financial assistance for improving health, education, housing, roads, electrification, and communication in rural communities. Improvements in water supply and in sewage contributed to improvements in health. By 1975, electricity reached 64.9 percent of all villages from just 15.9 percent in 1966 (Ban, Moon, and Perkins 1980, 314). Finally, educational spending, which increased steadily through the 1960s and 1970s, did not discriminate against poor rural dwellers. By 1967, 68 percent of the rural population had primary education or more. With an illiteracy rate of 78 percent in 1945, rural illiteracy stood at 10 percent by 1979, while the urban rate was slightly higher at 12 percent (Ban, Moon, and Perkins 1980, 312). Rural poverty declined steadily and remained below urban poverty for much of the 1960s and from the mid-1970s to the mid-1980s (figure 6.3). According to one estimate, by 1975 farm income was roughly 80 percent higher than it had been in the 1950s (Mason et al. 1980, 239).

Between 1964 and 1974, both the distribution of farm income and the distribution of farms by size changed little (Ban, Moon, and Perkins 1980, 366). A number of factors were instrumental in maintaining rural equality. Legislation limited farm size to three chongbos (about 3 hectares), a stipulation that appears to have been rigorously enforced (Ban, Moon, and Perkins 1980, 287). Pressure from village elders, reinforced by legislation in 1971, channeled more funds to the poorest farmers, while credit was advanced to farmers without sufficient collateral, based on “trust” (Ban, Moon, and Perkins 1980, 274; Mason et al. 1980, 233, 239). The government also distributed reclaimed land among those with less than a specified amount.

The other significant component of Korea’s inclusive development was the employment-generating aspect of its industrialization drive and the fact that salaries improved steadily. A rapid process of industrialization between 1960 and 1980 resulted in an increase in the size of the working class from an estimated 8.0 percent of the population in 1960 to 31.3 percent by 1980 (Arita 2003, 204), with much of the employment expansion occurring in manufacturing. Employment in manufacturing, at only 6.8 percent in 1960, rose to 21.7 percent by 1980 (Song 2003, 136) while manufacturing as a percentage of GDP, at 13.7 percent in 1960, reached 26 percent in 1975 (figure 6.4). In addition, from the mid-1960s, the average annual increase in real wages increased at a higher rate than GDP. Between 1977 and 1979, labor’s share of income increased from 40.6 percent in 1971 to 51.2 percent in 1978, to 54.2 percent by 1987 (Kim 1990a, 310; Woo 1991, 179). Unlike the other

Figure 6.3 South Korea, urban and rural poverty, percent of population below national poverty line.
Source: Kwon 1993, 96.

Figure 6.4 South Korea, manufacturing as a percent of GDP.
Source: OECD 2012, 32; World Bank 1983, 103–104.
cases in this study, the wages of Korean workers improved more than did the salaries of the middle class (Sam-soo 2006, 180).

While South Korea had little in the way of social security or social assistance, larger firms tended to provide a variety of social welfare measures, such as housing benefits and assistance with private education fees (Gough 2004, 176). One of the most important factors contributing to favorable living standards, aside from the new employment generated by economic growth and increases in wages, was the fact that the ethic of communitarianism (the idea of the firm as a "second family") inhibited employers from laying off workers, a practice that no doubt helped keep unemployment and underemployment low. Indeed, Korean workers enjoyed virtual lifetime employment during the period of high growth (Hamilton and Kim 2004, 82).

Vigorous state measures, which promoted the expansion of manufacturing in sectors with export potential, drove Korea's industrialization. The most important instrument used by the state to direct this expansion was its control of the banking system, nationalized by the Park regime soon after assuming power. With a monopoly over bank credit, the government selected "winner" industrial enterprises, providing them with low interest loans and loan guarantees in exchange for their agreement to invest in new factories in priority sectors. According to one estimate, the rent (wealth accumulated by this government favoritism) associated with cheap credit amounted to 4–6 percent of GDP in the 1960s, increasing to 6–12 percent with the move to support heavy and chemical industries in the 1970s (Cho 1997, 214–215). However, in exchange for this largesse, the state enforced export targets through the threat of a recall of bank loans (and certain bankruptcy) or through threats of tax investigation (Minns 2001, 1028; Song 2003, 118). Lacking their own banks, chaebols (large business conglomerates) became heavily dependent upon the state for credit. Companies requiring foreign loans also had to go through the government banking system because the acquisition of such loans was dependent upon loan guarantees provided by the Bank of Korea and the Korean Development Bank.

The choice of which industrial sectors to favor was not, however, a foregone conclusion and involved a considerable degree of trial and error. In the early 1960s, the government initially favored the development of heavy industrial sectors (especially fertilizer) but altered this plan due to the unanticipated success of labor-intensive exports and gave priority instead to light industries such as raw silk, cotton fabrics, leather, radio, electrical appliances, and wood products (Mai 2006, 155; Sang-chol 2006, 86; Young-chol 2006, 112). The strategy was highly successful: wherein the share of exports accounted for by manufacturers was 18 percent in 1962, it has risen to 76.5 percent by 1970 (figure 6.5).

Figure 6.5  South Korea, manufacturing as a percent of the value of exports.

In the mid-1960s, the state initiated what was probably the period of most extensive government intervention. In response to the fear that international competition would result in the loss of markets for labor-intensive exports and the US threat of quota restriction on textiles (Woo 1991, 125), the government shifted priority to heavy and chemical industries (HCl), targeting industries such as iron, steel, nonferrous metals, and shipbuilding, electronics, the auto industry, and chemical industries. The process of allocating large investments discretionarily did have some serious undesirable consequences, however. In 1969–1971, the government was forced to direct the liquidation of over 100 incompetent firms and to order existing firms to acquire the remaining weak ones (Jwa 2002, 21, 24). However, the strategy did meet with success eventually. The share of heavy industry in manufacturing exports rose from 39.7 percent in 1972 to 54.9 percent in 1979 while the share of light consumer goods fell (Woo 1991, 130). This new economic direction in heavy and chemical industry, given its capital-intensive nature, had the potential to increase inequality. Inequality did increase for a time: it crept up during the 1970s, with the Gini coefficient reaching a high of 0.39 in 1975–1980, but declined thereafter, including during the debt crisis (figure 6.2), as the government expanded its role in welfare protection and continued to vigorously support employment expansion.
A distinguishing feature of South Korean industrial development, important in overall economic growth, was the fact that government policy ensured the increasing integration of the manufacturing sector—a feature absent in our other cases, and one that is essential to ensuring employment generation. The fastest degree of integration occurred between the new heavy industry, which provided inputs to other domestic producers (Albala-Bertrand 1999, 162). Korean government policy explicitly promoted backward and forward linkages among industrial sectors. For example, the state fostered the development of the synthetic fiber industry to provide this vital input to the textile industry. Another important linkage occurred between the public steel company and steel-consuming industries. The state steel company provided steel plates for Korea’s shipbuilding industry, a sector that became a leading exporter. This input had been 100 percent imported before 1966 but by 1976 dependence on imported steel plates had declined to 27 percent (Woo 1991, 135). While huge subsidies went to three main auto producers, the government also required that the big firms vertically integrate with small and medium industry (OECD 2012c, 36).

Unlike Mexico, export processing zones (EPZs), first established in the early 1970s, never became a central feature of the country’s industrial development strategy and their contribution to the country’s overall industrial development was small. In 1989, exports from EPZs constituted less than 5 percent of the value of total exports (Oh 1999, 11). While like most EPZs, Korean government incentives to foreign investors included restrictions on trade union activity (in this case their prohibition), infrastructure, and tax exemptions, Korean EPZ firms (again, unlike Mexican firms) developed a fair degree of integration with the local economy, acquiring 45 percent of their inputs from local firms by 1991, thereby making a contribution to regional development. EPZ firms also appear to have offered some opportunities for skill upgrading and technology transfers, both strongly encouraged by the government at the time (Oh 1999, 12, 20). Hence, in Korea, unlike Mexico, policies attempted to bring about integration with the regional economy and some minimal contribution to technology transfer. Korea’s industrial base would prove to be a key ingredient in enabling the country to weather the debt crisis without social hardship.

Another important aspect of the Park regime was the fact that it followed sound macroeconomic policy. While the state directed investment in priority economic sectors, it kept the budget balanced. It did this through establishing an efficient tax system, through the mobilization of resources, both domestic and foreign, and through the state-controlled banking system. A highly efficient Office of National Tax Administration, established in 1966, eliminated corruption and tax evasion, resulting in tax collection as a percentage of GDP increasing from 6 percent of GNP to 17 percent by 1975 (Kim and Roemer 1979, 54). Furthermore, taxes on farm income remained low while the government, concerned about “highly visible consumption disparities,” taxed items used by the upper class heavily, particularly luxury items such as vehicles over four cylinders and color televisions (Mason et al. 1980, 210; Song 2003, 139). As in the other cases, politics was instrumental in shaping this development trajectory. I turn to this topic in the following section.

**The Politics of Inclusive Growth under General Park**

A casual observer would not regard Korean politics, prior to the transition to democracy in the late 1980s, as conducive to a strategy that was, in fact, inclusive. The Korean case counters the conventional wisdom regarding the central role of strong trade unions and Left political parties in producing good distributive outcomes and social inclusion. However, while repression in the late 1940s and the early 1950s had eliminated the political Left, it could not eradicate widespread concern about poverty, inequality, and the need to secure improvement in human welfare. Hence, there was an implicit widespread societal consensus on both the importance of reducing poverty and on keeping inequality low. This consensus gave rise to civil society activism that was instrumental in mitigating exclusion through the 1980s and into the 2000s.

To be sure, while general public commitment to social justice was present among a broad cross section of social classes, economic growth remained the primary instrument by which the government sought to address these concerns. A government public opinion survey carried out in 1961 identified a reduction in unemployment, the elimination of high interest loans, and equitable taxation as the public’s most important policy concerns (Oh 1999, 2, 47). While the regime of General Park (1961–1970) was a military one, and its industrialization drive would eventually cater to a select group of business interests (the chaebols), the regime had a strong base of support among rural dwellers (mostly small landowners), the majority of the population at the time.

Several factors tied the military regime to the welfare of small peasant holders and help account for its pro-rural policies. US pressure to hold elections meant the regime had to pay attention to needs of the electorate. General Park held reasonably fair elections for the first decade of his rule (Cole and Lyman 1971, 258; Lee 2001, 148, 149), a requirement that made it necessary for him to pay attention to the needs of rural dwellers, since agricultural labor accounted for 69 percent of the labor force in 1965 (Mason et al. 1980). Electoral gains made by the opposition in 1967 and 1971 would have further encouraged the
1972 constitutional changes had sparked the emergence of a loose oppositional alliance among certain middle class groups (religious groups, students, and human rights groups) and the progressive group of trade unions, demanding change in the constitution to achieve greater democracy and social justice (Oh 1999, 90). The Minjung movement, led by intellectuals, opposed the authoritarian state, had a strong nationalist desire for economic and political independence, and was opposed to the distributive injustice that it believed had arisen since the mid-1970s with period of HCI-led (heavy and chemicals industry) economic growth (Koo 1991, 486; Koo 1993, 145; Lee 2007, 213). Intellectuals and university students strove to raise worker political consciousness through joining the staff of various dissident church organizations, which afforded them a modicum of protection from state persecution. There, they organized group discussions and taught night courses to workers. Thousands of members of the middle class, particularly students, became factory workers in order to help organize trade unions (Lee 2007). All of these actions contributed to the growing labor unrest demanding social justice and democracy.

The presence of a strong and efficacious state, occupied by middle class bureaucrats concerned about social welfare and poverty reduction, was instrumental in the formulation of the country's industrial policy. Unlike Mexico and Chile during the ISI years, and Indonesia more recently. South Korea under Park did not have to face powerful propertied interests. Industrialists did not permeate and influence industrial or economic policy. As we saw, the Korean state was able to secure the compliance of business in its pursuit of industrial policy through a combination of coercion and selective, though controlled, access to state resources that ensured inordinate profits in exchange for following government directives. Hence, the strength of the state was not simply an artifact of a competent bureaucracy with social concerns. It was possible due to the relative weakness of the business sector and other social groups.

With a politically weak business sector subordinate to the state, and a middle class concerned about popular welfare, the leadership was in a good position to construct a variety of bureaucratic institutions to plan and maintain an inclusive industrialization drive. These institutions included the Economic Planning Board, which played a key role in directing domestic and foreign credit toward sectors favored to achieve export markets; the Korean Development Institute, which formulated the overall economic plans; and the Trade Promotion Agency (KOTRA), which surveyed the world for needed markets, capital, and technology (Cumings 1987, 72). The Korean Institute of Science and Technology (KIST), established in 1966, developed advanced technologies (Mai 2006, 55). The involvement of Korea's public

regime to adopt measures benefiting the peasantry. In addition, Park and the vast majority of military men who participated in the coup and in his cabinet had been born in the countryside (Mason et al. 1980, 461). In 1972, a new constitution, which among other things enhanced the power of the president, giving him the right to dissolve the national assembly and to nominate one-third of its members (Kim 2000, 74), signaled a sharp turn toward greater authoritarian control. However, from the beginning of the Park years, the government had exercised corporatist control of the labor movement. The antiglabor bent of the regime increased after 1972 when the government banned labor negotiations and strikes. However, the regime was not able to contain growing labor unrest, which was on the rise by the late 1970s. In the 1980s, a radical faction within the labor movement (the precursor to the Korean Confederation of Trade Unions [KCTU]), based in small and medium industry, emerged as a rival to the pro-state-sponsored labor federation. Accounting for one-quarter to one-third of union membership, this new organization of trade unions would become a strong proponent of social justice, allying with another newly emerged group: the Korean middle class.

Indeed, Korea's new middle class, unlike its Latin American counterparts, played a crucial role in the inclusive development growth strategy. Between 1960 and 1980, it increased from 19.6 percent to 38.5 percent of the population (Arita 2003, 204). Its influence considerably outweighed its growing presence. From the outset, the government of General Park recruited educated members of the middle class into state positions, thereby creating a bureaucracy capable of taking a leadership role in economic development policy. With the trade unions, businesses, parties, and politicians all comparatively weak at the time, this middle class bureaucracy was in a good position to lead.

The Korean bureaucracy supported policies that it believed would reduce poverty and improve social welfare. The belief that government bureaucrats "assume full responsibility for the well-being of the people" (Song 2003, 78) was reflected in fact that the choice of industries for state support was heavily influenced by their employment generating possibilities (Lee 2006, 94). In addition, certain middle class groups (bureaucrats, intellectuals, and civil servants) showed an early interest in social welfare when they established the Committee for Social Security (CSS), an organization that started out as an agency independent of the government. By 1962, it had become an advisor to the minister of health and social affairs, and it drafted proposed social policies until 1972. The CSS took an active role in lobbying the president and others on instituting social protection programs, asserting the importance of a compulsory health care program (Kwon 1993, 31).

By the 1970s, outside of the state, members of the middle classes were demonstrating their commitment to inclusion, both political and social. The
enterprises and research centers in research and development and in training programs (rapid learning and absorption of imported technology) played an important role in increasing productivity. In this way, the state steel company (POSCO), for example, was able to increase its productivity and thereby provide cheap steel to the private sector without de-capitalizing the company (Park 1998, 163). Hence, while state investment as a percent of GDP was relatively low, it played a crucial role in economic growth.

Korea’s particular contextual conditions, therefore, created many opportunities for the emergence of a state with considerable capacity. Once established this state capacity proved to be resilient; it would serve the country well in the face of the debt crisis of the early 1980s, and even the financial crisis of 1997. At the same time, growing labor unrest and middle class concern for popular welfare placed social issues squarely on the political agenda and kept them there through these difficult years.

The 1980s and 1990s: The State, Industrial Policy, and Expanded Social Protection

South Korea had borrowed extensively on the international market. Its external debt of US$20.3 billion in 1979, surged to US$46.7 billion by 1985, making it the fourth largest debtor after Brazil, Mexico, and Argentina (Cooper 1994, 125; Woo 1991, 180). However, the debt crisis did not have harsh consequences for South Korea because a solid base for export-led economic growth had been established, because the country’s fiscal situation was sound, and because the state continued to have an effective role in the economy. Economic recovery was rapid and there were resources to address job creation and poverty. International factors, however, also had a positive impact. The decline in the price of crude oil from 1985 (a factor that sent the Mexican economy into renewed crisis) and the depreciation of the won and the Japanese yen stimulated exports (Kong 2000, 102). The current account surplus arising from the country’s export performance between 1985 and 1987 was important in ensuring the continued access to foreign loans (Collins 1994, 236; Haggard and Collins 1994, 100)—unlike the Mexican and Chilean cases, which faced severe foreign borrowing constraints once the international debt crisis hit. Hence, although economic growth declined by 6 percent in 1980, it resumed in 1981, averaging 10 percent in the 1985–1989 period (Heston, Aten, and Summers 2002). Strong economic growth continued until the 1997 crisis.

The administration of Major General Chun Doo Hwan (1980–1987), brought to power by a military coup in a context of rising unrest, signed two stand-by agreements with the International Monetary Fund covering the periods 1980–1982 and 1983–1985. While technocrats with a strong neoliberal bent rose to top-level positions with the debt crisis as occurred in the two Latin American cases, and had some influence early in the Chun years (Moon 1999, 6; Haggard and Collins 1994, 79, 91), their policy preferences were overridden by other technocrats and top policy makers. This latter group was unwilling to allow major bankruptcies and layoffs and was apparently unimpressed with the Chilean experience (Kong 2000, 244–245). Hence, a proactive state continued to be a feature of the Korean case and was instrumental in the country’s quick recovery. An immediate devaluation increased exports and ensured sufficient confidence to maintain foreign borrowing. The Chun government reorganized the heavy and chemical industrial sector, through forcing private sector firms to merge in order to raise overall competitiveness (Jwa 2002, 23). Moreover, the bank privatization, also initiated by the Chun government, prevented the chaebols from controlling the privatized banks by restricting the size of minority ownership and by retaining the government or its agency as a major shareholder (An, Bae, and Ratti 2002, 5). Hence, the state continued to control decisions on policy loans and on who should receive credit.

While the resumption of economic growth in itself helped keep unemployment rates down, the government took additional measures to expand employment in 1984–1985. It increased credit to that important employment-producing sector so consistently ignored by the Mexican government—small and medium firms (Haggard and Collins 1994, 93, 95). The government continued to pick industrial “winners,” its priority in industrial development now moving to industries with increasing knowledge content, a direction that required heavy investment in technological development and innovation. Substantial increases in investments in research and development began in the 1980s while the government also strongly encouraged the private sector to do the same (OECD 2012, 44). It was in the 1992–1997 period that the dynamic development of the memory sector took place, eventually enabling Korea to lead the global market in the export of various memory components.

It was in the 1980s also that South Korean companies began to invest abroad, a move that resulted in two companies eventually becoming the lead companies in two global value chains in the electronics and the auto industry. By the 1980s, faced with rising labor costs and the need to remain competitive by keeping the costs of labor down, Korean firms began to move many activities abroad, particularly to China, an action that was further facilitated by various governmental incentives such as exemptions from taxes, services, and administrative support for firms wanting to invest abroad. Samsung Electronics is the archetypical case of a local company moving up a value chain...
chain. Samsung started as a joint venture with a Japanese company in the late 1960s, and was heavily dependent on Japanese technology. It then proceeded to assimilate, learn, innovate, and eventually develop domestic knowledge, a process facilitated by strong government incentives and support (Salas-Porras and Lopez-Ayres 2013, 9, 19). Although headquartered in Korea, most of Samsung's 516 factories are located abroad (Han, Liem, and Lee 2013, 3). Samsung Electronics now controls a global value chain involving various layers that include fully owned subsidiaries, transnational component suppliers with independent technical capacity, domestic parts suppliers, foreign parts suppliers, and, at the bottom of the rung, small and medium suppliers providing low-cost parts. These latter firms have only short-term contracts and must supply at prices set by Samsung. Hyundai is another example of a Korean-directed value chain. It has established assembly plants in China, supplying these plants with Korean-made components and parts, to produce for the Chinese market (Han, Liem, and Lee 2013, 25). As the following section details, Korea added expanded social welfare provisions to these accomplishments in industrial development.

The Politics of Social Welfare Provisioning in the 1980s and 1990s

At the same time as industrial promotion policies were expanding employment opportunities, new social programs emerged and existing ones were expanded through the 1980s and 1990s—measures that continued to be driven by ongoing middle-class and radical trade union agitation—the former having joined forces with the trade unions in the massive worker uprising of 1987 (Koo 1991, 595). Middle-class protest, in alliance with labor, was instrumental in the Korean transition to democracy but the mobilization pressures for democratization, which mounted during the 1980s, also involved demands for improvement in income and wealth distribution (Kim and Mo 1999, 76; Kim 2000, 83). Through the 1980s, mounting political activism on the part of white-collar employees, factory managers, and independent businesspeople produced the emergence of oppositional civil society organizations that would continue to agitate for social improvements (Oh 1999, 89).

Survey evidence attests to middle-class commitment to social justice. Three surveys conducted in the mid-1980s showed that the middle classes were not only dissatisfied with the authoritarian regime but were also profoundly unhappy with the unequal way that the benefits of economic growth had been distributed (Koo 1991, 490). Middle-class respondents to these surveys expressed strong sympathy for poor farmers, factory workers, and slum dwellers (490). Indeed, white-collar unions, which had emerged in the 1980s, had social democratic charters calling for workplace democracy, improved social welfare, and equality of opportunity (Koo 1991, 496; Kim 2007, 57; Jee 1997, 139). These unions, along with other members of the middle class, such as small shopkeepers, participated in the massive worker uprising of 1987 that led to the country's democratic transition (Koo 1991, 595). It was this widespread popular protest that compelled the government to agree to the election of the country's president in the 1987 presidential election. The highly competitive nature of this election, which brought former army general Roh Tae-woo to the presidency (1988–1993), placed social reform firmly on the political agenda (Kwon 1999, 128). Even in the face of the growing political turmoil of the period, most among the Korean middle classes appear to have maintained their commitment to improvements for the less well off. A survey carried out in 1991 revealed continued general middle-class sympathy for the lower classes (Jee 1997, 148). In addition, there was a distinct anti-chaebol aspect to the growing political opposition movement. Indeed, all groups saw reining in the power of the chaebol as an important task of democratic government.

Under ongoing pressure from trade union and middle class civil society agitation, the Roh administration expanded the coverage provided by the national health scheme to the entire population, unified the nation's health system, and established the national pension program to provide pensions for all wage earners (Woo 2004, 77). His government also provided tax concessions and subsidies to encourage companies to expand corporate welfare—the sector where probably the most improvements in social welfare provisioning occurred in the 1990s (Woo 2004, 82). A tax reform lowered the tax rate for wage and salary owners, and increased taxation on high-income groups by strengthening capital gains tax and implementing a new tax on excess land profits (Kwon 1999, 86, 94, 86; Kim and Mo 1999, 81), and taxes increased as a proportion of GDP (OECD 2010). At the same time, the government resisted pressure for agricultural liberalization—thus protecting small farmers from certain bankruptcy and social hardship—and in fact provided debt relief operations for farmers (Kong 2000, 134). The government also supported small and medium enterprises through tax relief and funds to assist in technological development.

While economic liberalization of the Korean economy went forward under the administration of President Kim Young Sam (1993–1997), the government supplemented market liberalization policies with efforts to stimulate employment expansion and expand social welfare protection. Measures included a new (1995) Capital Goods Industries Promotion Plan that aimed to promote high value-added capital goods industry. Support for small and
medium enterprises, which accounted for 69 percent of employment and 42.9 percent of exports, saw a doubling of financial support in 1994 alone (Bakiewicz 2008, 45; Kim and Mo 1999, 81). Banks and secondary financial institutions were required to allocate 45 percent of their annual loan increases to small and medium firms, while local banks were required to allocate 80 percent of loan increases to this sector (Mo and Moon 1999, 15). In the face of increasingly restrictive international rules, the old direct export subsidies (loans, tax benefits) were replaced by indirect measures to stimulate exports such as the Export Insurance Fund and duty drawback (Mai 2006, 159, 162, 164). On the social welfare front, the government expanded the national pension plan to cover farmers (Song and Hong 2005, 186) and, in 1995, introduced unemployment insurance to cover full-time workers in companies with 30 or more employees (Moon and Yang 2002, 145). Between 1992 and 1997 social expenditures increased as a percent of GDP and as a proportion of total spending (IMF 1995, 2001).

Despite these important social gains, however, the 1997 financial crisis, which threw the Korean economy into a tailspin, produced a sharp rise in social hardship. While state action remained comparatively stronger than in our other cases, and the economy was soon back on track, important new inclusive development challenges were emerging.

The 1997 Economic Crisis and Beyond: The Growth of Differentiated Inclusion

With the 1997 economic crisis, the Korean state faced the challenge of balancing the demands of its now powerful business sector with the rising demands of an increasingly organized and vociferous civil society, concerned about issues of social justice. The 1997 Korean financial crisis, like its Latin American counterparts of the early 1980s, involved reckless borrowing by its conglomerates from foreign banks, an activity made possible due to financial liberalization (Gray 2008, 39; Kim and Park 2006, 439). The crisis catapulted the country's neoliberal technocrats into positions of power within the state and accelerated the market liberalization process and labor flexibilization (Kong 2000, 244–245). Within a year of the crisis, 10 banks and 284 financial institutions closed (Kim and Park 2006, 439). The year 1998 saw a negative growth rate of 9 percent per capita and a threefold increase of the poverty rate. Inequality also increased (figures 6.1 and 6.2).

The crisis allowed the IMF unprecedented influence in Korea. However, Korea, like Indonesia, confronted its most profound economic crisis at a time when there was widespread recognition among multilateral officials of the importance of social protection during economic adjustment. Indeed, in their negotiations with Korean authorities, multilateral officials were attentive to social welfare issues, even relaxing their conditionality on fiscal austerity to ensure that Korea addressed social welfare (Moon and Yang 2002, 154). Nevertheless, domestic civil society organizations and their trade union allies remained relentless in their lobbying for increased social protection. Despite these efforts, however, the implementation of labor flexibilization initiated a disturbing trend toward precarious and poorly paid labor conditions not fully compensated for by expanded social provisioning. The serious challenges in providing short-term contract workers with adequate social protection has been compounded by the gender dimension of the problem, giving rise to problems of differential inclusion.

With the 1997 financial crisis, pressure for labor flexibilization from the big conglomerates, which had been increasing during the 1990s, became irresistible. The chaebols argued that the high cost of labor was rendering them uncompetitive. In 1996, the state began the process of negotiating labor flexibilization when it established a tripartite committee for discussions between labor, business, and the government. Agreement at that time proved impossible, however. With the 1997 financial crisis, chaebol support for labor flexibilization intensified (Lim and Jang 2006, 447) and its demand was bolstered by the fact that labor reform was one of the conditions that the IMF included in its bailout loans (Kim and Park 2006, 439). For a second time, the government brought together labor (both the independent trade union federation and the pro-government FKTU) and business leaders. By 1998, business and labor reached an agreement on labor reform introducing labor flexibilization, including the immediate introduction of layoffs. In exchange, however, the government guaranteed the expansion of social welfare programs. It promised to ease eligibility requirements and to extend the duration for unemployment insurance payments, to expand unemployment insurance coverage to firms with fewer than five employees and to temporary and part-time workers, to expand health insurance coverage, to integrate health funds financially into one system, and to provide more job training and more jobs in the public sector. In addition, the agreement gave teachers and civil servants the right to establish trade unions and it allowed trade unions to engage in political activities (Gray 2008, 135, 233; Koo 2007a, 124; Woo 2004, 105). While the independent labor federation, faced with the rejection of the accord by its members, withdrew, the agreement held.

Civil society organizations now intensified their lobbying for the expansion of social welfare programs. President Kim Dae Jung (1998–2003), whose main base of support was in the lower middle and working class, was a supporter of participatory politics, and while head of the opposition party, he had formed an alliance with civil society organizations. His government provided
civil society organizations with grants and his openness to their participation in social policy resulted in an increase in their role and impact (Lee 2005, 1; Lim and Jang 2006, 449). Probably the most important of the civil society organizations pressuring the government for social welfare expansion in this period was the People’s Solidarity for Participatory Democracy (PSPD) (Chun 2008, 42), a coalition of hundreds of civil society organizations. In 1994, some 200 lawyers, doctors, academics, and former student activists intensely opposed to the country’s big conglomerates, established the PSPD. Among its 9,700 largely middle-class individual members (by 2007) were many human rights lawyers (Hong 2011, 99, 101, 109; Park 2010, 1146). The independent trade union federation joined forces with the PSPD to demand the expansion of unemployment insurance and pension coverage, the financial unification of the health care system, the protection of irregular and independent workers, and a general increase in social welfare spending (Gray 2008, 133). The independent trade union organization also attempted to organize temporary workers and the unemployed (Koo 2007a, 127).

Largely due to these efforts, in 1998 the government passed the National Pension Act providing for a unified redistributive structure involving contributions from all income groups. It then expanded the program to include the self-employed and the unemployed (Gray 2008, 135). Labor and civil society pressure also played a central role in the financial unification of the health care system, achieved in 2000. This reform meant the establishment of a system of redistribution among income groups, particularly from middle- and upper-income employees of the government to lower income earners—an achievement that has thus far eluded the other three cases. Also important was the expansion of unemployment insurance to cover all of the regularly employed and a limited number of short-term and part-time workers, the lengthening of the duration of benefits, and the shortening in the qualifying period (Gray 2008, 17; Woo 2004, 105).

Finally, the PSPD was directly involved in the development of the National Basic Living Standards Act and lobbied Congress for its passage (Hong 2011, 109; Park 2002, 280, 286). With this piece of legislation, the Korean state recognized the obligation to guarantee a basic livelihood as a social right of citizenship since the state does not select recipients; instead, they apply for the program at their local municipal office (Lomeli 2008, 14). The new program provides a stipend for households below a minimum regardless of the age or work capability of household members (Gray 2008, 136). It also provides a variety of other benefits such as housing, medical care, education, and self-help. Despite strong opposition from the Ministry of Health and Welfare, the PSPD secured presidential agreement for civil society representation on the Central Livelihood Security Committee, the highest decision-making body for the program (Lee 2005, 12). In 2007, labor and civil society organizations succeeded in securing legislation requiring employers to offer irregular workers regular employment after two years. However, the 2008 financial crisis, which precipitated large-scale layoffs of irregular workers, inhibited the new legislation from mitigating precarious employment (The Korean Times June 2009). Social spending as a proportion of GDP rose from 5.9 percent in 1998 to 10.7 percent by 2004, dipping and then rising to 9.4 percent in 2008 (IMF 2001, 2005, 2008). While the expansion of program coverage and the introduction of new social programs were important, the solidarity and redistributive principles included in the programs were particularly significant.

As important as all of these social programs were, however, structural changes in the labor market, brought about by labor flexibilization, made it difficult to ensure universal inclusion in social programs. The introduction of labor flexibilization produced a rapid rise in irregular employment because it allowed layoffs due to "urgent managerial needs." Firms were now able to reduce costs by laying off highly paid workers and by hiring cheaper and more easily dismissible new employees. Hence, the rapid decline in unemployment following the 1997 crisis occurred largely due to this increase in nonstandard/irregular employment contracts (Kim and Park 2006, 448). By 2002, irregular employment reached an estimated 58.4 percent of the labor force, declining to 47.6 percent by 2006 (Kim and Park 2006, 444; Shin 2008b, 73). Over 60 percent of irregular workers are women who probably lack social protection and earn approximately one-half of what regular workers earn (Kim and Park 2006, 444, 447). Therefore, while poverty declined between 1998 and 2003, and the government supported social welfare protected expansion, short-term and precarious employment has come to characterize a growing proportion of the work force. Further, companies are increasingly filling irregular low-paying jobs with foreign workers, most of whom work illegally and who lack any form of social protection (Kim and Park 2006, 445). Inclusion in Korea’s economic growth has become significantly differential.

Indeed, there are generally significant gaps in the coverage provided by social programs along with a variety of other weaknesses that have led some observers to question whether the Korean state is making real progress toward adequate universal welfare protection (Gilbert 2004; Holliday 2005). The country’s health plan, for example, does not cover some illnesses with high care costs, such as cancer, and its co-payments for all services at the time of use are high (Lomeli 2008, 10; Gray 2008, 43).2 Criticisms of the National Basic Living Standards Act include its underfunding by the government with the result that an estimated one-third of those living below the poverty line do not receive this assistance (Mishra 2004, 317). The average pension is very low—two-thirds of the minimum wage (Chun 2008, 42).
The most important reason for the low coverage of most social programs, despite their universalistic aspirations, is the high proportion of irregular workers. Although the government has gradually expanded social protection schemes (health care, pensions, unemployment insurance) to include more irregular workers, many are still not legally entitled to benefits. Part-time workers working less than 80 hours per month or 18 hours per week, daily workers employed for less than a month, workers over 65, and non-wage workers in atypical employment relations, are all legally excluded from unemployment insurance (Lomeli 2008, 13). Despite their expansion to include irregular workers, only 15.2 percent of irregular workers have pension coverage and 17.5 percent health care (Shin 2008a, 23). The Korean Development Institute estimates that 78 percent of people 60 years of age and over do not receive national pension benefits (Dong-A Ilbo 2006). In addition, even regular employment does not necessarily generate access to the various new social protection measures because there are strong motivations for both employers of precarious firms, who do not want the extra expense, and employees, who wish to see a higher net pay, to evade payments. Hence, for example, for workers legally entitled to unemployment insurance, the actual compliance rate by employers in making fee contributions was estimated at 73.4 percent in 2004 (Gray 2008, 142, 145).

Hence, there have been fundamental alterations in the mechanisms that have guaranteed low inequality and generalized social well-being in South Korea since the 1997 financial crisis. The period prior to the mid-1980s was characterized by secure employment, rising salaries, and wages, and expanding employment opportunities, with relatively little in the way of state-provided social protection—corporations and informal support from kin being the most important forms. Since the mid-1980s, and particularly following the 1997 economic crisis, state-provided social protection has expanded substantially. However, the dramatic rise in precarious employment has made it difficult to accomplish the universal coverage envisioned by these new social policy initiatives. Whether, on balance, there is, or is likely to be, a regression in South Korea’s distributive and human welfare accomplishments may depend heavily on whether the pressure from trade unions and civil society organizations will be sufficient to push the state to live up to the universal protection enshrined in these relatively recent social welfare measures.

While the state’s ability to provide universal social protection faces significant challenges, it has continued its proactive role in industrial promotion. The economy recovered quickly from the 1997 economic crisis, as it did from the downturn of the early 1980s, largely due to a variety of interventionist tactics that promoted employment expansion and the restructuring of the chaebols. Government measures required chaebols to concentrate on core industries, obliged them to sell unproductive firms, to reduce the debt ratio of firms, and to curb questionable practices such as propping up unprofitable businesses (Song and Hong 2005, 194). Through such measures, the government sought to mitigate the concentration of chaebol control and overinvestment in areas where the government felt investment was already sufficient. It also sought to open up opportunities for foreign investment as a means to counterbalance the power of the chaebols (Lee 2008). However, the growth in the power of the chaebols now made it increasingly difficult for the state to enforce its directives. Meanwhile, the government continued its long-standing support to small and medium enterprises, launching a number of programs for the sector, including an export promotion fund of half a billion US dollars to, among other things, help small and medium enterprises with the development of technology and marketing (Balázs 2007, 161).

The state also actively promoted the expansion of new export activities. Even as market liberalization took hold, the government made a concerted effort to encourage the expansion of higher quality employment in export competitive activities. It also used industrial promotion policy to address the regional disparities that had seen the Capital and southeastern coastal regions benefit much more than the rest of the country. Hence, after 2000, industrial policy, in addition to designating specific high-technology sectors as priority and targeting them for state support, now developed programs that would provide greater balance in regional development. President Kim Dae-Jung (1998–2003) promoted specific industries in underdeveloped regions, such as textiles in Daegu and machinery in Gyeongnam. His successor, Roh Moo-hyun (2003–2008), established a Special Presidential Committee on Regional Development and a new policy promoting regional development quickly followed (Ju 2014). The program involved promoting regional industrial clusters, in specific regions of the country, for the purpose of fostering innovation and strengthening competitiveness by developing and sharing knowledge among local governments, private sector enterprises (large enterprises and SMEs), universities, and research institutes (Ministry of Knowledge Economy and KICOX 2010, 28).

President Lee Myung-Bak (2008–2013), with the objective of establishing more local involvement in development initiatives, set up economic regional committees and oversaw a new program for cross-regional collaboration. The Leading Industry Program, introduced in 2009, sought to support job creation and regional growth by focusing on twelve leading industries in seven economic regions. The provision of technical, marketing, and other forms of support for small and medium businesses, involving substantial public expenditure, continued to be a key aspect of industrial strategy (Ju 2014; Ministry of Knowledge Economy and KICOX 2010, 54, 49, 88, 94).
2010, research and development expenditure as a percent of GDP reached 3.7 percent (World Bank Indicators 2014b).

These programs appear to have had considerable success. Industrial complexes, which gained research and development capacity as a consequence of the programs, were found to have outperformed those that had not gained such capacity in terms of production increases, exports, and employment (Ministry of Knowledge Economy and KICOX 2010, 51). Job creation was particularly strong in the targeted sectors, especially renewable energy, the auto industry, and the IT sectors (OECD 2012c, 112). Due to targeting industries in high-tech fields, including rising investment in research and development, by 2009, 80 percent of Korean exports were in medium technology fields and 10 percent in high-technology fields (OECD 2012c, 39). However, we do not know whether these initiatives will make an important dent in the proportion of the workforce facing precarious employment. Other measures, such as stricter regulation of the circumstances under which labor flexibility is allowed, and greater social protection in those cases in which it is, may be necessary.

There is a consensus that Korea’s various industrial promotion programs have contributed to Korea’s rapid recovery from the 2007/2008 economic crisis, one of the most rapid among the OECD countries (Fukuchi 2010, 1). Economic growth was positive for Korea in 2009, exports fell less than those of many other countries, and by the last quarter of 2009 exports had recovered. While factors such as a drop in the value of the Korean won and a fiscal stimulus package involving employment creation in the public sector—no doubt played a role in economic recovery, state support for SMEs and an industrial policy focused on improving export competitiveness are also believed to have played an important role. Recovery in exports was particularly marked in electronics and electronic equipment (Fukuchi 2010; OECD 2012c, 28).

Conclusions

While Korea certainly had many opportunities, its governments made a number of crucial policy choices that contributed to its inclusive development trajectory. The early commitment to rural welfare is a striking feature of the case, one that continued into the period of democracy and economic globalization. The case also highlights the importance of a societal consensus on inclusive development and the key role of the middle class in an effective inclusive development coalition. The impact of the middle class occurred through its involvement in the state bureaucracy and through its extra-state activism. Widespread societal support, particularly from the politically important middle class for distributive measures, served to bolster state managers in their quest for inclusive policies, and to mitigate the growing power of business interests. Finally, as chaebol power grew and as political mobilization for expanded social protection gathered momentum, demands for social justice did not involve radical rhetoric or threats to private property—an important lesson in thinking about appropriate political strategies for building a cross-societal coalition that includes the middle class.

The Korean case underlines the importance of careful attention to industrial policy and of the important role of the state in ensuring that industrial development generates inclusive growth and does not result in isolated economic enclaves that fail to provide employment improvements over the long term. The case shows that good industrial policy can occur in contexts where the state allocates generous rents to industrial investors. The issue is whether the distribution of state largesse occurs in a way that induces the private sector to improve economic performance, achieve export markets, and generate employment. State action in promoting industrial expansion, support for small and medium enterprises, and generous investment were important in generating employment. The Korean experience might also suggest, given the few cases of progress within global value chains even in this case, that a strategy aimed at incorporation into global value chains can be expensive and might deliver relatively few benefits in terms of well-remunerated employment over the long term. The Korean case illustrates that there will be mistakes in industrial policy that will involve a dissipation of resources, and that trial and error are a necessary part of the process. The case demonstrates the importance of keeping the public spending under control and of progressive taxation.

The Korean experience shows that state capacity is only partially linked to having a well-trained bureaucracy. The creation of bureaucratic capacity is a function of the broader political context. In this case, the ability of the bureaucracy to lead development had a great deal to do with the fact that the power of the business sector and other institutions such as political parties, were relatively weak, at least initially, making possible the creation of key policy institutions and then their monopolization by trained bureaucrats. Second, an important feature of the Korean bureaucracy was its concern not just for economic growth but also for the social implications of this growth, and its long-standing commitment to, and belief in, the role of the state in shaping the nature of economic growth in ways that would mitigate social hardship.

However, the most notable drawback of the Korean experience is the high proportion of the labor force (mostly female) subject to precarious and irregular employment, which usually does not provide access to pensions,
health care, and other aspects of social security. Improvements in irregular employment benefits have occurred slowly despite considerable agitation on the part of civil society and the major opposition labor organization. Policy solutions to this problem invariably run up against the power of the chaebols, whose position is that labor flexibility is necessary for international competitiveness—so mitigation of the problem is likely to be heavily contested—yet another clear indication of how central politics is to progress toward inclusive development.